

**CATHOLIC SOCIAL THOUGHT AND THE CHANGING PATTERN  
OF WEALTH OWNERSHIP IN THE UNITED STATES**

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**ABSTRACT**

The papal encyclical *Rerum Novarum* was written in an era characterized by (1) an extremely unequal distribution of wealth, (2) a militant labor force prone to frequent and violent strikes, and (3) a sparse use of equity financing by the corporate sector. Over the ensuing century other papal encyclicals concerning labor market issues promulgated doctrines that collectively are referred to as Catholic social thought. These doctrines advocated various ways to alter worker-management relations and to end the misery faced by a large segment of the workers. This paper focuses on the ability of families to save, in general, and to acquire corporate stock, in particular. By the end of the 20<sup>th</sup> century in the United States considerable progress has been achieved, especially in the areas of labor-management relations. The distribution of wealth, however, is still extremely unequal. A review of recent studies indicates that much work remains to be done if the goals set forth in the papal encyclicals are to be attained.

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## I. Introduction

Since 1891 numerous papal encyclicals have focused their attention on work-place issues or on what Pope Leo XIII referred to as “practical economics.” These documents have created a rich body of church doctrine and codes of moral conduct pertaining to the economic sphere of society. Their major objective has been to attain a just distribution of the rewards that emanate from the production process. The messages contained in these encyclicals form the basis for what is now commonly referred to as Catholic social thought. To examine this entire body of work is well beyond the scope of this paper. In this study attention is focused on a much narrower topic: namely, the distribution of wealth in the United States. The goal of this paper is to see whether or not the distribution of wealth in the United States at the end of the 20<sup>th</sup> century conforms to the standards set forth in the papal encyclicals.

The Magna Carta of social documents in the Catholic Church is the encyclical *Rerum Novarum* of Pope Leo XIII, published in 1891.<sup>1</sup> Naturally when this document was written economic conditions and institutions were quite different from those in existence today. This leads to several pertinent questions. First, what was the primary purpose of Pope Leo’s work? Why was this document needed? Second, was *Rerum Novarum* applicable to the United States? The first set of questions are addressed in the remainder of this section. The second question is the focus of Section II. Several aspects of Catholic social thought are considered in Section III. Sections IV, V, and VI look at the ways that Americans can acquire ownership in the corporate sector and the degree to which this is done. Section VII presents some final thoughts on the progress that has been made in attaining the goals set forth in *Rerum Novarum*.

In the late nineteenth century most of Europe and North America were in the midst of a major structural transformation. At that time, as is similar to today, breath-taking technological advances were occurring. Industrialization was progressing at a rapid albeit not very steady pace. Production was becoming more capital intensive and utilizing an ever increasing division of labor. Factories were becoming larger both in terms of the number of laborers employed and the amount of capital being used. To a greater extent than ever before laborers were dependent upon wages rather than selling goods they had produced in their entirety. Less home production was occurring and greater reliance was put on purchasing manufactured goods in market transactions. Greater specialization bred the loss of economic independence. Pope John XXIII noted that a “... multiplication of social relationships” were occurring with a “... more complex interdependence” taking place.<sup>2</sup> While these developments were certainly not new, they were becoming more pronounced and more pervasive.

The changes taking place in production methods spawned changes in production relations. Benefits from these changes accrued to many individuals but some families were losers. And many individuals found it difficult to adjust to the “new” economy.

Whether or not the working conditions were better or worse than they had been in the past is still open to debate. What is certain is that a sharper delineation between the owners of capital and the working class was occurring. Writing in 1931 Pope Pius XI aptly describes the relationship between the working classes and the owners of property. “Hiring and offering for hire in the so-called labor market separated men into two divisions, as into battle lines, and the contact between these divisions turns the labor market itself almost into a battlefield” (QA #83).<sup>3</sup> In *Rerum Novarum* Pope Leo XIII had noted that changes in the economic sphere had resulted in “... the hiring of labor and the conduct of trade ... concentrated in the hands of comparatively few so that a small number of 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” (RN #3). But as the tensions between labor and capital intensified Pope Leo XIII knew that “the great mistake made ... is ... the notion that class is naturally hostile to class, and that the wealthy and the workingmen are intended by nature to live in mutual conflict” (RN #19).

Thus the overall purpose of Pope Leo’s encyclical is to offer a remedy to eliminate “... the misery and wretchedness pressing so unjustly on the majority of the working class” (RN #3). The practical side of this remedy involved finding a way to narrow the divide between the workers and the owners of capital.

## **II. Late 19<sup>th</sup> Century Socio-economic Conditions in the United States**

To get an appreciation for the development of Catholic social thought throughout the past century and to realize how these ideas were so germane to the situation in the United States, one needs to examine the socio-economic conditions which existed when Pope Leo XIII was writing *Rerum Novarum*. In this section three such conditions are reviewed; the distribution of wealth, the militancy of labor, and the role played by equity finance.

At the end of the 19<sup>th</sup> century, the ownership of wealth was extremely concentrated. According to Licht,<sup>4</sup> in 1890 in the United States the top one percent of wealth holders (125,000 families) held 51 % of all property. At the other end of the distribution 44% of the families (5.5 million) held only 1.2% of the wealth. Indeed the top 12% of the families held 86% of the wealth. To get an impression of the tremendous amount of wealth that had been accumulated by some individuals, one needs only to read accounts by Gustavus Myers<sup>5</sup> or Frederick Lewis Allen.<sup>6</sup> Another approach is to drive along Bellevue Avenue in Newport, Rhode Island, and observe or tour the summer “cottages” of the elite.

Second, at the end of the nineteenth century the confrontations between labor and owners of capital were more numerous and much more violent when compared to the present. For the period 1881 to 1885 the average number of strikes and lockouts per year was 528. As time passed this number grew steadily. For the period 1901 to 1905 there were more than 2900 strikes occurring annually.<sup>7</sup> By contrast, in 1997 there were only 29 strikes.<sup>8</sup>

Many of the strikes that occurred in the late 19<sup>th</sup> century were extremely violent with scores of people killed. The railroad strikes of 1877, the steelworkers strike in Homestead, Pennsylvania in 1892, and the Pullman strike in 1894 serve as blatant examples of this tendency. Why were the workers so militant? Obviously several factors were at work. Three of these were exploitation, recessions, and labor migration. In an era when labor mobility was low and the cost of obtaining job information was high, local employers could and did exploit their workers. In addition, the last three decades of the nineteenth century were not very robust in a macroeconomic sense. Severe recessions were experienced during the periods 1874-1879, 1884-1886, and 1893 – 1898. As aggregate demand weakened, employers were apt to lower their wages in an attempt to cut costs so that their prices could be lowered to remain competitive. Indeed from 1870 to 1900 consumer prices, on average, fell.<sup>9</sup> A third factor concerns labor migration. Urban industrial workers were faced with a flood of additional workers flowing into their labor markets from abroad as well as from the rural sector. Supply side factors were putting downward pressure on urban industrial wages at a time when technological changes were undoubtedly increasing labor productivity. It is no wonder that workers felt exploited and wanted to resist wage cuts. So they became more militant and often went on strike.

A third difference to consider is the role played by the corporate form of business and the degree to which equity financing prevailed. While the concepts of the corporate form of business and limited liability had been legal in the United States since 1786, these practices did not become widely accepted until the 1830s. It was not until fifty years later, however, that the corporate form of business started to dominate the American economy. But even the major corporations that did exist in the late 19<sup>th</sup> century tended to issue debt rather than equity to attract additional financial capital. When equity financing was used, preferred stock was more readily accepted than the issuance of common stock.<sup>10</sup> Common stock simply did not play a major role in either corporate finance or in the overall economy. To put this into perspective, in the year 1900 139 million shares were traded on the New York Stock Exchange.<sup>11</sup> Today more than one billion shares are traded daily on the New York Stock Exchange with an additional one billion shares traded daily on the NASDAQ exchange.

### **III. Development of Catholic Social Thought**

It was in this context of concentrated wealth, violent labor-management relations, and limited role of equity finance that Pope Leo XIII wrote *Rerum Novarum*. Through the years one can observe several important themes that appear in ensuing papal encyclicals. It is from these encyclicals that church doctrine has been promulgated. In this paper just four of these doctrines are reviewed. They are (a) the natural law right of private property, (b) the right of owners of the means of production to receive profits, (c) the need for workers to receive a just or living wage, and (d) the need for workers to accumulate wealth.

#### **A. Private Property**

Rerum Novarum stresses the natural law right of private property. The natural law foundation of private property means that property is so essential to the human condition that it would be unjust if such property were eliminated as an institution in the political-economic sphere. "...Nature confers on man the right to possess things privately as his own" (RN #10), wrote Pope Leo XIII. This natural law right to property "applies not merely to those goods which are consumed by use, but to those also which endure after being used" (RN #11). Hence this natural law right extends to capital goods. Pope John XXIII notes that "... the right of private property, including that pertaining to goods devoted to productive enterprises, is permanently valid" (MM #109). All Catholic social teachings remind the world, however, that the use of one's own material wealth must be oriented to the welfare of others.

Leo XIII and other popes recognize that both labor and capital are indispensable for production and that each factor deserves an equitable reward. "Neither capital can do without labor, nor labor without capital."(RN #28). The essential issue, therefore, becomes determining how each factor is to receive a just reward for their productive effort. Pope Pius XI makes this point clear. He writes: "... it is wholly false to ascribe to property alone or to labor alone whatever has been obtained through the combined effort of both, and it is wholly unjust for either, denying the efficacy of the other, to arrogate to itself whatever has been produced" (QA #53). When a just distribution is obtained "... common good of all society will be kept inviolate" (QA #57). "By this law of social justice, one class is forbidden to exclude the other from sharing in the benefits"(QA #57). The pontiff recognizes that a just return is due the owners of capital.

## **B. Profits**

Since, as Pope John XXIII asserts, "men have from nature a right of privately owning goods including those of a productive kind" (MM #108), it follows that receiving a just remuneration from these capital assets is legitimate. Catholic social thought has never denied but always approved the economic practice of a just reward concerning the owners of capital. Pope John Paul II makes the point clear that profits are essential for a business. Indeed "a business cannot do without it."<sup>12</sup> It is also perfectly legitimate for a business or a capitalist to seek ways to increase their profits and wealth. Pope Pius XI writes: "Those who are engaged in producing goods, therefore, are not forbidden to increase their fortune in a just and lawful manner; for it is only fair that he who renders service to the community and makes it richer also, through the increased wealth of the community, be made richer himself..."(QA #136).

## **C. Just, Living, or Saving Wages**

The right of workers to receive a "just" wage is, of course, a basic tenet of Catholic social thought from Pope Leo XIII to the present time. The specific elements which constitute a "just" wage need not side-track us. For the purposes of this paper one key factor needs to be noted. If a "just" wage is received every worker should be able to save and thereby accumulate some wealth. This point is made clear in various papal encyclicals. In Rerum Novarum Pope Leo XIII writes: "wages ought not to be

insufficient to support a frugal and well-behaved wage earner” (RN #45). These wages should be “... sufficient to enable him comfortably to support himself, his wife, and his children, (and) he will find it easy ... to practice thrift ... to put by some little savings...” (RN #46). In Quadragesimo Anno Pope Pius XI writes: “... the abundant fruits of production ... will be distributed in ample sufficiency among the workers ... that they may increase their property by thrift.” (QA #61). Pope John XXIII reiterates this idea when he writes that “... justice and equity require that remuneration for work also be increased ... (to) enable workers to save ... and hence to acquire some property” (MM # 112).

Each ensuing encyclical concerning social justice has reiterated Pope Leo’s call for a “just” wage, which allows a worker income sufficient to save and acquire property. Throughout the years American Bishops have espoused the concept of a “saving” wage. In a 1919 document entitled “Program of Social Responsibility” the American Bishops call for a wage that is “ ... high enough to make possible the amount of saving which is necessary to protect the worker and his family against sickness, accidents, invalidity, and old age.” In a 1940 document entitled “The Church and Social Order” the American Bishops note that “a saving wage constitutes an essential part of the definition of a living wage.”<sup>13</sup> Indeed the right of workers to receive a saving wage is a key aspect of Catholic social thought. According to Miller “... this point of financial independence for the worker is the great all-important objective of Catholic programs for social reform.”<sup>14</sup>

#### **D. Distribution of Wealth and Property**

Given the vast gulf between the amounts of assets owned by a very small group and the large magnitude of property-less workers, the pontiffs have espoused a narrowing in this gap. In *Mater et Magistra*, Pope John XXIII gets directly to the point. “It is not enough ... to assert that man has from nature the right of privately possessing goods ... unless... a continuing effort is made to spread the use of this right through all ranks of the citizenry” (MM #113). In other words, it is essential that ways be devised to distribute wealth more equitably. In *Rerum Novarum* Pope Leo XIII advocates that laws be instituted “... to induce as many as possible of the people to become owners” (RN # 46). Pope Pius XI urges that “workers and other employees ... become sharers in ownership or management or participate in some fashion in the profits received” (QA #65). In the postwar era Pope John XXIII writes that “it is very desirable that workers gradually acquire some share in the enterprises ...” (MM #77). At the end of the 20<sup>th</sup> century Pope John Paul II stresses once again that “it is clear that the proper position of labor ... demands various adaptations in the sphere of the right to ownership in the means of production” (LE #14).<sup>15</sup> In other words, justice will be served when each worker can “... consider himself a part-owner of the great workbench at which he is working ...”(LE #14).

#### **IV. Programs to Broaden the Ownership of Assets; Profit Sharing, ESOPs, Pensions and IRAs**

As noted above the papal encyclicals have continually advocated for the introduction of programs that would give workers a greater stake in the capitalistic system. Four such programs are considered in this section. They are profit sharing schemes, Employee Stock Ownership Plans (ESOPs), pension programs, and Individual Retirement Accounts (IRAs).

Profit sharing schemes have been around in the United States since the middle of the nineteenth century. The earliest example can be traced back to Albert Gallatin's glass works in New Geneva, Pennsylvania in 1847.<sup>16</sup> But despite their longevity, profit sharing schemes never became a very popular mechanism for reducing income inequalities or mitigating the tensions between workers and management. Before 1896 only fifty schemes had been established and thirty-three of these were eventually abandoned.<sup>17</sup> A US Department of Labor study published in 1917 revealed that only 56 profit sharing plans were established between 1897 and 1916.<sup>18</sup> Until recently ESOPs showed a trend similar to profit sharing schemes. While there is great variety in the way each ESOP operates, they all have one common characteristic. They allow employees to acquire an equity position in the firm that employs them. ESOPs apparently had their start with the Illinois Central Railroad in 1893. By 1915 only 43 of these types of programs were in existence.<sup>19</sup> While they never completely vanished they also never attained great popularity until a resurgence in the 1970s and 1980s. During those decades numerous tax code changes were legislated providing tax incentives to the corporate sector to create ESOPs. By 1997 8.7 million people were participating in ESOPs.<sup>20</sup>

Today ESOPs seem to exist in some well established "large cap" companies as well as in many of the recently created "new economy" ventures. In these young firms, which often face cash flow problems, employees are granted stock options, either as part of their base compensation and/or as a bonus. If such a company has a successful initial public offering (IPO) or experiences a significant run up in the price of its outstanding shares, many of its employees can exercise their options and become instant millionaires.<sup>21</sup> According to the 1998 Survey of Consumer Finances conducted by the Federal Reserve Bank, 11.2% of American families had received stock options.<sup>22</sup>

The program that faced somewhat greater popularity than either profit sharing or ESOPs was the old age pension plan. This concept was initiated by the Grand Trunk Railroad in Canada in 1874. The following year American Express Company launched its plan, the first in the United States. These programs became popular throughout the railroad industry and spread to other industries and utilities, with Carnegie Steel starting their plan in 1901 and Standard Oil in 1903.<sup>23</sup> But growth throughout the entire corporate sector was less than overwhelming. By 1930 only 421 organizations (companies, unions, and non-profit organizations) located in the US and Canada had pension plans, covering about 4 million workers. By 1950 the number of plans had expanded to about 2,000, enrolling nearly 10 million workers (more than one-fifth of the wage and salary workers in the private sector) with about half a million retirees receiving benefits.<sup>24</sup>

It was in 1950, however, that an incident occurred that was to radically change the fundamental relationship between management and labor in the United States. Up to that

year pension funds were operated in a way similar to insurance annuity plans, whereby the contributions received by the pension fund were invested in relatively safe instruments, such as government bonds, mortgages, or other similar types of investments. In April, 1950, Charles Wilson, the CEO of General Motors (at the time the largest manufacturing corporation in the United States) made a proposal to the United Auto Workers to change pension funds' investment strategy. Wilson proposed that the GM pension fund become an "Investment Trust." The fund would be managed by professionals and it would make investments in corporate equities rather than low yielding government bonds. Some restrictions were suggested. No GM stock could be held. No more the 10% of the fund could be invested in a single company and no more than 5% of the total capital of any one corporation could be acquired. At first the UAW was opposed to the idea. But Wilson eventually persuaded the union to accept his proposals. At that moment, a new paradigm was created.

By 1975, a mere 25 years after GM's proposal, there were about 50,000 pension fund plans in existence in the United States. About half of these plans were the "Investment Trust" variety. But the size of these funds and the power they possessed was staggering. In his famous book, *The Unseen Revolution*, Peter Drucker, the management guru, writes: "Through their pension funds, employees of American business today (1975) own at least 25% of its equity capital, which is more than enough for control... Before the turn of the century, their holdings should exceed around two-thirds of the equity capital of the American economy."<sup>25</sup> The implications of this are profound. It means that "... the American economy ... is being run for the benefit of the country's employees... Profits increasingly become retirement pensions."<sup>26</sup> In that year (1975) more than seven million retired persons received about fifteen billion dollars in pension benefits.<sup>27</sup> That amount translates into about \$45 billion in terms of 1998 dollars.

But as Drucker was penning his platitudes of the miraculous changes brought about by pension funds, Congress was busy passing legislation to alter this situation. In 1974 the Employees Retirement Income Security Act (ERISA) better known as the Pension Reform Act, came into existence. While this law was passed to ensure that abuses and shortcomings of corporate and union pension plans would be eliminated and that retirees would receive the benefits to which they were entitled, ERISA ushered in changes that led to the eventual demise of the "defined benefit" pension plan. But this did not happen immediately. The number of defined benefit pension plans continued to grow up to 1983, when they peaked at about 175,000. By 1997 this number was below 70,000.<sup>28</sup>

The sharp reduction in defined benefit pension plans is explained by the growth in defined-contribution plans. The difference in these programs is important. Under a defined-benefit plan employers would provide monthly checks to covered workers after they retired. After ERISA employers could drop coverage by giving workers a one-time payment (lump sum) when they stopped working. This put the responsibility of the use of this payment in the hands of the retiree. In 1978 the tax codes were altered once again. The new laws created tax advantages to both employers and employees who voluntarily deferred "compensation" and placed these funds into pension plans. It took the IRS three years to iron out the interpretations of the 1978 law and to determine that

wages were eligible for advantageous tax treatment. The bottom line was that employers and employees who directed funds to their retirement plans would get tax breaks. This ruling spawned the rapid growth in defined-contribution plans, better known as 401(k) plans for private sector firms, 403(b) plans for non-profit organizations, and 457 (b) deferred compensation plans for public sector workers. Financial markets and financial wealth of many individuals would never be the same.

The growing popularity of the 401(k) plans can be easily surmised from Table 1. By 1994 the proportion of workers with a defined-benefit plan was equal to those who had a defined-contribution plan. By 1997 defined-contribution plans covered 57% of full-time employees in the private non-farm sector while defined-benefit plans covered only 50%. Some workers participate in both types of plans. Overall, about 80% of full-time workers are eligible to participate in some type of retirement plan.<sup>29</sup>

IRAs were created by Congress in 1974. Initially workers could contribute \$2,000 of before-tax income annually to an IRA account and thereby reduce their taxable income. The returns from this account would not be subjected to taxes until withdrawn after retirement. IRA accounts could also be opened for a non-working spouse. In 1986, however, Congress changed the rules. Taxpayers who participated in a company pension plan were no longer eligible for an IRA. Consequently IRA contributions fell from nearly \$40 billion in 1986 to only \$15 billion in 1989.<sup>30</sup> While Congress continues to alter the rules concerning IRAs, they remain less popular than pension plans although the size of IRA accounts continues to grow. By 1998 \$1.3 trillion were held in these accounts, up from only \$200 billion in 1985.<sup>31</sup>

TABLE 1: GROWTH OF 401(K) PROGRAMS

Year	Participants(millions)	Value of 401(k) Assets (billion of current dollars)
1984	7	92
1994	26	675
1998	39*	1,500

\*Note: In 1998 another 16 million workers participated in 403(b) and 457(b) plans. These accounts held an additional \$700 billion in assets.

Source: Richard Nadler, "Special (k)," National Review, Vol. 51, No. 7 (April 19, 1999), p. 52.

## V. Family Ownership of Capital

Given the economic expansion of the 1990s and the soaring stock market, one would expect that Americans, on average, would have experienced an increase in their wealth.

According to the results of the 1998 Survey of Consumer Finances (hereafter SCF), this is exactly what happened. From 1989 to 1998 median family wealth (measured in 1998 dollars) increased from \$59,700 to \$71,600; a gain of nearly 20%. Mean total wealth increased from \$236,900 to \$287,500; a gain of 21%. Also, the number of families that owned some corporate stock, either directly or indirectly, grew substantially. By 1998 48.8% of American families owned some stock with an estimated mean value of \$84,000.<sup>32</sup> The nearly 50% ownership rate compares to only 33% rate a decade earlier and to a 20% rate in 1983. While these ownership figures are impressive in absolute terms, there is still a need to look at the amount of stock that a typical family owns and to place these figures into the overall distribution of wealth.

When one probes beneath the surface, the capital ownership figures revealed in the 1998 SCF are much less impressive. Indeed one finds some very disturbing aspects in the distribution of wealth. First, 18% of American families have a zero or negative total net worth and 25% have zero financial wealth. The average wealth of the poorest 40% of families is only \$1,100 and 30% of the families have net worth valued at \$10,000 or less. At the other end of the distribution, the top 10% owned 71% of all personal wealth and about 80% of all financial wealth while the top 1% owned 38% of all wealth and 47% of all financial assets.<sup>33</sup>

In absolute real terms mean financial wealth grew by 2.2% annually from 1983 to 1998 (it increased from \$154,300 to \$212,300). Families in the top 20% wealth bracket garnered 88% of the total gains while those families in the bottom 40% group gained a meager .3% of the total increase. Various other aspects of the distribution of wealth in 1998 are presented in Table 2.

TABLE 2: DISTRIBUTION OF WEALTH 1998

Wealth Category	% Net Worth	% Financial Wealth	Mean Net Worth	Mean Financial Wealth
Top 1%	38.1	47.3	\$10,204,000	\$10,044,000
Next Top 4%	21.3	21.0	1,441,000	1,114,000
Next Top 5%	11.5	11.4	623,500	485,800
Next Top 10%	12.5	11.2	344,900	237,600
Second 20%	11.9	8.3	161,300	88,000
Third 20%	4.5	1.9	61,000	19,900
Bottom 40%	0.2	-1.1	1,100	-5,900

Source: Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983 – 1998." Available at <http://www.levy.org/docs/wrkpap/papers/300.html>.

From various Survey of Consumer Finance studies Wolff has computed Gini coefficients for the distributions of total family wealth and financial assets.<sup>34</sup> For the

1983 data the Gini coefficient for total wealth was .8 and for financial assets it was .893. The Gini coefficients for 1998 were .822 and .893 respectively. Based upon these figures three conclusions can be reached. First, both total and financial wealth are highly concentrated in the United States. Second, the degree of inequality in the ownership of financial assets was the same in 1998 as it was in 1983. Finally, the distribution of total wealth has become more unequal from 1983 to 1998. Disparities are also observed in the different assets categories that comprise total wealth. Consider the median values in the portfolios of those families in the bottom 25% and those in the top 10%; privately held corporate stock is \$700 compared to \$85,000; mutual funds are \$1,500 compared to \$107,000 and Retirement accounts \$2,000 compared to \$125,000.<sup>35</sup>

About 11% of American families own private businesses. While families in the top income bracket (\$100,000 and above) constitute only 8.6% of all families, 2.8 million of these families own businesses with a median value of \$265,000. While an additional 8.5 million families also own businesses, their median value is less than \$50,000. Another way to put these figures into perspective is to look at the business owners who are in the top ten percent of the wealth (not income) distribution. The median value of the businesses owned by these capitalists is \$345,000 compared to the median value of all other privately owned businesses of \$47,800.<sup>36</sup>

## **VI. Saving and Debt**

One of the most pertinent set of figures contained in the 1998 SCF is the proportion of families that engaged in saving in 1997. That figure is 56%. In 1992 a nearly identical proportion of families reported saving (57.1%).<sup>37</sup> Therefore after five years of sustained and robust economic expansion accompanied by declining unemployment rates and rather subdued inflation, the proportion of families that saved remained virtually unchanged.

The proportion of families that save reported in the various SCF reports can be either viewed with skepticism or accepted as being accurate. Families participating in the SCF were asked whether they had spent less than, more than, or about as much as their income during the year. The families that did save were not asked to quantify the amount of saving they did. Thus it is possible that the respondents did not fully comprehend what constitutes saving. Some respondents might not have considered the returns earned in their tax-deferred accounts that are automatically reinvested as part of their income, since these funds are not readily available to be spent. Perhaps they did take these funds into consideration.

The 56% saving rate may be far off the mark. On the other hand it may be quite accurate. There are so many variables that affect a family's decision to save and these intertwine in such a complex way that a detour to examine this issue would take us far from our major objective. Suffice it to say, savers need both the will and the where-with-all to save. Given that the will to save exists, savers then need to have adequate income. It is likely that this is not the case for many families. Incomes for families near the bottom of the distribution are relatively low and have not grown very rapidly, in real

terms, over the past few decades. Consider the mean income for households in the bottom quintile of the income distribution. In 1998 dollars these amounts were \$7,954 in 1968, \$9,205 in 1978, \$8,905 in 1988, and \$9,334 in 1998.<sup>38</sup> While these figures increased over time they did so at a rate of about one-half of one percent annually. The point is that for many families saving is beyond their financial capabilities. Some workers still do not receive what has been referred to in the various papal encyclicals as a “saving” wage.

At the other end of the income spectrum are individuals whose salaries may seem for some observers to be beyond the realm of economic justification. One way to indicate this is to look at the gap between the compensation of the average CEO with the pay received by the average production line worker. In the United States in the mid-1970s this gap was 35. By 1993 this gap had increased to 120!<sup>39</sup> Another way to indicate the disparities in income in the United States is to divide the mean income of the top quintile by the mean income of the bottom quintile. This ratio was 10.2 in 1968. By 1998 it had increased to 13.7<sup>40</sup> While the level of affluence of those at the top of the distribution increases through time making saving quite easy to accomplish, that is not necessarily the case for those at the bottom of the distribution.

The SCF contains another set of pertinent data. Nearly three-fourths of all American families have some debt. The median value of outstanding debt for families that have debt was \$33,300 in 1998. More important than total debt, however, is the debt burden; the ratio of debt service payments relative to income. At the aggregate level this ratio is obtained by dividing the debt service payments of all families by total family income. In 1998 this ratio stood at 14.5%. This compares with a figure of 12.7% in 1989. The debt ratio for families with debt was 17.6% in 1998 and 15.9% in 1989. For the families with incomes less than \$10,000 the debt burden ratio was 20.3%.<sup>41</sup>

Some families are deeply indebted, having a debt burden of 40% or more. In 1998 this group represented 12.7% of all families. In the less than \$10,000 income group, 32% were deeply indebted. For those families in the \$10,000 to \$25,000 income bracket, 20% were deeply indebted. Also, 21% of families headed by a person 75 years or older had a debt burden of 40% or more.<sup>42</sup> With so many families carrying rather high debt burdens, it is not surprising that they are not saving.

## **VII. Concluding Comments**

In the 109 years that have passed since *Rerum Novarum* was written much progress has been made, not only in terms of the standard of living but also in the relationship between workers and the owners and managers of capital. Most workers in the United States are paid a decent wage. In 1998 approximately 96 million adult Americans (between the ages of 18 and 64) worked year round full time. Of these only about 3% were below the poverty level.<sup>43</sup> In any given year nearly three-fifths of American families save and about half of the families own some corporate stock. In terms of the breadth of the ownership of wealth, a larger proportion of families own financial assets than was true a century ago. But is there sufficient depth?

There are many indicators that show a failure to achieve genuine progress whereby all segments of society achieve a sufficient level of wealth. For example, 12% of American families earn less than \$10,000 annually. Only one-fourth of all families has a stock portfolio worth more than \$25,000. The wealthiest 10% of American families owns 71% of all personal wealth. In a typical year about 40% of American families do not save and therefore are not able to acquire any additional wealth. While wealth may be more equally distributed today than a century ago, extremely wide disparities still exist. Over the period covered by the Surveys of Consumer Finance (1962 to 1998) there appears to be no tendency for this disparity to be narrowing.

Labor relations are certainly less volatile than they were a century ago. Today many workers have a vested interest in the profitability of the corporate sector. Indeed since they own such a sizeable proportion of it, peaceful labor-management relations are in the workers' best interests. It is not a surprise given this ownership stake that readership of financial publications has increased at a time when union membership has declined. To a very large degree the battle lines that Pope Pius XI alluded to have faded away. Today many workers are also owners.

Is Catholic social thought applicable to the American economy today? Most assuredly it is. Despite its marvelous achievements the American economic system still displays a number of flaws. Among the most serious of these are the continued existence of poverty and the inability of many families to accumulate much wealth. As Catholic social thought emphasizes, the common good of a society is achieved not just by attaining a high level of per capita income, but when all citizens are able to provide for their own human development. Workers near the bottom of the income and/or wealth distributions need to be brought into the mainstream and enabled to participate more fully in the capitalistic system, to become owners of capital and to accumulate adequate levels of wealth. To accomplish this goal preferential treatment for the poor is essential. Wage levels for those workers at the bottom of the distribution need to be raised so that all families have the ability to save. The median net worth of families in the under \$10,000 income bracket is only \$3,600. Somehow the incomes of these families must be increased so that additional saving can occur. Companies that do not have programs that allow workers to acquire corporate stock should be encouraged to introduce these programs. IRAs designed specifically for low income workers need to be developed. Certainly much progress has been made over the past century but the task has not been completed. Much remains to be accomplished and Catholic social thought can help to illuminate the path that needs to be taken.

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## ENDNOTES

<sup>1</sup>Pope Leo XIII, Rerum Novarum (Condition of the Working Class) reprinted in Claudia Carlen (editor), The Papal Encyclicals 1878-1903 (Raleigh, NC: Pierian Press, 1981), pages 241-261. Hereafter cited as RN with the corresponding paragraph number.

<sup>2</sup>Pope John XXIII, Mater et Magistra (Christianity and Social Progress) (Washington, D.C.: National Catholic Welfare Conference, 1961). Hereafter cited as MM with the corresponding paragraph number.

<sup>3</sup>Pope Pius XI, Quadragesimo Anno (Social Reconstruction) (Boston: Daughters of St. Paul, 1931). Hereafter cited as QA with the corresponding paragraph number.

<sup>4</sup>Walter Licht, Industrializing America (Baltimore: The Johns Hopkins Press, 1995), page 183.

<sup>5</sup>Gustavus Myers, History of Great American Fortunes (New York: Random House, 1937).

<sup>6</sup>Frederick Lewis Allen, The Big Change (New York: Harper & Row, 1969), especially chapters 2 and 3.

<sup>7</sup>U.S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States: Colonial Times to 1970 (Washington, D.C.: Government Printing Office, 1970), page 179.

<sup>8</sup>U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States 1999 (Washington, D.C.: Government Printing Office, 1999), page 452.

<sup>9</sup>Historical Statistics of the United States, op. cit., page 211.

<sup>10</sup>Jonathan B. Baskin and Paul J. Miranti, A History of Corporate Finance (New York: Cambridge University Press, 1997).

<sup>11</sup>Historical Statistics of the United States, op. cit., page 1007.

<sup>12</sup>Robert G. Kennedy, Dignity of Work: John Paul II Speaks to Managers and Workers (Latham, Md: University Press of America, 1994), page 128.

<sup>13</sup>Cited in Raymond J. Miller, Forty Years After: Pius XI and the Social Order (St. Paul, Minn: Radio Replies Press, 1947), page 132.

<sup>14</sup>Miller, *ibid.*, page 132.

<sup>15</sup>Pope John Paul II, Laborem Exercenes (On Human Work) (Boston, Mass.: Daughters of St. Paul, 1981). Hereafter cited as LE.

<sup>16</sup>Paul Monroe, "Profit Sharing in the United States," American Journal of Sociology 1 (May 1896), pages 685-709.

<sup>17</sup>Harold U. Faulkner, The Decline of Laissez-Faire (New York: Harper & Row, 1951), page 271.

<sup>18</sup>Boris Emmet, Profit Sharing in the United States (US Department of Labor, Bureau of Labor Statistics, Washington, D.C.: Government Printing Office, 1917) cited in Faulkner, op. cit., page 271.

<sup>19</sup>Faulkner, op. cit., page 272.

<sup>20</sup>Richard Nadler, "The Rise of Worker capitalism," Policy Analysis No. 359 (Nov. 1, 1999), page 9.

<sup>21</sup>Laura M. Holson, "Nothing Left to Buy?" The New York Times (March 3, 2000), pages C1 and C3.

<sup>22</sup>Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," Federal Reserve Bulletin 86 (Jan. 2000), page 14. Hereafter, this citation will be abbreviated as SCF.

<sup>23</sup>Faulkner, op.cit., page 270.

<sup>24</sup>Historical Statistics of the United States, op. cit., page 344.

<sup>25</sup>Peter Drucker, The Unseen Revolution (New York: Harper & Row, 1976), pages 1 and 2.

<sup>26</sup>Drucker, *ibid.*, page 3.

<sup>27</sup>U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States 1978 (Washington, D.C.: Government Printing Office, 1978), page 343.

<sup>28</sup>Statistical Abstract of the United States 1999, op. cit., page 394.

<sup>29</sup>*Ibid.*, page 394.

<sup>30</sup>Guy Halverson, "Nondeductible IRAs Can Build Up A Sizeable Nest Egg," Christian Science Monitor 87 (April 17, 1995), page 8.

<sup>31</sup>Nadler, op. cit., page 9.

<sup>32</sup>SCF, page 11. The mean value of an American Family's stock portfolio was calculated as follows. Mean family net worth is \$282,500. Debt consists of 14.4% of total assets. Therefore total assets are \$330,123. Financial assets are 40.6% of total assets or \$133,989. Stocks, mutual funds, and retirement accounts comprise 62.7% of financial assets or \$84,011. Three comments are warranted. First, the \$84,000 is the mean for all families, not just those families that own stocks. Second, the mean is biased on the high side because not all mutual funds and retirement accounts are 100% invested in equities. Third, the \$84,000 figure does not include the value of stock options.

<sup>33</sup>Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983 – 1998" available at <http://www.levy.org/docs/wrkpap/papers/300.html>.

<sup>34</sup>Gini coefficient values range from 0 (perfect equality) to 1 (perfect inequality). Many introductory economics textbooks explain what a Gini coefficient is and how they are calculated. See, for example, Robert E. Hall and Marc Lieberman, Economics: Principles and Applications (Cincinnati, Ohio: South-Western College Publishing, 2001), pages 362 – 364.

<sup>35</sup>SCF, op. cit., page 11.

<sup>36</sup>SCF, *ibid.*, page 11.

<sup>37</sup>*Ibid.*, pages 4 and 5.

<sup>38</sup>U.S. Department of Commerce, Bureau of the Census, Current Population Reports – Consumer Income, Series P-60, No. 206 (Washington, D.C.: Government Printing Office, 1999), page 89.

<sup>39</sup>Edward N. Wolff, Economics of Poverty, Inequality, and Discrimination (Cincinnati, Ohio: South-Western College Publishing, 1997), page 337.

<sup>40</sup>Current Population Report, op. cit., page 89.

<sup>41</sup>SCF, op. cit., pages 19-21.

<sup>42</sup>SCF, op. cit., page 24.

<sup>43</sup>U.S. Department of Commerce, Bureau of the Census, Current Population Reports – Consumer Income, Series P-60, No. 207 (Washington, D.C.: Government Printing Office, 1999), page 17.