

Pope Leo XIII and *Rerum Novarum*

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A previous article traced the beginnings of Catholic social thinking to the 16th century moral philosophers and theologians associated with the University of Salamanca in Spain. Now we move three centuries forward to Pope's Leo XIII's encyclical *Rerum Novarum*. Written in 1891 and motivated by Pope Leo's concern for the conditions facing workers at that time, this encyclical is widely regarded as the origin of modern Catholic social thought.

The 300-year hiatus in this survey between the writings of the Salamancan neo-scholastics and *Rerum Novarum* is not simply a question of author's taste. Whatever contributions were made in the intervening centuries, they now are largely forgotten. Certainly no writings during the period have captured the favourable attention of economists that the Salamancan writings have, nor have few encyclicals until very recently had the impact of *Rerum Novarum*.

Roots in natural law

What distinguishes *Rerum Novarum* from much that has come after it, and what it has in common with the Salamancan treatises, is its basic philosophical approach. Both have strong roots in natural law. Neither Leo XIII nor the Salamancans speak of economic theory. In the case of the Salamancans, economics as a separate intellectual discipline did not even exist. In the case of *Rerum Novarum*, Pope Leo XIII's references to and condemnation of liberalism, might seem to preclude economic considerations entirely. Underlying the belief in the natural law, however, is a metaphysical view that sees man as unchangeable in his essence. Economic laws — statements about man's behaviour in the economic realm — are something that not only are discoverable, but that in fact have to be discovered before moral philosophers concerned with economic issues can ply their trade. Economics, therefore, is not something to be relegated solely to university lecture halls lest it become a competing criterion to the rightful concerns of moral philosophy and theology. Moral pronouncements that are made without reference to how the world actually operates, at best will be empty of content, at worst downright pernicious. We all acknowledge this to be true in the area of bio-ethics. Though much less widely recognised, it is no less true for ethical statements about economic matters. The genius of the Salamancan writers lay both in their realisation of this fact, and hence their attention to the scientific aspects of the economic questions they were considering, and in the intellectual acumen with which they went on to analyse the actual workings of the economy. *Rerum Novarum* is very much in the same tradition methodologically and therefore merits very high grades on that score. Where it occasionally falters is in some of the specifics of its economic analysis.

Modern welfare state

Before considering these issues, however, it may be useful to say something with regard to what *Rerum Novarum* is and what it is not, since a good deal of confusion has

surrounded this issue. Popular accounts have tended to view the encyclical as at heart an interventionist document, the first in a supposed century-long continuum of Catholic social documents justifying the modern welfare state and identifying it with the good society. While it is quite possible to find statements in *Rerum Novarum* that, taken out of context and strung together, appear to support such an interpretation, the general thrust of the encyclical is decidedly different.

Its focus, which is not adequately captured in its alternate title “On the Condition of the Working Classes,” is on institutions -- the broad social and political framework surrounding human action in the economic realm -- and the place of religion and the Church in this schema. In the first third of the encyclical Pope Leo XIII sets out guiding principles; only then -- and with these as an underpinning -- does he go on to propose specific remedies to what he perceives to be the problems then confronting the working man. In this initial part of the document two interwoven themes predominate: the absolute inviolability of private property and the harm -- both moral and economic -- that socialist policies would wreak. In discussing these questions, the Pope has much to say about the circumscribed role that the state should play.

Private ownership

Private ownership of property to Pope Leo is the *sine qua non*. It is, he states, “according to nature’s law,” (9) for “when a man engages in remunerative labour, the impelling reason and motive of his work is to obtain property and hold it as his very own.”(5)¹ This follows he argues from the fact that:

It is the mind or reason that is the predominant element in us who are human creatures; it is this which renders a human being human, and distinguishes him from the brute. ... [On this very account -- that man alone among the animal creation is endowed with reason -- it must be within his right to possess things not merely for temporary and momentary use, as other living things do, but to have and to hold them in stable and permanent possession; he must have not only things that perish in the use, but those also which, though they have been reduced into use, continue for further use in after time. (6)

Man, therefore, naturally “seeks to exercise his choice not only as to matters that regard his present welfare, but also about those which may be for his advantage in time yet to come.”(7) What conforms to nature’s law is both right and just. Socialist policies, therefore, are “manifestly against justice” (6) since they would deprive human beings of the property-owning option that by their very nature they would want to exercise. Just as important, Pope Leo avers, such policies will not work:

The door would be thrown open to envy, to mutual invective, and to discord; the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry; and that ideal equality about which they entertain pleasant dreams would be in reality the levelling down of all to a like condition of misery and degradation (15).

The reason, he says, is that

... the condition of things inherent in human affairs must be borne with, for it is impossible to reduce civil society to one dead level. Socialists may in their intent do their utmost, but all striving against nature is in vain. (17)

¹ Numbers in parentheses are numbers of sections in the encyclical itself.

Socialism therefore creates false hopes, which in the end will be cruelly dashed, for

[The pains and hardships of life will have no end or cessation on earth; for the consequences of sin are bitter and hard to bear, and must accompany man so long as life lasts. ... If there are any who pretend differently -- who hold out to a hard-pressed people the boon of freedom from pain and trouble, an undisturbed repose, and constant enjoyment -- they elude the people and impose upon them, and their lying promises will only one day bring forth evils worse than the present. Nothing is more useful than to look upon the world as it actually is, and at the same time to seek elsewhere, as we have said, for the solace to its troubles. (18)

In his appeal to “look upon the world as it actually is,” we see the same realistic approach to political economy that the Salamancans had followed. This, of course ought not be terribly surprising given both their and Pope Leo XIII’s common scholastic orientation. What at first glance does appear somewhat surprising are the echoes of Adam Smith that we hear -- both Adam Smith the nascent economist of the *Wealth of Nations* and Adam Smith the moral philosopher of the earlier *Theory of Moral Sentiments*. But this too was true of the Salamancans’ analysis.

The ‘invisible hand’

In his earlier work, Smith argued that sympathy towards one’s fellow man was ordered, following a hierarchy of sorts, charity quite literally beginning at home and being strongest within the immediate family and amongst close neighbours but gradually and almost completely dissipating as the distance from the one and the other increased. Sympathy, therefore, could not be relied upon to produce the harmony in dealings amongst strangers that it ideally would in dealings within families and amongst close neighbours. What set of arrangements then might offer a substitute? That was the central question of concern in the *Wealth of Nations*. Smith’s answer to it was encapsulated in his famous metaphor of the “invisible hand.” He states it thus:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this case, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. (Smith, 1976, Book IV, Chapter ii, p. 456)

Then, in the very next breath, Smith adds:

Nor is it always the worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectively than when he really intends to promote it. I have never known much good done by those who affected trade for the public good. (Smith, 1976, Book IV, Chapter ii, p. 456)

This first statement, as George Stigler, Nobel economist from the University of Chicago has put it “is still the most important proposition in all of economics.” (Stigler, 1976, p. 1201) We see its direct corollary, moreover, in Pope Leo’s statement that where property rights are violated “the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry.”

A similar parallel exists between Smith’s follow-up remarks and Leo XIII’s statement that the “ideal equality about which [socialists] entertain pleasant dreams would be in reality the levelling down of all to a like condition of misery and degradation.” In this and in Leo XIII’s other predictions with regard to socialism, that if implemented it

would “bring forth evils worse than the present,” and of “how intolerable and hateful a slavery citizens would be subjected” under it, we also get a foretaste of the conclusions reached by Friedrich Hayek in his penetrating critique of socialism in the *Road to Serfdom*.

Brilliant as Hayek’s analysis was and accurate as its predictions turned out to be, he was writing in media res, as the Third Reich was crumbling and as Stalin’s power was reaching its ascendancy. Leo XIII, in contrast, was writing close to 30 years before the October Revolution and over 40 years before Hitler’s putsch. What *Rerum Novarum* lacked in detail, therefore, it arguably more than made up for in prescience.

Man precedes state

Having ruled out socialism, where does Leo XIII see the state fitting in? Would the modern democratic welfare state or something like it have proven more to his liking? The short answer, judged both by his broader observations on government and its functions and his specific remarks on labour conditions, is very likely not.

“Man precedes the State, and possesses, prior to the formation of any State, the right for providing for the substance of his body,” Pope Leo says early on in the encyclical. (7) A bit later in discussing the place of the family, he adds: “inasmuch as the domestic household is antecedent, as well in idea as in act, to the gathering of men into a community, the family must necessarily have rights and duties which are prior to those of the community, and founded more immediately in nature.” (13)

The state can play a role in economic matters, but it ought to be a quite limited one. The state should step in and provide aid if “a family finds itself in exceeding distress, utterly deprived of the counsel of friends, and without any prospect of extricating itself;” (14) it should intervene “if within the precincts of the household there occur grave disturbance of mutual rights.”(14) But “the rulers of the commonwealth must go no further; here, nature bids them stop. Paternal authority can be neither abolished nor absorbed by the State; for it has the same source as human life itself,” Pope Leo adds (14).

Kept within limits

In much the same vein, he later says that “Whenever the general interest or any particular class suffers, or is threatened with harm, which can in no other way be met or prevented, the public authority must step in to deal with it.” (36) He then goes on to provide examples of when such actions might be taken, but adds that they always should be kept within limits, such limits being “determined by the nature of the occasion which calls for the law’s interference -- the principle being that the law must not undertake more, nor proceed further, than is required for the remedy of the evil or the removal of the mischief.” (36)

The state’s principal function therefore is not direct intervention; rather it is to provide an ordered framework for society, an institutional structure that is conducive to moral behaviour and that will enable the economy to operate for the betterment of all:

The foremost duty, therefore, of the rulers of the State should be to make sure that the laws and institutions, the general character and administration of the commonwealth, shall be such as of themselves to realize public well-being and private prosperity. This is the proper scope of wise statesmanship and is the work of the rulers. Now a State chiefly prospers and thrives through moral rule, well-regulated family life, respect for religion and justice, the moderation and fair imposing of public taxes, the progress of the arts and of trade, the abundant yield of the land -- through everything, in fact, which makes the citizens better and happier. Hereby, then, it lies in the power of a ruler to benefit every class in the State, and amongst the rest to promote to the utmost the interests of the poor; and this in virtue of his office, and without being open to suspicion of undue interference --

since it is the province of the commonwealth to serve the common good. And the more that is done for the benefit of the working classes by the general laws of the country, the less need will there be to seek for special means to relieve them (32).

The guiding principle to be followed is theological:

As the power to rule comes from God, and is, as it were, a participation in His, the highest of all sovereignties, it should be exercised as the power of God is exercised -- with a fatherly solicitude which not only guides the whole, but reaches also individuals. (35)

The discussion of labour market conditions in *Rerum Novarum* is of course the feature that first comes to most minds in connection with *Rerum Novarum*. When Leo XIII turns his focus to these issues he does so within the framework that I have just reviewed. The explicit proposals that he makes can, I believe, only be understood fully within that context. He defends the right to form trade unions, proposes the adoption of safety regulations in industry, limitations on the hours and type of work done by women and children, and the cessation of all work on the Sabbath. He focusses at some length on wages, resurrecting the notion of what much earlier had been termed “the just wage.” In this regard he states:

Now, were we to consider labour merely in so far as it is personal, doubtless it would be within the workman's right to accept any rate of wages whatsoever; for in the same way as he is free to work or not, so is he free to accept a small wage or even none at all. But our conclusion must be very different if, together with the personal element in a man's work, we consider the fact that work is also necessary for him to live: these two aspects of his work are separable in thought, but not in reality. The preservation of life is the bounden duty of one and all, and to be wanting therein is a crime. It necessarily follows that each one has a natural right to procure what is required in order to live, and the poor can procure that in no other way than by what they can earn through their work. (44)

Worked out privately

In the eyes of some commentators, this has seemed to provide a stronghold for state intervention not only in these matters but on a virtually *carte blanche* basis. Even here, however, Pope Leo is a good deal more chary of the power of the state than many of his interpreters seem to think. Indeed, he argues that most problems ought to be worked out privately, by common agreement amongst workers and employers “(45) in order to supersede undue interference on the part of the State, especially as circumstances, times, and localities differ so widely, it is advisable that recourse be had to societies or boards such as We shall mention presently, or to some other mode of safeguarding the interests of the wage-earners; the State being appealed to, should circumstances require, for its sanction and protection.” (45) The societies and boards that he has in mind include “societies for mutual help; various benevolent foundations established by private persons to provide for the workman, and for his widow or his orphans, in case of sudden calamity, in sickness, and in the event of death; and institutions for the welfare of boys and girls, young people, and those more advanced in years,” (48) and “most important of all ... working men's unions.” (49)

Pope Leo XIII in arguing that differences in “circumstances, times and localities” limit the effectiveness of state actions makes an extremely important point. It has however gone completely unnoticed by subsequent commentators on *Rerum Novarum*. Perhaps it is simply too subtle for most to grasp. An alternative, and I suspect more likely explanation is that it has proven so epistemological uncongenial, so counter to modern thinking, that it has been dismissed out of hand.

Moderate realist

The rationalism of our age, which owes its birth to Descartes, recognises no bounds on human knowledge. Pope Leo XIII, however, was a rationalist in an entirely different sense of the word, a moderate realist cut from the same epistemological bolt of cloth as St. Thomas. We see this in his remarks cited earlier about the necessity of viewing the world as it actually is. Utopian schemes were therefore anathema to him. To most modern thinkers, including not a few Catholics, including clerics right up to the highest levels, they are in contrast very right and just.

Where one can find fault with *Rerum Novarum* is in certain of the specifics of its discussion of labour markets. Popular history views the nineteenth century as a period of unprecedented exploitation of workers by employers and of great economic misery. *Rerum Novarum* appears to accept this characterisation. The problem however is that popular history has it largely wrong. Real incomes throughout the industrialised world rose appreciably during the nineteenth century and people across the board, albeit in varying degrees shared, in the bounty. Clearly there were at times substantial growing pains, but there is an increasing amount of data that suggest that the lot of the average working man improved instead of worsened during the course of industrialisation.

Avoidable error

Much of this has of course become much clearer over the century that has elapsed since *Rerum Novarum* was written so it is perhaps somewhat unfair to criticise the encyclical on that score. There is, however, a larger problem, a logical error in *Rerum Novarum*'s discussion of labour conditions, that could have been avoided. In discussing private property Leo XIII argues, as did the Salamancans much earlier, that private ownership is the economically better arrangement because of the incentives that it provides. But the same basic economic reasoning can also be applied to labour markets, and the encyclical fails to do so.

The self interest that motivates a person to take better care of his own property than property that is under common ownership also operates there *and*, contrary to common belief it operates for rather than against workers' interests. Suppose I as an employer wish to pay my workers less than the value of their contribution to my firm's output. I may get away with doing so for a while, but there is very good reason to believe that I will not be able to do so for terribly long.

Simply put it is because the self interest of other employers will thwart me. I, in effect, am offering them a bargain -- workers who are underpaid and therefore have an incentive to move. As soon as they realise this, they will start to bid my workers away. I will have to react, not because left to my own devices I want to, but because otherwise my business will suffer. The process will continue moreover until my initially underpaid workers eventually receive the going wage.

The only situation in which this will not happen and I can continually pay my workers less is if I have some sort of undue clout in the labour market -- "monopsony power" in economic terminology. A company town is the usual textbook example, but to my knowledge there has never been either a theoretical argument or any solid empirical evidence to suggest that such situations have been at all common.

This gets us to the underlying problem in *Rerum Novarum*, the absence of any systematic theory of economic valuation, even brief statements of the sort that the Salamancan writers made. Indeed there is sufficient ambiguity in the few passages in *Rerum Novarum* directly related to this question that Pope Leo XIII has often been interpreted as espousing a labour theory of value. I do not believe that this is actually the case, but that is the subject of an article in itself. Nevertheless, the document is sufficiently vague on this score that it is easy to see why such a interpretation has become

rather widespread.

Failures in the realm of ideas, in economics as in other areas of intellectual inquiry, inevitably give rise to failures in the realm of practice. This unfortunately is the case for *Rerum Novarum*, most particularly in its discussion of wages. The encyclical advocates the payment of wage rates above the market-determined level in instances in which the worker's wages are so low that he has difficulty supporting himself and his family. The goal, about which there can be little debate, is of course to make the Second Great Commandment operable in an industrialized world.

Fewer workers hired

The question, however, is whether such a policy will work -- whether low wage earners in general will benefit. Pope Leo implicitly assumes that they will and leaves it at that. And indeed at first glance he appears to be entirely correct. After all higher wages are better than lower wages, so by definition the recipient of a higher wage will be better off.

But like much else in economics what is true for the individual is not necessarily true for the whole; first-round effects and final effects need not be the same. And in this instance they will not be. Higher wages will be reflected in higher prices for the products being produced. Less of those products will be bought and hence ultimately produced. That in turn will mean, among other things, that fewer workers will be hired. The only exception again is in the case of monopsony, but again such a situation is unlikely to be anything near ubiquitous.

All of this comes out of basic value theory. If a worker is receiving the value of his contribution to output and suddenly he is given more something will have to give elsewhere. The Christian moral code and the laws of economics are complements to, not substitutes for, one another.

That Pope Leo XIII recognised this to be true as a general proposition is clear from the rest of *Rerum Novarum*, most of which is truly excellent in its analyses. It is also clear from his highly nuanced discussion of this particular issue. Nevertheless, in this very important instance his central conclusion and the analysis implicitly underlying it were wrong.

Those errors unfortunately have left an indelible mark on subsequent Catholic social writing. Thinkers less able than Pope Leo XIII and much less wary of government power than he have used *Rerum Novarum* as a point of departure for economic policy proposals that given the overall thrust of that encyclical would in all likelihood have made Pope Leo cringe, and when implemented have exacerbated rather than ameliorated the problem that was one of Pope Leo XIII's major concerns.

References

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