

# The Just Third Way

## A Thomist Natural Law Analysis Supported by the Social Encyclicals

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The Just Third Way is a natural law-based, free market system designed to respect the dignity of each human person. The goal of the Just Third Way is to empower economically all individuals and families with direct ownership of capital. This will vest each person with the social identity (personality) and political power essential to develop more fully as a human being within the common good.

### INTRODUCTION

Perhaps the most dangerous trend in modern society is to assign too great a role to the State. The State has become so powerful that Thomas Hobbes's description of it as a "Mortall God" is frighteningly apt. All good is presumed to come from the State, just as all owe the State absolute obedience in all things. As one philosopher in the Third Reich declared,

[T]here are no personal liberties of the individual which fall outside the realm of the State and which must be respected by the State. . . . The constitution of the Reich is not based upon a system of inborn and inalienable rights of the individual.<sup>1</sup>

In social justice, the State is charged with care of the common good. What the State is able to do, then, is in many cases determined by our understanding of the common good and of social justice. This is because the common good is the directed object of social justice.<sup>2</sup>

It is therefore vital to realize that the common good is not the sum or aggregate of individual goods.<sup>3</sup> Neither is social justice (of which economic justice is a part) mere provision for people's material needs.

If the common good were the sum of individual goods, the State would have the responsibility for each and every person's good. This would justify State control of every aspect of life.

Neither does the common good consist of goods owned by the State.<sup>4</sup> State-owned goods are still individual goods, albeit aggregated and held in common for the sake of expedience, but not *the* common good.<sup>5</sup> If the common good consisted of goods owned by the State, "common good" would simply be another name for socialism as private property would be abolished.

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<sup>1</sup> Ernst R. Huber, *Verfassungsrecht des Grossdeutschen Reiches*. Hamburg: Hanseatische Verlag, 1939, 361.

<sup>2</sup> *Catechism of the Catholic Church*, § 1928.

<sup>3</sup> "Legal justice does indeed direct man sufficiently in his relations towards others. As regards the common good it does so immediately, but as to the good of the individual, it does so mediately. Wherefore there is need for particular justice to direct a man immediately to the good of another individual." *Summa*, IIa IIae q. 58 a. 7. Also, Aristotle, *The Nichomachean Ethics*, I.iv; Heinrich Rommen, *The State in Catholic Thought*. St. Louis, Missouri: B. Herder Book Company, 1947, 306-358. (See William J. Ferree, *The Act of Social Justice*. New York: Paulist Press, 1948, for a discussion of Pope Pius XI's division of St. Thomas's "legal justice" into a particular social justice and a general legal justice.)

<sup>4</sup> Jacques Maritain and others erred in including goods owned in common by the State as part of the common good. As he explained, "Thus, that which constitutes the common good of political society is not only the collections of public commodities and services — the roads, ports, schools, *etc.*, which the organization of common life presupposes." (Jacques Maritain, *The Person and the Common Good*. Notre Dame, Indiana: University of Notre Dame Press, 1966, 52.) Maritain's error is that he assumed as a given that "the organization of common life presupposes" public ownership of such things. That is not, in fact, the case. To be truly "presupposed," private ownership of such things, as well as other examples Maritain gives, such as the military and the financial system, would be impossible. Public ownership (as well as control, which is effectively the same as ownership) of such things has been, through history, the exception rather than the rule. Public ownership of otherwise individual goods is an expedient, coming under prudence, and is not essential or "presupposed" as Maritain claimed.

<sup>5</sup> IIa IIae q. 61 aa. 1-3.

Instead, the common good is that vast network of institutions within which humanity as “political animals”<sup>6</sup> acquire and develop that virtue (literally, “human-ness”) that fits us for our final end:<sup>7</sup> “It is precisely this whole vast network of institutions which is the Common Good, on which every one of us depends for the realization of our personal perfection, of our personal good.”<sup>8</sup>

In the philosophy of Aquinas, the human person is a creature made in the “image and likeness of God.”<sup>9</sup> This does not mean physical appearance. Rather, as Aquinas claimed, every human being has the same capacity to acquire and develop virtue,<sup>10</sup> that is, to become more fully human. Since God is, in this framework of analysis, the “fullness of virtue” (*i.e.*, perfect),<sup>11</sup> the theory is that as human beings become more virtuous, they become more fully human, and thus more like God.<sup>12</sup>

People acquire and develop virtue — “pursue happiness” (the good life or life of virtue) — by exercising their natural rights.<sup>13</sup> Chief among these rights are life, liberty, and access to the means of acquiring and possessing private property.<sup>14</sup>

Exercise of even absolute rights is never absolute. In general, no right can be exercised in any way that harms other individuals, groups, or the common good as a whole. Rights, therefore, must be defined by custom, tradition, and human positive law to fill human wants and needs in an ethical manner.<sup>15</sup> In addition, while the exercise of rights is, in that sense, socially determined, the exercise of no natural right may be defined in any way that effectively negates the right itself. This would constitute the creation of a totalitarian political order.<sup>16</sup>

Belief in God or adherence to a particular religion is not, strictly speaking, necessary to know, understand, and apply the precepts of the natural law. Every human being has the inborn capacity to learn to know right from wrong. It is only necessary to employ the natural force of human reason to observations about human nature and apply the conclusions consistently, that is, in accordance with reason.<sup>17</sup>

The common good is the environment within which people exercise rights and thereby acquire and develop virtue. The institutions of the common good must, therefore, function justly for all, or the social order is badly flawed.

It is therefore a matter of the greatest importance to maintain the common good with justice. Consistency of all institutions of the common good with justice, the fundamental precept of the natural law (“good is to be done, evil avoided”) is therefore critical. We may never do evil to others (or at all) in order to bring about good for ourselves.

All this talk of virtue does not mean that humanity’s material wants are unimportant. Provision for humanity’s animal wants and needs may be the lowest, but it is the most urgent matter affecting human life, individually and socially. Ensuring that the science of economics conforms to justice, the highest temporal virtue, therefore takes priority over other, more important but less immediate matters.

Providing justly for humanity’s material wants and needs, in fact, makes participation in greater goods possible. Providing adequately for humanity’s material needs provides the leisure to pursue a life of virtue.

In Aristotelian and Thomist philosophy, the primary means by which people are to meet their material wants and needs is private ownership of capital.<sup>18</sup> Private property, the “dowry of the personality,”<sup>19</sup>

<sup>6</sup> Aristotle, *The Politics*, 1253a 1-3. Cf. Heinrich Rommen, *The Natural Law: A Study in Legal and Social History and Philosophy*. Indianapolis, Indiana: Liberty Fund, Inc., 1998, 210.

<sup>7</sup> Maritain, *The Person and the Common Good*, *op. cit.*, 15-30.

<sup>8</sup> Rev. William J. Ferree, S.M., Ph.D., *Introduction to Social Justice*. New York: Paulist Press, 1948, 29.

<sup>9</sup> Gen 1:26-27; 5:1-3; 9:6.

<sup>10</sup> I a. 4 q. 3. Cf. Rommen, *The Natural Law*, *op. cit.*, 39-51.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.* Cf. Ps 82:6; John 10:34.

<sup>13</sup> *Vide* Aristotle, *The Nichomachean Ethics*.

<sup>14</sup> The Virginia Declaration of Rights, § 1.

<sup>15</sup> Rommen, *The Natural Law: op. cit.*, 209.

<sup>16</sup> *Ibid.*, 134-138.

<sup>17</sup> Pius XII, *Humani Generis* (“Concerning Some False Opinions Threatening to Undermine the Foundations of Catholic Doctrine”), 1950, § 2.

<sup>18</sup> IIa IIae q. 66 aa. 1-2.

<sup>19</sup> Rommen, *The State in Catholic Thought*, *op. cit.*, 188.

also vests each human being with a social identity and secures the liberty (freedom of association/contract) essential to participate fully in the common good and thereby exercise rights and acquire and develop virtue.

As American statesman Daniel Webster observed, “power naturally and necessarily follows property.”<sup>20</sup> Capital ownership therefore vests each individual with the ability to organize with others in social justice and effect necessary social change to reestablish and maintain a just social order.

### THE BASIC IDEA

Only by establishing and maintaining democratic access to money and credit to finance widespread capital ownership is it possible to achieve economic empowerment. Every human being must therefore have the equal opportunity to participate in the production of marketable goods and services through ownership of both labor and capital, whether for personal consumption, or to exchange for the productions of others. As Pope Leo XIII explained,

Man's needs do not die out, but forever recur; although satisfied today, they demand fresh supplies for tomorrow. Nature accordingly must have given to man a source that is stable and remaining always with him, from which he might look to draw continual supplies. And this stable condition of things he finds solely in the earth and its fruits. There is no need to bring in the State. Man precedes the State, and possesses, prior to the formation of any State, the right of providing for the substance of his body.<sup>21</sup>

The pope had already specified that what “nature” gave to man for this purpose is private property: “For, every man has by nature the right to possess property as his own.”<sup>22</sup> Nor does the natural right to be an owner refer solely to land, as some have insisted.<sup>23</sup>

Keep in mind in the passage below that a “chattel” is anything that is privately owned that is not land: “An article of personal property; any species of property not amounting to a freehold or fee in land.”<sup>24</sup> Thus, the pope was referring to all forms of capital:

[A] working man's little estate thus purchased should be as completely at his full disposal as are the wages he receives for his labor. But it is precisely in such power of disposal that ownership obtains, *whether the property consist of land or chattels.*<sup>25</sup> [Emphasis added.]

Through broad-based ownership of all forms of capital, both land *and* chattels, the Just Third Way offers a logical “third alternative” to capitalism and socialism. We agree with the Catholic Church when it *criticizes* capitalism because it deprives most people of the opportunity to own capital by concentrating capital ownership in a private sector elite.

We also agree when the Catholic Church *condemns* socialism because it abolishes private property altogether.<sup>26</sup> Socialism vests ownership in the State, thereby undermining free association and contract,<sup>27</sup> the chief means by which people relate to one another in civil society.<sup>28</sup>

Thus, as will be shown in this paper, the Just Third Way is fully consistent with the natural law basis of the Thomist philosophy embodied in the social encyclicals of the Catholic Church. As Leo XIII observed regarding the necessity of widespread, direct ownership of capital,

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<sup>20</sup> Daniel Webster, Massachusetts Constitutional Convention of 1820.

<sup>21</sup> Leo XIII, *Rerum Novarum* (“On Labor and Capital”), 1891, § 7.

<sup>22</sup> *Ibid.*, § 6.

<sup>23</sup> *Vide* the “social credit” scheme of Major C. H. Douglas, which would limit full title and use to land alone. Title to other forms of capital (e.g., machinery) would remain with the nominal owner, but the usufruct — the enjoyment of the fruits — would be vested in the community at large.

<sup>24</sup> “Chattel,” *Black's Law Dictionary*, *op. cit.*

<sup>25</sup> *Rerum Novarum*, *op. cit.*, § 5.

<sup>26</sup> *Rerum Novarum*, *op. cit.*, § 15. Cf. “The theory of the communists can be summed up in the single sentence: the abolition of private property.” *The Communist Manifesto* (1848).

<sup>27</sup> Cf. *Quadragesimo Anno*, *op. cit.*, §§ 86-87.

<sup>28</sup> “If Socialism, like all errors, contains some truth (which, moreover, the Supreme Pontiffs have never denied), it is based nevertheless on a theory of human society peculiar to itself and irreconcilable with true Christianity. Religious socialism, Christian socialism, are contradictory terms; no one can be at the same time a good Catholic and a true socialist.” Pius XI, *Quadragesimo Anno* (“On the Restructuring of the Social Order”), 1931, § 120.

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.<sup>29</sup>

In addition to the economic benefits, widespread capital ownership serves as the economic check against the potential for corruption and abuse, including by the government. Restoration of the full rights of property and extension of private property to every individual serves as the basis for economic democracy. This is the necessary foundation for effective political democracy.<sup>30</sup>

The Just Third Way views healthy *self-interest* (as opposed to *selfishness*) as a virtue. Individual good is directed toward, or in harmony with, the common good. It views greed and envy, on the other hand, as vices destructive of a moral and just society. In contrast to capitalism that institutionalizes greed, or socialism that institutionalizes envy, the Just Third Way institutionalizes *justice*.

### BINARY ECONOMICS

The Just Third Way integrates the economic theories of “binary economics” developed by lawyer-economist Louis O. Kelso and Aristotelian philosopher Mortimer J. Adler. Kelso and Adler presented the fundamental principles of binary economics in the two books they co-authored, *The Capitalist Manifesto*<sup>31</sup> and *The New Capitalists*.<sup>32</sup>

The Just Third Way rejects the terms “capitalist” and “capitalism” as misleading and inaccurate. This does not, however, indicate rejection of Kelso and Adler’s work, only the discarding of confusing terminology.

The subtitle of *The New Capitalists* reveals the fundamental difference between binary economics and so-called “mainstream” schools of economics: “A Proposal to Free Economic Growth from the Slavery of Savings.” It is important to note that by “the slavery of savings,” Kelso and Adler meant savings as defined by mainstream economics: the present value of past reductions in consumption.

Reliance on past savings keeps those who control money and credit in power. Kelso and Adler’s insights help us realize that money and credit, like the State and fire, make very good servants — but very bad masters.

Binary economics agrees that savings are essential to finance new capital formation. The difference between binary economics and mainstream schools of thought is that binary economics includes in the definition of savings future increases in production as well as past reductions in consumption.

The present value of past reductions in consumption is “past savings.” The present value of future increases in production is “future savings.” Both past savings and future savings can be used to finance new capital formation.

Past savings are by definition a virtual monopoly held by the currently wealthy. This is because past savings can only be generated by not consuming all that is produced. The wealthy can turn their unconsumed production into “money,” and use the money to finance new capital formation. The new capital then pays for itself by producing marketable goods and services, and thereafter provides additional income for the wealthy.

Usually the wealthy cannot consume all the additional income their capital produces. Consequently, they typically invest the surplus in even more new capital. If the economy is not productive or there are not enough opportunities to form new capital, the surplus is diverted to the secondary market for debt and equity, or into government securities.

As a result, production and consumption are thrown out of balance. The rich become richer, while the poor become poorer. By relying on past savings to finance new capital formation, “a small number of

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<sup>29</sup> *Rerum Novarum*, *op. cit.*, § 46.

<sup>30</sup> *Ibid.*, § 47.

<sup>31</sup> Louis O. Kelso and Mortimer J. Adler, *The Capitalist Manifesto*. New York: Random House, 1958.

<sup>32</sup> Louis O. Kelso and Mortimer J. Adler, *The New Capitalists*. New York: Random House, 1961.

very rich men have been able to lay upon the teeming masses of the laboring poor a yoke little better than that of slavery itself.”<sup>33</sup>

Future savings, on the other hand, can be used by anyone who owns the present value of a capital project that is reasonably expected to generate profits in the future. Future savings can also be turned into money and used to finance new capital formation. The new capital can then pay for itself by producing marketable goods and services, and thereafter provide consumption income for the owner of the capital, not be diverted into financing for additional new capital.

In contrast to the situation that develops when only the rich have the capacity (through their virtual monopoly over past savings) to own new capital, when future savings are used to finance broad-based capital ownership, production and consumption are in balance, everything else being equal. This is because the “small” owner (the *rentier* investor) uses the income from capital for consumption instead of for reinvestment in additional new capital.

### SAY’S LAW OF MARKETS

All economies based on past savings are necessarily capitalist, socialist, or some unworkable combination of the two. Since the Industrial Revolution and the displacement of labor with capital as the predominant factor of production, reliance on past savings as the sole source of financing for new capital has brought about radical “civil change and revolution.”<sup>34</sup>

This problem has accelerated as the rate of technological advancement has increased, and human labor has been displaced from the production process. As Leo XIII declared, “the result of civil change and revolution has been to divide cities into two classes separated by a wide chasm.”<sup>35</sup> This is capitalism. As the pope explained,

On the one side there is the party which holds power because it holds wealth; which has in its grasp the whole of labor and trade; which manipulates for its own benefit and its own purposes all the sources of supply, and which is not without influence even in the administration of the commonwealth. On the other side there is the needy and powerless multitude, sick and sore in spirit and ever ready for disturbance.<sup>36</sup>

In reaction, not seeing any way within a system based on past savings to correct these flaws of capitalism, socialists would abolish private property altogether. They would thereby put every person utterly at the mercy of an all-powerful State. As the pope explained,

Socialists, therefore, by endeavoring to transfer the possessions of individuals to the community at large, strike at the interests of every wage-earner, since they would deprive him of the liberty of disposing of his wages, and thereby of all hope and possibility of increasing his resources and of bettering his condition in life.<sup>37</sup> . . . The right to possess private property is derived from nature, not from man; and the State has the right to control its use in the interests of the public good alone, but by no means to absorb it altogether.<sup>38</sup>

The only way out of the seemingly inevitable swings between capitalism and socialism is to restructure the social order through acts of social justice. The goal is to open up democratic access to the means of acquiring and possessing private property in capital: capital credit.

Democratic access to capital credit requires a shift from economic theories trapped by the slavery of *past* savings, to a theory based on the potential inherent in *future* savings. Such a theory is found in binary economics. It is based on a proper understanding of “Say’s Law of Markets.”

Say’s Law is usually summarized as “production equals income, therefore supply generates its own demand, and demand its own supply.” This summary — actually a conclusion — is a near-tautological<sup>39</sup>

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<sup>33</sup> *Rerum Novarum*, *op. cit.*, § 3.

<sup>34</sup> *Ibid.*, § 47.

<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*, § 5.

<sup>38</sup> *Ibid.*, § 47.

<sup>39</sup> Joseph A. Schumpeter, *History of Economic Analysis*. New York: Oxford University Press, 1954, 616-618. Note, however, that Schumpeter took his analysis of Say’s Law from Say’s *Treatise on Political Economy* (1821), not Say’s *Letters to Malthus* (1821). Schumpeter also assumed that Say based his thought on the *currency* principle instead of the *banking* principle, described below. This confused Schumpeter’s understanding of Say’s explanation of Say’s Law.

oversimplification of a much more complex concept. This has allowed modern economists such as John Maynard Keynes to misstate Say's Law,<sup>40</sup> and reject it or redefine it<sup>41</sup> based on demolishing the straw man they have created.

Say's Law is based on the fundamental precept of economics, that the purpose of production is consumption.<sup>42</sup> That is, the only reason to produce anything is for the satisfaction of human wants and needs. As Pope John Paul II pointed out,

A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price, mutually agreed upon through free bargaining. It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society. Besides, many goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working towards a common goal. Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks — all this too is a source of wealth in today's society. In this way, the *role* of disciplined and creative *human work* and, as an essential part of that work, *initiative and entrepreneurial ability* becomes increasingly evident and decisive.<sup>43</sup>

This is consistent with the natural law regarding private property. As Leo XIII explained, "It is surely undeniable that, when a man engages in remunerative labor, the impelling reason and motive of his work is to obtain property, and thereafter to hold it as his very own."<sup>44</sup> This applies to both property in capital, and property in labor. As the pope continued,

If one man hires out to another his strength or skill, he does so for the purpose of receiving in return what is necessary for the satisfaction of his needs; he therefore expressly intends to acquire a right full and real, not only to the remuneration, but also to the disposal of such remuneration, just as he pleases.<sup>45</sup>

Given that the purpose of production is consumption, Jean-Baptiste Say noted that it is impossible to consume that which has not been produced, whether by one's own labor and capital, or by means of another's capital and labor. It is impossible for consumption to exceed production.

If we wish to consume, therefore, we must produce. As Saint Paul pointed out, "if any man will not work, neither let him eat."<sup>46</sup> It necessarily follows that production must precede consumption.

To insist that we must first reduce consumption before we can produce is therefore directly contrary to common sense. Being contrary to common sense it is also contrary to the natural law.

Nevertheless, the presumption that production must precede consumption is one of the fundamental precepts of mainstream economics. As Keynes asserted, setting up an irresolvable paradox, "So far as I know, everyone is agreed that *saving* means the excess of income over expenditure on consumption."<sup>47</sup> Keynes then insists that savings necessarily equals investment.<sup>48</sup>

Binary economics avoids being trapped by the past savings paradox. It does this by admitting the validity of Say's Law, and basing the financing of new capital formation on *future* savings. Say's Law can be summarized as follows.

The purpose of production is consumption. It is impossible to consume what does not exist. Consumption must therefore be preceded by production. People can only consume that which they produce, or that others have produced.

<sup>40</sup> John Maynard Keynes, *General Theory of Employment, Interest, and Money* (1936), I.3.i.

<sup>41</sup> This is the position of Thomas Sowell, *Say's Law: An Historical Analysis*. Princeton, New Jersey: Princeton University Press, 1972.

<sup>42</sup> Adam Smith, *The Wealth of Nations* (1776), "Part III, Ch. 8, "Conclusion of the Mercantile System."

<sup>43</sup> John Paul II, *Centesimus Annus* ("On the Hundredth Anniversary of *Rerum Novarum*"), 1991, § 32.

<sup>44</sup> *Rerum Novarum*, *op. cit.*, § 5.

<sup>45</sup> *Ibid.*

<sup>46</sup> 2 Thessalonians 3:10. Cf. "We must not pass over the unwarranted and unmerited appeal made by some to the Apostle when he said: 'If any man will not work neither let him eat.' For the Apostle is passing judgment on those who are unwilling to work, although they can and ought to, and he admonishes us that we ought diligently to use our time and energies of body, and mind and not be a burden to others when we can provide for ourselves. But the Apostle in no wise teaches that labor is the sole title to a living or an income." *Quadragesimo Anno*, *op. cit.* § 57.

<sup>47</sup> Keynes, *General Theory*, *op. cit.*, II.6.ii.

<sup>48</sup> *Ibid.*, II.6.ii.

Everything else being equal, the only way to obtain what others produce is to exchange for it that which you have produced. Thus, we do not purchase what others produce with “money,” but with what we produce. “Money” is simply the medium by means of which we exchange what we produce for what others produce. Money is the “medium of exchange.”<sup>49</sup>

Consequently, if some goods remain unsold, it is because other goods are not produced. That is, if people who are producing marketable goods and services find there is insufficient market demand for their products, it is because other people are unable to produce the goods and services the productive people require in exchange for their products.<sup>50</sup>

The Keynesian solution is to “multiply barren consumptions,”<sup>51</sup> that is, to stimulate demand artificially by creating money backed by government debt. In contrast, Say’s Law dictates not that demand be increased artificially by manipulating the money supply, but by turning non-productive people into productive people.

By becoming productive, people will be able to have the goods and services they can either consume themselves, or trade to others for what those others produce. The only question is how people without savings can become capital owners. The answer is found in the nature of money itself.

### PURE CREDIT: THE BANKING PRINCIPLE

The “banking principle” found in binary economics can be stated very simply: money is anything that can be accepted in settlement of a debt: “[E]verything that can be transferred in commerce.”<sup>52</sup> All money is therefore a contract, just as (in a sense) all contracts are money.

The opposed “currency principle” is less easily stated. For our purposes, however, we can summarize the currency principle as being that money consists exclusively of currency (coins and banknotes) and currency substitutes (demand deposits, some time deposits, and credit cards). To oversimplify somewhat, the currency principle is that “money” is whatever the State says it is.<sup>53</sup>

Money being a promise, that is, a contract, nothing is money until and unless it is “accepted,” that is, an agreement is reached as to the content of the promise. All contracts consist of *offer*, *acceptance*, and *consideration*. “Consideration” is the thing of value that induces someone to enter into a contract.<sup>54</sup> As Kelso described money,

Money is not a part of the visible sector of the economy. People do not consume money. Money is not a physical factor of production, but rather a yardstick for measuring economic input, economic outtake and the relative values of the real goods and services of the economic world. Money provides a method of measuring obligations, rights, powers and privileges. It provides a means whereby certain individuals can accumulate claims against others, or against the economy as a whole, or against many economies. It is a system of symbols that many economists substitute for the visible sector and its productive enterprises, goods and services, thereby losing sight of the fact that a monetary system is a part only of the invisible sector of the economy, and that its adequacy can only be measured by its effect upon the visible sector.<sup>55</sup>

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<sup>49</sup> Jean-Baptiste Say, *Letters to Mister Malthus on Several Subjects of Political Economy*. London: Sherwood, Neely, and Jones, 1821, 2-3.

<sup>50</sup> *Ibid.*

<sup>51</sup> *Ibid.*

<sup>52</sup> “Money,” *Black’s Law Dictionary*. St. Paul, Minnesota: West Publishing Company, 1951.

<sup>53</sup> “It is a peculiar characteristic of money contracts that it is the State or Community not only which enforces delivery, but also which decides what it is that must be delivered as a lawful or customary discharge of a contract which has been concluded in terms of the money-of-account. The State, therefore, comes in first of all as the authority of law which enforces the payment of the thing which corresponds to the name or description in the contract. But it comes in doubly when, in addition, it claims the right to determine and declare *what thing* corresponds to the name, and to vary its declaration from time to time — when, that is to say, it claims the right to re-edit the dictionary. This right is claimed by all modern States and has been so claimed for some four thousand years at least. It is when this stage in the evolution of money has been reached that Knapp’s Chartalism — the doctrine that money is peculiarly a creation of the State — is fully realized.” John Maynard Keynes, *A Treatise on Money, Volume I: The Pure Theory of Money*. New York: Harcourt, Brace and Company, 1930, 4. Note that some authorities classify Keynes as “banking principle” (Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*. New York: Basic Books, 1989, 60-65.), although this passage from the *Treatise on Money* clearly reveals Keynes as adhering to the currency principle.

<sup>54</sup> “Consideration,” *Black’s Law Dictionary*, *op. cit.*

<sup>55</sup> Louis O. Kelso and Patricia Hetter, *Two-Factor Theory: The Economics of Reality*. New York: Random House, 1967, 54-55.

Thus, strictly speaking, it is not necessary for anyone to cut consumption and accumulate money savings in order to finance new capital formation and become a capital owner. It is only necessary to have the capacity to enter into a contract.

Creating money by entering into contracts based on the present value of future marketable goods and services is called “pure credit.” This is because the credit does not rely on past savings for anything except traditional collateral — and money and credit are simply two aspects of the same thing.<sup>56</sup>

Traditional collateral, however, can be replaced with capital credit insurance and reinsurance, with the collateral consisting of the insurance premia collected in the future.<sup>57</sup> In this way, economic growth can be completely freed of reliance on past savings, and thus avoid both capitalism and socialism.

An added social benefit accruing from a shift from past savings to future savings would be to free up existing reserves of past savings. Most past savings are in the form of corporate retained earnings.

By paying out profits as dividends instead of retaining earnings, consumption power and thus effective demand will be increased. There will be a consequent increase in new capital formation to meet the increased demand.<sup>58</sup> New job opportunities will be created naturally, without government subsidy.

Without the perceived need to accumulate past savings to finance new capital formation, there will also be greater resources available to assist the poor directly. At the same time, there will be fewer poor to help.

Contracts based on the present value of existing marketable goods and services — past savings — are called “mortgages.” Contracts based on the present value of future marketable goods and services (*i.e.*, the creditworthiness of the maker) — future savings — are called “bills of exchange.”

Contracts issued by the State based on the present value of future taxes are called by a special constitutional term: “bills of credit.” Except to note in passing that emitting bills of credit allows a State to monetize its deficits without recourse to taxation or borrowing from existing pools of savings, thereby increasing State power exponentially, we will not refer to bills of credit again in this paper.<sup>59</sup>

It is possible, even preferable to avoid unnecessarily restricting consumption and thus demand, to finance new capital formation by drawing bills of exchange on the present value of future private sector marketable goods and services. These bills can either be offered to businesses and individuals directly to finance new capital or productive projects (merchants or trade acceptances), or to commercial banks (bankers acceptances) to create a form of money with general acceptance in the community. In either case the bills constitute money once they are accepted.<sup>60</sup>

A commercial bank purchases (“discounts”) bills and creates money by issuing promissory notes. The bank then uses the promissory notes to back new demand deposits. To ensure a uniform, stable and “elastic” currency to meet the transactions demand for money in the economy, a commercial bank may “rediscount” (sell) the bills it accepts to a central bank, a “bank for banks,” in exchange for the central bank’s promissory notes, that are then used to back new currency and demand deposits to back those of the commercial bank.

Kelso’s particular genius was to combine the classic banking theory embodied in Say’s Law of Markets, and the social, economic and political necessity for widespread capital ownership, into a consistent and workable synthesis. Adding the act of social justice found in the completed social doctrine of Pope Pius XI gives us what amounts to a “unified field theory” of economic justice: the Just Third Way.

The Just Third Way is based on 1) three concepts that differ fundamentally from mainstream economics, 2) the three principles of economic justice, and 3) the four pillars of an economically just society.

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<sup>56</sup> “Money and Credit are essentially of the same nature; Money being only the highest and most general form of Credit.” Henry Dunning Macleod, *The Theory of Credit*. Longmans, Green and Co., 1894, 82.

<sup>57</sup> This is the pure theory of commercial insurance, that people pay into a common fund to spread the risk of loss on their productive projects. It does not, at least in theory, require that there be pre-existing savings, although in practice an “insurance pool” must consist of past savings.

<sup>58</sup> Harold G. Moulton, *The Formation of Capital*. Washington, DC: The Brookings Institution, 1935, 26-74.

<sup>59</sup> Much of the damage Keynesian economics has inflicted on the global economy is due to its confusing government debt-backed bills of credit, with private sector asset-backed bills of exchange, and then considering only bills of credit as real money, and ignoring bills of exchange.

<sup>60</sup> *Ibid.*, 77-84

## THE FUNDAMENTAL DIFFERENCE

Dr. Robert H. A. Ashford, a law professor at Syracuse University and former colleague of Louis Kelso, was the first academic to identify three concepts within binary economics that set it apart fundamentally from all preceding economic approaches: “binary productiveness,” “the binary property right,” and “binary growth.” In his books and many writings on binary economics as a new economic paradigm, Professor Ashford describes these three distinguishing concepts as follows:

1. **Binary productiveness.** This states that while humans contribute to economic growth through all forms of labor, capital assets such as machines and technological processes are making an even bigger, ever-increasing contribution to overall output, in relation to that contributed by human labor.<sup>61</sup>

Catholic social teaching based on the natural law does not directly acknowledge that capital is productive. By insisting that capital is due a rightful share of production, however, the Catholic Church clearly implies that capital is, in strict point of fact, productive:

And therefore, to the harassed workers there have come “intellectuals,” as they are called, setting up in opposition to a fictitious law the equally fictitious moral principle that all products and profits, save only enough to repair and renew capital, belong by very right to the workers. This error, much more specious than that of certain of the Socialists who hold that whatever serves to produce goods ought to be transferred to the State, or, as they say “socialized,” is consequently all the more dangerous and the more apt to deceive the unwary. It is an alluring poison which many have eagerly drunk whom open Socialism had not been able to deceive.<sup>62</sup>

2. **The binary property right.** This refers to the right of every person to acquire, on market principles, private (individual and joint) ownership of wealth-creating capital assets.<sup>63</sup>

The natural right of every person to own capital is one of the clearest — and most frequently repeated — concepts in the entire series of social encyclicals. As it states in the beginning of *Rerum Novarum*, considered by most authorities to be the proto social encyclical,

For, every man has by nature the right to possess property as his own. This is one of the chief points of distinction between man and the animal creation. . . . It is the mind, or reason, which is the predominant element in us who are human creatures; it is this which renders a human being human, and distinguishes him essentially from the brute. And 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.<sup>64</sup>

3. **Binary growth.** This holds that economies grow steadily larger as private capital acquisition is distributed more broadly among the population on market principles. This concept also focuses on the importance of unleashing the unutilized or underutilized capacity of all economic systems to produce in greater abundance.<sup>65</sup>

This concept, too, is found in Catholic social teaching. As Leo XIII claimed,

A further consequence [of widespread capital ownership] will result in the great abundance of the fruits of the earth. Men always work harder and more readily when they work on that which belongs to them; nay, they learn to love the very soil that yields in response to the labor of their hands, not only food to eat, but an abundance of good things for themselves and those that are dear to them. That such a spirit of willing labor would add to the produce of the earth and to the wealth of the community is self-evident.<sup>66</sup>

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<sup>61</sup> Robert H. A. Ashford and Rodney Shakespeare, *Binary Economics: The New Paradigm*. Lanham, Maryland: The University Press of America, 1999, 6-7, 23-26, 91, 129-178.

<sup>62</sup> *Quadragesimo Anno*, *op. cit.*, § 55.

<sup>63</sup> Ashford and Shakespeare, *Binary Economics*, *op. cit.*, 46-47, 215-216, 233-235, 274-275, 341-343.

<sup>64</sup> *Rerum Novarum*, *op. cit.*, § 6.

<sup>65</sup> Ashford and Shakespeare, *Binary Economics*, *op. cit.*, 37-41, 273-306, 320-325.

<sup>66</sup> *Rerum Novarum*, *op. cit.*, § 47.

### THE THREE PRINCIPLES OF ECONOMIC JUSTICE

Kelso and Adler's most important contribution to the effort to integrate ethics into business and counter the new socialism was the development of the three principles of economic justice, *Participation*, *Distribution*, and *Limitation*. These are described in Chapter 5 of *The Capitalist Manifesto*.<sup>67</sup> CESJ has decided that "Harmony" is a better term than "Limitation," and uses it in place of Kelso and Adler's term.

**Participation.** "Participation" or "Participative Justice" is the input principle that all people have a right to live in a culture that offers them equality of dignity and opportunity to contribute their labor as well as their capital, to the production of marketable goods and services. This requires equal access to the means of acquiring property in income-producing capital.

As technology displaces or replaces labor, the ownership of capital becomes increasingly important for a person in the modern world to earn a living. Such social means are necessary for all members of a society or institution to exercise their fundamental rights to become empowered to contribute to the success of the whole and to their personal success.

Again, this point is implied in the social encyclicals, although not explicitly stated in precisely these terms. All people have the right to participate in the common good through direct ownership of capital: "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."<sup>68</sup>

**Distribution.** "Distribution" or "Distributive Justice," is the out-take principle — based on the exchange value of one's economic contributions — that all people have a right to receive a proportionate, market-determined share of the value of the marketable goods and services they produce with their labor, their capital, or both. Under Kelso's binary theory of economics, every person is entitled to earn both from their human (labor) contributions and from their non-human (capital) contributions (non-human things in the form of productive land and humanly-created capital assets) that combine to produce all goods and services sold in the market.

Kelso rejected the "Labor Theory of Value," which ignores the reality of ever-advancing technologies that continue to eliminate many jobs throughout the world. Further, distribution based on need, rather than on contribution, is valid for charity. Charity, however, should never be a substitute for justice that could reduce the need for charity: "[N]o vicarious charity can substitute for justice which is due as an obligation and is wrongfully denied."<sup>69</sup>

As we have seen, all of the components of the principle of distribution are found in the social encyclicals. The slavery of past savings that the popes assumed as a given,<sup>70</sup> however, frequently makes correlating the components of this principle difficult if not impossible. This is because the belief that new capital cannot be financed except by cutting consumption and accumulating money savings colors the interpretation of the passages with preconceptions and even contradictions.

**Harmony** (formerly "Limitation"). "Harmony" or "Harmonic Justice," is the feedback principle that balances "participation" and "distribution" when either essential principle is violated by the system. Harmony includes a concept of limitation — "a strong juridical framework which places it at the service of human freedom in its totality."<sup>71</sup> This discourages personal greed and prevents social monopolies. It holds that every person has a personal responsibility to organize with others to correct their organizations, institutions, laws and the social order itself (*i.e.*, their "social tools") at every level whenever the principles of "participation" or "distribution" are violated or not operating properly.

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<sup>67</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 52-86.

<sup>68</sup> *Rerum Novarum*, *op. cit.*, § 47.

<sup>69</sup> *Quadragesimo Anno*, *op. cit.*, § 137. Cf. *ibid.*, § 4; *Rerum Novarum*, *op. cit.*, § 22.

<sup>70</sup> The popes' assumption of the validity of the discredited past savings model of finance in no way impugns the validity (in Catholic belief, the infallibility) of the principles of natural law embodied in the encyclicals. The Church has consistently asserted that it has no specific models to present (*Centesimus Annus*, *op. cit.*, § 43). Specific applications of principles in the encyclicals are therefore necessarily examples and suggestions only; "prudential matter." The assumption that it is possible to finance new capital formation only by cutting consumption and accumulating money savings is a purely human error.

<sup>71</sup> *Centesimus Annus*, *op. cit.*, § 42.

As Father Ferree explained in *The Act of Social Justice*,<sup>72</sup> the whole point of Pius XI's social doctrine, found primarily in *Quadragesimo Anno* and *Divini Redemptoris*,<sup>73</sup> is that, while the individual as an individual is frequently helpless to effect necessary changes in the institutions of the social order, people have a moral obligation to organize and direct their combined efforts to correct flaws in the design of the institutions of common good. As members of organized groups people have both direct access to the common good and power, both of which are essential to restructure the social order.

### DISTRIBUTIVE V. COMMUTATIVE JUSTICE

It is important to note that in *The Capitalist Manifesto*, Adler put wages under *distributive* justice.<sup>74</sup> The popes, however, clearly put wages under *commutative* justice.<sup>75</sup> This is not a contradiction, and can easily be explained.

In *The Capitalist Manifesto*, Adler<sup>76</sup> addressed “The Problem of Justice and Welfare in an Industrial Economy.”<sup>77</sup> Adler considered the market as an integrated system, and individual businesses within the system as component elements of the system.

The issue that Adler addressed is how the market as an integral part of “an individual society”<sup>78</sup> or “community” *distributes* goods justly between owners of labor and owners of capital. This involves *distributive* justice: “[I]n distributive justice something is given to a private individual, in so far as what belongs to the whole is due to the part, and in a quantity that is proportionate to the importance of the position of that part in respect of the whole.”<sup>79</sup> Distributive justice, as it relates to what is due from the whole to the parts, is obviously macro-analytic.

Adler's analysis therefore clearly considers owners of labor and owners of capital as making contributions as members of the “community” of the business enterprise on the same basis that citizens contribute to the community of the State or the nation.<sup>80</sup> That being the case, the relative value of the contribution by labor versus that of capital determines the *pro rata* share to be divided equitably between the owners of each.<sup>81</sup>

Had Adler been analyzing the situation from the perspective of how, *within the market* at the micro-analytic level, goods are *exchanged* justly (as opposed to how the market itself *distributes* goods), his analysis would have involved *commutative* justice (as it, in fact, does on page 69). As Aquinas explained, “[I]n commutations something is paid to an individual on account of something of his that has been received, as may be seen chiefly in selling and buying, where the notion of commutation is found primarily.”<sup>82</sup>

Commutative justice, as it does not take the surrounding “community” (the market) into account except as the environment within which exchanges are carried out, is micro-analytic. Thus, in a business in which a division supplies raw materials to another division to produce a marketable good or service, the company as a whole distributes a *pro rata* share of profits or losses to the division, depending on the relative value of the division's contribution. This is distributive justice.<sup>83</sup>

An independent supplier, however, that provides raw materials to the company is due the agreed-upon price for those materials, regardless whether the company makes a profit or a loss. This “equality of exchange” is commutative justice. As Adler explained, “Here the rule of justice is the simple rule of

<sup>72</sup> Rev. William J. Ferree, S.M., Ph.D., *The Act of Social Justice*. Washington, DC: The Catholic University of America Press, 1942.

<sup>73</sup> Pius XI, *Divini Redemptoris* (“On Atheistic Communism”), 1937.

<sup>74</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 61-71.

<sup>75</sup> *Quadragesimo Anno*, *op. cit.*, § 110.

<sup>76</sup> My assumption here is that the philosophical analysis of binary theory is Adler's alone; Adler in the Preface to *The Capitalist Manifesto* specifically credits Kelso with the *economic* theory.

<sup>77</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 60-86.

<sup>78</sup> *Ibid.*, 60.

<sup>79</sup> IIa IIae q. 61 a. 2.

<sup>80</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 69-70.

<sup>81</sup> *Ibid.*, 60-61, 65.

<sup>82</sup> IIa IIae q. 61 a. 2.

<sup>83</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 70-71.

equality: that in the exchange of heterogeneous goods, the things exchanged should be of equivalent value.”<sup>84</sup>

Taking the market as a whole, and considering each person as a participant in the market (member of the community), there is a problem in an economy in which the bulk of production has been taken over by advancing technology — capital. The problem is that the share to which owners of labor are justly entitled is constantly decreasing. At the same time, that which is due in justice to the owners of capital is just as constantly increasing.<sup>85</sup>

It is at this point that Adler inserts Kelso’s genius into the analysis. If the just share to owners of labor is constantly decreasing, and the just share to owners of capital is constantly increasing, the obvious solution is to arrange society more justly so that owners of labor can also become owners of capital.<sup>86</sup>

The popes considered the same problem from a different perspective, and used a different assumption. They assumed that the propertyless wage worker is, like the independent supplier to a company in the above example, an “independent other.” The propertyless wage worker is therefore equal in status to the employer within the given context. Lacking ownership of a share in the enterprise, however, the propertyless wage worker is not a member of the company community, although, in charity, he or she should be treated as such — when possible — and paid on the basis of need if wage income is inadequate as a form of almsgiving until the worker can become a capital owner.<sup>87</sup>

As independent others of presumably equal status, relations between wage workers and their employers come under commutative justice, as that is the justice governing relations between independent others in civil society. In the popes’ analysis, even when the wage worker becomes an owner, relations between the wage worker and the employer continue to fall under commutative justice. At the same time, all matters pertaining to corporate governance, distribution of profits, and so on, between employers and fellow owners, even if they are also wage workers, fall under distributive justice.

Both approaches are valid, depending on what assumptions you make. Both come to the same conclusion: that the propertyless worker must become a capital owner. Both Kelso and Adler, and the popes, reach the same truth by different paths. Both approaches are given here to explain what amounts to an inconsequential difference in the overall analyses, and to demonstrate the essential compatibility of the Just Third Way with Catholic social teaching, regardless of the particular analysis.<sup>88</sup>

It should be noted that the analysis of Monsignor John A. Ryan, found primarily in his books, *A Living Wage* (1906)<sup>89</sup> and *Distributive Justice* (1916),<sup>90</sup> differs substantially from that of both the popes and of Adler. After World War I, Monsignor Ryan appeared to drift in the direction of “corporatism” — State control of the economy. Statements in the Program of Social Reconstruction of the Administrative Committee of the (U.S.) National Catholic War Council suggest this trend: “The industry in which a man is employed should provide him with all that is necessary to meet all the needs of his entire life.”<sup>91</sup>

As the solidarist economist Dr. Franz Mueller commented on this confusion of the immediate and intermediate functions of individuals and institutions, respectively (and then the confusion between the intermediate and the mediate functions of institutions and the State), “It is hard to understand why

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<sup>84</sup> *Ibid.*, 69.

<sup>85</sup> *Ibid.*, 61-63.

<sup>86</sup> *Ibid.*, 65-69.

<sup>87</sup> *Quadragesimo Anno*, *op. cit.*, § 110.

<sup>88</sup> There is a possibility that either Adler or the popes may have committed a “fallacy of equivocation” and confused goods that are distributed versus goods that are exchanged. Even if that were to be the case, however, this does not invalidate the conclusion that propertyless workers must become capital owners. If one of the arguments reaches a conclusion that is not necessarily true, and the other reaches the same conclusion that is necessarily true, both conclusions, being the same, are necessarily true.

<sup>89</sup> Monsignor John A. Ryan, S.T.D., *A Living Wage: Its Ethical and Economic Aspects*. New York: Grosset & Dunlap, Publishers, 1906.

<sup>90</sup> Monsignor John A. Ryan, *Distributive Justice: The Right and Wrong of Our Present Distribution of Wealth. Third Edition, Completely Revised and Reset*. New York: The Macmillan Company, 1942.

<sup>91</sup> Rafael M. Huber, O.F.M. Conv., editor, *Our Bishops Speak*. Milwaukee, Wisconsin: Bruce Publishing Company, 1952, 254, quoted in Franz H. Mueller, *The Church and the Social Question*. Washington, DC: American Enterprise Institute for Public Policy Research, 1984, 107.

neither Ryan nor the Catholic War Council realized, or so it seems, the ‘corporatist’ implications of this statement.”<sup>92</sup>

Monsignor Ryan’s deviation from the Thomist understanding of the natural law, particularly as it applies to social justice and private property, is possibly explained by the probable influence of the American agrarian socialist Henry George on his thought.<sup>93</sup> In *Progress and Poverty* (1879), George advocated the abolition of private property in land by means of a “single tax” consisting of all profits and income derived from land ownership.<sup>94</sup>

Evidence suggests that Leo XIII may have written *Rerum Novarum* (at least in part) to address George’s proposal.<sup>95</sup> Monsignor Ryan, however, relied on his personal interpretation of *Rerum Novarum*<sup>96</sup> to support his theories and maintain his position. There are also hints that Monsignor Ryan avoided censure by means of his political acumen,<sup>97</sup> and quelled opposition through the use of questionable pressure tactics.<sup>98</sup>

### THE FOUR PILLARS OF AN ECONOMICALLY JUST SOCIETY

What are the elements of an economically just society? When the market is permitted to operate without restrictions or barriers that unnecessarily limit access to ownership of labor or capital and the exercise thereof, or unjust restrictions on freedom of association, the optimal situation has been reached. We can conclude that the market is “free” within reasonable parameters.

A free market is not, however, in and of itself, sufficient to ensure justice or to guarantee that people will acquire and develop virtue.<sup>99</sup> Absent extraordinary people with will and determination not to let anything stop them from becoming more fully human, however, we can be reasonably sure that most people will be prevented from or seriously inhibited in acquiring and developing virtue.

This is because most people would be prevented or inhibited from participating in the market as consumers, producers, and, above all, as owners, not only of labor, but of landed capital and technological capital as well. As the solidarist Heinrich Rommen pointed out, “It is morally impossible to exist as a free person without property,”<sup>100</sup> that is, the natural right to possess things, and the socially determined rights to use things.

The following are the pillars of an economically just society:

**A limited economic role for the State** (“There is no need to bring in the State. Man precedes the State, and possesses, prior to the formation of any State, the right of providing for the substance of his body.”<sup>101</sup>),

**Free and open markets** within an understandable and fair system of laws<sup>102</sup> as the most objective and democratic means for determining just prices, just wages and just profits — the residual after all goods or services are sold (“It

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<sup>92</sup> *Ibid.*

<sup>93</sup> Harlan Beckley, “Reflections on the Life of Monsignor John A. Ryan,” Robert G. Kennedy, Mary Christine Athans, Bernard V. Brady, William C. McDonough, and Michael J. Naughton, editors, *Religion and Public Life: The Legacy of Monsignor John A. Ryan*. Lanham, Maryland: University Press of America, 2001, 7.

<sup>94</sup> Henry George, *Progress and Poverty*. New York: The Schalkenbach Foundation, 1992, 405-406.

<sup>95</sup> *Vide* Rev. Thomas S. Preston, “Socialism and the Church,” *The Forum*, Vol. V, No. 2, April 1888; also Henry George’s “open letter” to Leo XIII in response to *Rerum Novarum*, *On the Condition of Labor*, September 11, 1891.

<sup>96</sup> Eric F. Goldman, *Rendezvous with Destiny*. New York: Vintage Books, 1956, 85-86.

<sup>97</sup> *Ibid.*

<sup>98</sup> Fulton J. Sheen, *Treasure in Clay: The Autobiography of Fulton J. Sheen*. New York: Doubleday and Co., 1980, 45-46.

<sup>99</sup> Kelso and Adler, *The Capitalist Manifesto*, *op. cit.*, 151-161. Cf. *Centesimus Annus*, *op. cit.*, § 42.

<sup>100</sup> Rommen, *The State in Catholic Thought*, *op. cit.*, 189.

<sup>101</sup> *Rerum Novarum*, *op. cit.*, § 7.

<sup>102</sup> “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 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.” *Centesimus Annus*, *op. cit.*, § 42.

would appear that, on the level of individual nations and of international relations, the *free market* is the most efficient instrument for utilizing resources and effectively responding to needs.”<sup>103</sup>),

**Restoration of private property**, especially in corporate equity and other forms of business organization. Typically, shareholders do not receive the full stream of income attributable to their share ownership, and, when dividends are paid, are subject to double, sometimes triple taxation. (“A working man’s little estate thus purchased should be as completely at his full disposal as are the wages he receives for his labor. But it is precisely in such power of disposal that ownership obtains, whether the property consist of land or chattels.”<sup>104</sup> “These . . . important benefits, however, can be reckoned on only provided that a man's means be not drained and exhausted by excessive taxation.”<sup>105</sup>), and

**Widespread capital ownership**, individually or in free association with others, achieved through universal access to capital credit repayable with “future savings” (profits) from the future goods and services for which each new growth investment is reasonably expected to produce. As it says in Paragraph 17 the Universal Declaration of Human Rights, “(1) Everyone has the right to own property alone as well as in association with others. (2) No one shall be arbitrarily deprived of his property.”

Thus, the poor and middle class without past savings are enabled to acquire direct ownership of capital in an advanced economy. (“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.”<sup>106</sup>)

If someone is still in want or need, of course, then charity takes over and fulfills whatever is lacking in justice.<sup>107</sup> If charity proves inadequate within a society, the State may levy additional taxes to take care of the unfortunate as a temporary expedient, while people get organized in social justice to correct the problems that are causing individual justice and charity to fail. If the problem is limited to a single business enterprise or industry and workers without capital cannot generate sufficient income from selling their labor, employers have a twofold responsibility.

### THE EMPLOYER’S RESPONSIBILITY

The first responsibility of an employer to a propertyless worker is, if the employer can pay an adequate wage, he or she must do so in the short term. This is regardless of the market rate of wages. At the same time, however, the employer must also reorganize the business to open up some means of sharing ownership. This will enable workers not only to supplement wage income, but bring them into the company as partners, that is, make them full members of the group or institution. Workers will then be equal in status as owners, and thus members of the “family” rather than outside, independent others merely selling their labor.

Some authorities are divided on the issue of whether the payment of an adequate wage in excess of a market-determined rate is charity, or a special form of commutative justice. There is language in the encyclicals that suggests the popes might be maintaining that a need-based wage is a special form of commutative justice, roughly analogous to the paternal right that, in part, governs the Family. (The passage in *Quadragesimo Anno* is unclear, at least in the official English translation.<sup>108</sup>) Others say because it is based on need, it is charity.

While this is an important issue, it does not need to be resolved at this time. The important point is we agree that, whether justice or charity, a wage in excess of a market determined rate is an expedient to address an emergency situation. It is only justified in cases where the system prevents or inhibits workers from owning enough capital to supplement or replace wage income when market-determined wage income is insufficient to meet common and legitimate domestic needs.

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<sup>103</sup> *Ibid.*, § 34.

<sup>104</sup> *Rerum Novarum*, *op. cit.*, § 5.

<sup>105</sup> *Ibid.*, § 47. Cf. “[I]t is grossly unjust for a State to exhaust private wealth through the weight of imposts and taxes.” (*Quadragesimo Anno*, *op. cit.*, § 49.)

<sup>106</sup> *Ibid.*, § 46.

<sup>107</sup> *Ibid.*, § 22.

<sup>108</sup> “Relations of one to the other must be made to conform to the laws of strictest justice — commutative justice, as it is called — with the support, however, of Christian charity.” *Ibid.*, § 110.

## CONCLUSION

It is clear from the above discussion that the Just Third Way is in full conformity with the precepts of the natural law as presented in the philosophy of Aristotle and Aquinas, and thus with Catholic social teaching. It is also clear, however, that the subject of economic justice would benefit greatly from a more rigorous and clear treatment by the Catholic Church.

It is evident from the vast amount of confusion that exists today regarding even fundamental concepts of justice itself, much less social and economic justice, that a great deal of work needs to be done to present even traditional teachings in a clearer manner. Given that the developments in social and economic justice by Pius XI, and Kelso and Adler, respectively, build on the traditional Thomist understanding of justice, more clarity in this area becomes essential.

Much of the lack of clarity, however, cannot be blamed on the Catholic Church in general, or the popes in particular. There are two primary sources of today's confusion. One, the great dispute over the basis of the natural law in the 12<sup>th</sup> century (*i.e.*, the debate between Aquinas's emphasis on the primacy of the Intellect versus Duns Scotus's emphasis on the primacy of the Will<sup>109</sup>), shifted the source of rights from the individual to the State. This was the birth of modern totalitarianism.

Two, continued reliance on past savings to finance new capital formation when advancing technology was rapidly displacing human labor from the production process concentrated economic power in a small private sector elite. This was the birth of modern industrial and commercial capitalism. In reaction against the abuses of concentrated economic power, some began demanding the abolition of private property and vesting the State with control or outright ownership. This was the birth of modern socialism.

Effective resistance to these "new things" was seriously hampered by inadvertent papal acceptance of the underlying assumption of both capitalism and socialism: that the only way to finance new capital formation is by cutting consumption and accumulating money savings. As Pius XI asked, after presenting the natural law principle that every worker should be an owner,<sup>110</sup>

As We have already indicated, following in the footsteps of Our Predecessor, it will be impossible to put these principles into practice unless the non-owning workers through industry and thrift advance to the state of possessing some little property. But except from pay for work, from what source can a man who has nothing else but work from which to obtain food and the necessities of life set anything aside for himself through practicing frugality?<sup>111</sup>

It cannot be denied that the dehumanizing reliance on past savings has led to the situation that Pope Francis noted in his speech to the four new ambassadors to the Holy See from Kyrgyzstan, Antigua and Barbuda, Luxembourg, and Botswana on May 16, 2013. As the pope noted,

[T]he majority of the men and women of our time continue to live daily in situations of insecurity, with dire consequences. Certain pathologies are increasing, with their psychological consequences; fear and desperation grip the hearts of many people, even in the so-called rich countries; the joy of life is diminishing; indecency and violence are on the rise; poverty is becoming more and more evident. People have to struggle to live and, frequently, to live in an undignified way.

As the pope continued,

One cause of this situation, in my opinion, is in the our relationship with money, and our acceptance of its power over ourselves and our society. Consequently the financial crisis which we are experiencing makes us forget that its ultimate origin is to be found in a profound human crisis. In the denial of the primacy of human beings! We have created new idols. The worship of the golden calf of old<sup>112</sup> has found a new and heartless image in the cult of money and the dictatorship of an economy which is faceless and lacking any truly humane goal.

Francis went on to point out that the abandonment of the natural law ("a rejection of ethics") is behind these problems — a conclusion in which we fully concur, as should be obvious from this paper. As

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<sup>109</sup> Rommen, *The Natural Law*, *op. cit.*, 51-61.

<sup>110</sup> *Quadragesimo Anno*, *op. cit.*, §§ 58-61.

<sup>111</sup> *Ibid.*, § 63.

<sup>112</sup> Cf. Ex 32:15-34.

the pope continued, “[e]thics — naturally, not the ethics of ideology — makes it possible, in my view, to create a balanced social order that is more humane.” As he declared,

While the income of a minority is increasing exponentially, that of the majority is crumbling. This imbalance results from ideologies which uphold the absolute autonomy of markets and financial speculation, and thus deny the right of control to States, which are themselves charged with providing for the common good. A new, invisible and at times virtual, tyranny is established, one which unilaterally and irremediably imposes its own laws and rules. Moreover, indebtedness and credit distance countries from their real economy and citizens from their real buying power. Added to this, as if it were needed, is widespread corruption and selfish fiscal evasion which have taken on worldwide dimensions. The will to power and of possession has become limitless.

While the pope’s words are necessary and salutary, many, if not all, of the commentators and reporters misinterpreted his call for reform. Trapped within a paradigm dictated by Keynesian economics that assigns virtually total power to the State — and thus to the financial elite that control the State — they construed the pope’s call to put the focus of human activity back on the human person, as a call for greater direct government control of the global economy.

As we have seen, the State’s proper role is to maintain the institutions of the common good within which, and circumscribed by a strict juridical order, people carry on business. Assuming that the State should have direct control of the economy is an egregious misunderstanding of the role of the State, which is to care for the common good, not any individual goods, except as an expedient in an emergency. Fortunately, the pope made this clear when he declared,

Dear Ambassadors, there is a need for financial reform along ethical lines that would produce in its turn an economic reform to benefit everyone. This would nevertheless require a courageous change of attitude on the part of political leaders. I urge them to face this challenge with determination and farsightedness, taking account, naturally, of their particular situations. Money has to serve, not to rule! The Pope loves everyone, rich and poor alike, but the Pope has the duty, in Christ’s name, to remind the rich to help the poor, to respect them, to promote them. The Pope appeals for disinterested solidarity and for a return to person-centered ethics in the world of finance and economics.

Even more fortunately, there already exists an ethical — that is, natural law — framework, the Just Third Way, which has the potential to return the human person to the center of “the world of finance and economics.” The banking principle of finance found in the binary economics of the Just Third Way, and the means by which the three principles of economic justice can be implemented and maintained in the soundest manner possible, is a clear response to the pope’s appeal “for disinterested solidarity and for a return to person-centered ethics.”

Specifically, every worker — indeed, every human being — can become an owner of capital by being vested with the legally protected right to obtain credit for the purchase of that capital that the pope stressed everyone<sup>113</sup> must own.

This right can be turned into money by offering a contract for the purchase of properly vetted sound new capital, and having that contract accepted (discounted) by a commercial bank, preferably rediscounted at a central bank and collateralized with capital credit insurance and reinsurance. The capital can be put to work once formed, generating a stream of income for the new owner.

Out of this income the owner first retires the acquisition debt, thereby cancelling the new money and avoiding both inflation and deflation. Once the acquisition debt is retired, the owner may then use the income for consumption. In this way everyone — every man, woman, and child — can become an owner of capital by first purchasing the capital, and then using the future profits of capital to pay for the new capital.

Obviously there is a need to overcome and correct misinterpretations and distortions of the principles in the encyclicals, to correlate principles that are presented in fragmentary and possibly confusing fash-

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<sup>113</sup> Some have erroneously claimed that the popes have asserted only the right of workers to own. This is obviously not the case, as the popes have been equally insistent that the right to be an owner is a natural right inherent in the human person (*Rerum Novarum*, *op. cit.*, § 6), that inheritance is permanently valid (*ibid.*, § 13), and that State policy and the goal of the law “should be to induce as many as possible of the people to become owners.” (*Ibid.*, § 46.)

ion, and to add some things that are not explicit or that may even have been omitted, such as explication of the principles of economic justice.

It appears, then, that an encyclical dedicated solely to long-term institutional reform, guided by the natural moral law and emphasizing in particular the principles of economic justice consistent with the Just Third Way, would be justified.

Given the widespread misunderstanding of basic facts of law, economics and finance in the modern world, there should be serious consideration given to the possibility of issuing an encyclical on economic justice embodying the three principles of economic justice discerned by Kelso and Adler: Participation, Distribution, and Harmony, and incorporating them into the social doctrine of Pius XI, and the goals of Leo XIII.

More immediately, a comprehensive program or model of economic reforms, such as that proposed by CESJ, appears to be the only viable hope for inspiring political, business, financial, labor, academics, environmental and other leaders to debate and move effectively to address the injustices of the present money and economic systems. When citizens wake up to new solutions for addressing the global debt crisis and the economic downturn that has afflicted much of the world since the 1890s in a realistic and effective way. It also appears to be the only effective means of countering the growing attacks on domestic society (the Family), religious society (the Church) and even civil society (the State) itself.

Our hope is that the analysis in this paper may suggest a way to overcome the silence that for more than one hundred and twenty years has succeeded in suppressing the import of papal social teachings and their potential for reestablishing the social order on a sound and sustainable basis. As Francis declared,

For her part, the Church always works for the integral development of every person. In this sense, she reiterates that the common good should not be simply an extra, simply a conceptual scheme of inferior quality tacked onto political programs. The Church encourages those in power to be truly at the service of the common good of their peoples. She urges financial leaders to take account of ethics and solidarity. And why should they not turn to God to draw inspiration from his designs? In this way, a new political and economic mindset would arise that would help to transform the absolute dichotomy between the economic and social spheres into a healthy symbiosis.