

Working Draft

Trade Policies as a Tool for the Just Distribution of Wealth

Marilynn P. Fleckenstein, Ph.D.
Niagara University
Department of Philosophy
Mpf@niagara.edu
July 2000

Most economists would argue that the maximum flow of world trade adds to the aggregate world wealth, holding that there are three legs of macroeconomic policy: fiscal, monetary and trade, all of which are directed toward achieving maximum growth in wealth. While economic theory is primarily directed toward the trade relations between nations, it is the purpose of this discussion to see what, if any, effect the free exchange of goods between nations has on individuals. Does free trade promote the more just distribution of wealth among individuals? What does Catholic Social Teaching add to this discussion?

In recent years we have seen the issue of free trade raised in conjunction with the implementation of the North American Free Trade Agreement (NAFTA) and in other treaties such as GATT and while the pros and cons of trade policies have been referenced in Catholic Social Teaching since *Rerum Novarum* it may be worthwhile to look at this topic again.

The contemporary question of trade free from barriers first arose in a 17th century Movement directed against monopolies supported by governments and designed to restrict domestic and foreign commerce. Even before then the ancients and medievals had early justifications for free commerce between nations and individuals. Some of these justifications rely on natural law premises. For example, fourth and fifth century Greek philosophers generally looked down on traders and merchants, especially those engaged in the retail trade since these were considered to be occupations beneath the dignity of citizens. Plato, in The Republic suggested that such chores be reserved for persons useless in other trades. Aristotle, in Politics (Loeb Classical Library, 1932, 51) maintained that the use of money in exchange arose from exporting and importing and condemned such non-barter trade as "justly discredited (for it is not in accordance with nature, but involves men's taking things from one another)" (Irwin, 51) Aristotle believed that citizens should not engage in commerce. Commerce should be left entirely to aliens who were kept separate from Greek civic life. According to John Hasebrock (1933,39), this separation of commerce and citizens meant "not only was {Greek foreign commerce} not based upon national labor but it was divorced from national life" (Irwin, 12) Therefore, there was no real economic issue of imports displacing domestic production by citizens and the very notion of a protective tariff was unknown. The

Romans took a similar position to that of the Greeks. "To them a trader or middleman who bought goods at one price and retailed them at a higher one without changing the nature of the product was engaged in a vulgar activity. Such activity was beneath the dignity of elite citizens, and laws even prohibited senators from participating in commerce." (Irwin, 12) Cicero in DeOfficiis made an exception for the commerce which entailed great benefits or improved the intelligence of the people. Even as Cicero would acknowledge that trade might provide benefits (DeOfficiis, Loeb Classical Library, 1913, 155) still he only viewed the activity of commerce less negatively not positively. The merchant was still considered as one who operates in his own self interest for profit. "... the case for free trade was based in large on the gains arising from the division of labor. If individuals or regions or countries specialized in the production of goods for which they are most suited and exchanged those goods amongst each other, total output and consumption can be larger than in the absence of such specialization" (Irwin, 13) Even Plato, in The Republic (Loeb, 1930, 155) pointed to this division of labor when he wrote: "The result [of such a division], then, is that more things are produced and better and more easily when one man performs one task according to his nature, at the right moment and at leisure from other occupations." He goes on to acknowledge that there does not exist any city, which can exist without imports. This can be considered an aristocratic prejudice and while trade was allowed it was closely monitored in order to limit dependence on foreign goods. The early Christian Fathers took a suspicious attitude toward trade as being sinful or at least conducive to sin since trade commonly involved fraud or at the very least a violation of charity. They relied primarily on Biblical texts as for example in Ecclesiasticus, xxvi 29, of trade with sin: "A merchant shall hardly keep himself from doing wrong; and a huckster shall not be freed from sin" or the New Testament ejection of the traders from the Temple by Jesus. This was interpreted as a condemnation of trade in general and not just a condemnation of its practice at a wrong time and in a wrong place. It was the element of the pursuit of a profit, which they found objectionable as demonstrating avarice, sin. Underlying this condemnation of trade was an implicit economic analysis which failed to see any possible counterpart in service to the buyer or the community for the gain of a merchant selling at a higher price than he had bought it at. Sea trade was seen as particularly objectionable since it involved unusual hazards. "Since necessities were always available nearby, sea trade meant catering to the sinful desire for luxury. Sea trade, moreover carried with it special moral risks, contamination by contact with pagans, the absence of home discipline and consequently susceptibility to temptation to practice adultery, and so forth." (Viner,41) Society could do without middlemen merchants since it was held that the material needs of a society could be met through agriculture and exchange on a barter basis or its equivalent, the sharing of surpluses.

In the early centuries A.D., there developed among thinkers such as Seneca, Philo of Alexandria, Origin, St. Basil and John Chrystom, a theory called "The Doctrine of Universal Economy." The doctrine held that "Providence deliberately scattered resources and goods around the world unequally to promote commerce between different regions." (Irwin, 15) "According to Jacob Viner (The Role of the Providence in the Social Order. Princeton: Princeton University Press, 1976, 27-54), in its best expressions the doctrine uniquely combines four distinct elements of thought. First, it embraces the stoic-

cosmopolitan belief in the universal brotherhood of man. Second, it describes the benefits to mankind arising from the trade and exchange of goods. Third, it embodies the notion that economic resources are distributed around the world. Finally, it attributes this entire arrangement to the divine intervention of a God who acted with the deliberate intention of promoting commerce and peaceful cooperation among men." (Irwin 15) The early Church Fathers treated economics as a branch of ethics and condemned commerce as abetting fraud, promoting avarice and encouraging worldly gains. The Scholastic writers were more likely to view commerce with moral indifference but with the judgement hanging on the goals and circumstances of a particular kind of business. They tended to make a distinction between using one's own labor in a productive economic activity and trading. Trading being seen as a lower profession since the reward for one's labor was justifiable, the reward for those who only profited from trade was questionable. Aquinas in the *Summa Theologica* accepted three types of economic activity a useful for society "the storing of goods, the importation of necessary goods, the transport of goods from abundant to scarce regions." (Irwin, 19 look up reference) The motive and conduct of the trader was essential in ascertaining moral worth of the economic activity. Aquinas accepted the legitimacy of trade but preferred domestic to foreign trade and warned against too much contact with foreigners since he feared that this contact might disrupt civic life. In *On Kingship*, Aquinas in the discussion of the ways of providing for food for the city, he says that there are two ways in which food can be provided. The first is by agriculture and the second is by trade. Agriculture is clearly the better, more dignified way since it indicates self-sufficiency. Self-sufficiency is also safer for "the import of supplies and the access of merchants can easily be prevented whether owing to wars or to the many hazards of the sea and thus the city may be overcome through lack of food." (Aquinas, 76). Agriculture is also more conducive to the preservation of civic life. A city that engages in trade must put up with the continuous presence of foreigners. "But intercourse with foreigners, according to Aristotle's *Politics*, is particularly harmful to civic customs. For it is inevitable that strangers, brought up under other laws and customs, will in many cases act as the citizens are not wont to act and thus, since the citizens are drawn by their example to act likewise, their own civic life is upset." (Aquinas, 76). He proceeds to say that citizens who engage in trade are liable to give in to greed since profit is the motive for trade. Trade is unfavorable to military activity as well since "tradesmen, not being used to the open air and not doing any hard work but enjoying all pleasures, grow soft in spirit and their bodies are weakened and rendered unsuitable to military tasks" (Aquinas, 77) This position is reminiscent of the Greek attitude. Aquinas thereby joins the Greeks in urging a moderate use of merchants for the purposes of trade. By the fifteenth century scholastic doctrine had moved to viewing commerce as an ethically neutral activity which had only the potential for being corrupted. Francisco de Vitoria, a Dominican theologian used Aquinas' notion of "Natural Law" applying it to relationships between nations. In defending the sovereign right of Indians against the Spanish explorers, he asserted that the "Spanish have a right to travel into the lands...provided they do no harm to the natives." (Irwin, 21) He argued that this position "is derived from the law of nations (*jus gentium*), which either is natural law or is derived from natural law... it is an apparent rule of the *jus gentium* that

foreigners may carry on trade, provided they do no hurt to citizens" (Vitoria (1557) 1917, 151-53 check reference) The moral implication being that trade is the right of nations and supporting the Spanish position that free trade is a dictate of natural law. Early natural law thinkers established the principle of freedom of trade in sweeping terms. Francisco Suarez (DeLigibus, Ac Deo Legislatore (1612) in Selections from Three Works of Francisco Suarez, S.J., Vol 2. Oxford:Clarendon Press, 1934. 2:327) believed that all international commerce ought to be free, not as an obligation of natural law but from the law of nations (jus gentum) "which all the various peoples and nations ought to observe in their relations with each other." Hugo Grotius (1604) 1950 I:218 a noted natural law theorist denounced the Portuguese exclusion of the Dutch from the East India trade: "Under the law of nations, the following principle was established: that all men should be privileged to trade freely with one another." (Irwin, 22) The state cannot forbid access or trade between subjects. "The right to engage in commerce pertains equally to all peoples and right to traverse the sea without interference since restrictions 'prevented from sharing in those things which are common property under the law of nations.'" (Irwin 22) The freedom to trade is based on a primitive right of nations which has a natural and a permanent cause. This right cannot be destroyed except by the consent of all nations. As Grotius points out in his work The Law of War and Peace (1629) 1925, 2:199ff that no one has the right to hinder commerce between nations since this free trade is in accordance with the interest of human society and does not involve a loss to anyone. By this he means that the state cannot deny the opportunity of states to trade with one another. The arguments of the natural law theorists had little real effect on the debate about free trade. In the 17th century the English took up the issues who sometimes attempted to justify free trade on a doctrine of universal economy. "And to the end that there should be a commerce amongst men, it hath pleased God to invite as it were, one country to traffic with another, by the variety of things which the one hath, and the other hath not, that so that which is wanting to the one, might be supplied by the other, that all might have sufficient. Which winds blowing sometimes toward one country, sometimes toward another; that so by this divine justice, everyone might be supplied in things necessary for life and maintenance." (Misselden, Edward, Free Trade Or the means to Make Trade Flourish, London: J.Legatt 1622, p. 25) This doctrine coincided with the emergence of nations as the primary political entities, which set clear political boundaries to trade policies. The emergence of mercantilism spurred the call for state regulation of trade: "State oversight, guidance, and intervention was necessary to align the activities of merchants with the national interest, ensuring that trade was carried on for the enrichment of the country rather than the merchant alone." (Irwin, 32) The mercantilist developed the criteria for determining the "good" and "bad" channels of trade, depending on how the trade contributed to the specific objectives of the writer. The purpose of state policy was to regulate the state's advantage by promoting the good channels and discouraging the bad channels. "The appropriate policy regarding most exports was abundantly clear: remove all possible impediments." (Irwin, 32) These 17th century mercantilists argued that the chief objective of trade should be a favorable balance of trade. However, the balance of trade issues were not the central ones. "The mercantilists are sharply critical of restrictions on merchants activities and commercial policies that hindered export growth. They held that no anti-trade bias, indeed the opposite was true, and their anti-import bias was tempered by the recognition that trade was essentially barter between

countries and that goods could not be sold abroad without the purchase of foreign goods in return. In terms of commercial policy, what we have in the end from the mercantilist literature is the simple employment argument for the protection combines with the promotion of economic development through manufacturing, similar to the import-substitution policies proposed for developing countries in the 1950's" (Irwin, 44).

However, just because there was much discussion about free trade did not mean that free trade was advocated as the best policy for commerce. Edward Misselden, in The Circle of Commerce (London: 1922, 112) wrote: "trade hath in it such a kind of natural liberty in the course and use thereof, as it will not endure to be forced by any." Seller cannot force buyers to buy and buyers cannot force sellers to sell. He was not arguing that regulation was unwise or unnecessary or that these regulations violate individual natural liberty.

The term "free trade" seems to have originated at the end of the 16th century in English parliamentary debates over foreign trade monopolies. Certain royal grants given to some merchants gave exclusive rights to trade in a particular region of the world. This naturally was objected to by those merchants who were excluded from trading in these designated regions. "A free trade was a commercial activity in which entry was unrestricted, where the liberty of the merchant to participate in trade was unhindered by exclusionary guild regulations or government grants of monopoly rights and privileges" (Irwin, 46) The call for free trade was for the purpose of freeing trade from control and establishing the right to trade without official approval. This call for free trade did not involve the call for the abolition of import tariffs. It was the idea of individual liberty and natural rights under common law to employ one's labor in any activity which motivated the case against monopolies. Calls for free trade also arose in seventeenth century France where businessmen and merchants demanded that trade be freed from government interference's. "The greatest secret is to leave trade entirely free; men are sufficiently attracted to it by their own interests...Never have (manufacturers) been so depressed, and trade also, since we have taken it into our own hands to increase them by way of authority.... Trade can flourish and subsist only when merchants are free to procure the merchandise they need in the places where they are (sold)at the lowest price, and every time we wish to compel them to buy in one place at the exclusion of all others merchandise will become more expensive and trade will consequently fall into ruin." (Irwin, 64-65)Late in the seventeenth century the doctrine of laissez-faire arose. Pierre de Boisguilbert stated that : "Individuals motivated by their own self-interest unintentionally perform a public service by directing their efforts toward activities that have high private rewards, rewards which can arise only when others value those efforts and hence are willing to pay a high price for them." (Irwin, 65) Markets free of government restrictions will operate naturally to the benefit of all participants. "It is this reciprocal activity which makes for the harmony of the world and the maintenance of the state; each individual cares only for procuring his personal interest to the maximum extent, and with the greatest possible ease; and when he does four leagues away, or because it is better value and worth the extra distance." (Boisguilbert quoted in Hutchinson, Terance. Before Adam Smith: The Emergence of Political Economy1662-1776. Cambridge: Basil Blackwell,

1988) Adam Smith was influenced by many other thinkers one of whom was Thomas Hobbes (Leviathan, 1651) who argued that self-interest ruled the passions of men who could delegate authority to the State, which in turn could curb destructive tendencies. Francis Hutcheson who drew upon the natural law tradition of Grotius disputed the central place of self love in human motivation arguing that natural feelings for others provided a moral sense that tempered self-interest. These positions were linked to eighteenth century notions of virtue and applied to commercial activity embedding in it a natural law framework. "As nature has implanted in each man a desire of his own happiness and many tender affections toward each other in some nearer relations of life...tis plain each one has a natural right to exert his powers, according to his purposes, in all such industry, labour, or amusements, as are not hurtful to others in their persons or goods, while no more public interest necessarily requires this labours, or requires that his actions should be under the direction of others." (Hutcheson, Francis. A System of Moral Philosophy, 2 vols. London: A. Millar, 1755, I:293-94) This is called natural liberty and Hutcheson made a powerful case for economic freedom but not necessarily free trade because he believed that a country achieving an export surplus would increase its wealth and power. He argued that foreign products ready for consumption should be expensive to the consumer by high duties if consumption cannot be prohibited entirely. Exports, however, should be free from hindrances.

David Hume (Of Commerce, 1752, 15-16) praised foreign trade for augmenting the power of the state. In his essay "Of the Balance of Trade", he objected to trade restrictions. It would seem that this position would naturally lead to a free trade conclusion but it did not since he spoke of tariffs as a convenient source of revenue and also seeing tariffs as encouraging domestic producers. This is not the position of Hume which influenced Smith but the Hume who wrote in "Of the Jealousy of Trade" (1758) that no nation ought to be locked out of commerce. But it was Adam Smith who in An Inquiry into the Nature and Causes of the Wealth of Nations (March 9, 1776) changed the analysis of commercial policy. However, even before the publication of The Wealth of Nations, Smith had been an advocate of free trade policy. Smith, in a series of lectures at Glasgow University in 1760 (Lectures on Jurisprudence, edited by R.L. Meek, DD, Raphael, and P.G. Stein, Oxford: Clarendon Press, 1978) 391-392) gave early support to the idea of free trade. He stated: "...it appears that Britain should by all means be made a free port, that there should be no interruptions of any kind made to foreign trade, that if it were possible to defray the expenses of government by any other method all duties, customs, and excise should be abolished, and that free commerce and liberty of exchange should be allowed with all nations and for all things." In Book IV of The Wealth of Nations, a book entitled "Of Systems of Political Oeconomy," he claimed that the object of mercantilist policy was to diminish the importation of foreign goods for domestic consumption and to increase the exportation of domestic goods. Clearly a protectionist policy. Smith advocated the establishment of specific criteria to evaluate the effects of Britain's commercial policies with the object being to examine the economy wide impact of the policies on the real annual revenue of society. "...no longer was it sufficient to conclude that an import tariff was beneficial simply because employment and output increased in the sector receiving such protection." (Irwin, 76) Smith admitted that high duties diminished competition and did give domestic producers a monopoly of the home

market, thereby allowing them to charge higher prices but it was still necessary to determine the true impact of this policy on real income. Philosophically, there were two fundamental principles operating in Smith's work. First was the principle that individuals in the marketplace always direct their labor to their best possible advantage and secondly, the study of this advantage leads the individual to prefer that employment which is most advantageous to society. "As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce maybe of the greater value, he intends only his own gain and he is in this as in many other cases led by an invisible hand to promote an end, which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing is own interest he frequently promotes that of the society more efficiently than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good." (1776, IV.ii,9) Therefore, the natural liberty of individuals interacting in the economic realm with each seeking quality his own benefit by providing goods and services to others leads to the efficient allocation of resources from the standpoint of society. The needs of the individual will be met of it was profitable to do so and the annual revenue of society would be raised. Competition in the marketplace is the best mechanism for deterring profitable lines of activities and for the allocation of resources to those activities.

Medieval theologians were primarily interested in the moral quality of the economic of the economic behavior of the individual rather than on the justness of economic institutions and processes. "In contrast to the scholastics nearly exclusive focus on personal economic behavior related to the honest exchange of goods and services (just price and usury) modern Roman Catholic social documents have examined economic processes together with their auxiliary institutions and instruments: labor management arrangements (*Rerum Novarum*, 1891) industry-level vocational groupings (*Quadragesimo Anno*, 1931) government import- substitution, development strategies (*Mater et Magistra*, 1961), and international political economy (*Populorum Progressio*, 1967 and *Sollicitudo Rei Socialis*, 1987)" (Barrera, 1999,287)

It is enlightening to attempt to understand the premises and practices surrounding the trading of goods and services in this transition in Catholic Social Teaching from scholastic ethics to contemporary Catholic Social documents. Trade or exchange is a major avenue of economic interaction between nations and persons. It can be described as an interpersonal collaboration that supplies the material for moral deliberation. As Langholm says: [E]xchange situations involve their participants in a particular type of moral conflict.... The moral reality is the individual person encountering his neighbor in the context of exchange, each possessing something which the other wants, each obliged, as a mere steward under God, to consider his neighbors' need. Focus on exchange ...meant focus on the individual, in order to advise him on proper terms of exchange with

his neighbor” (Langholm, 1992,24)

The price at which goods and services change hands serves two functions. First, “...it disseminates information that is essential for the efficient, least cost allocation of scarce resources to their competing uses” and secondly, the price producers get in the market determines their rate of pay for labor in the production of the goods and services traded. (Barrera,1999,288). The market” price mechanism can be used as a policy instrument in response to questions of economic ethics in that the extent to which price is freely set by the market provides insight into the ethical choices made by a community.

International trade is about political structures, as well as power and values as about economic goods and services. In the contemporary world goods can be moved rapidly and cheaply across the world. Communication takes place in seconds creating for the first time the foundation for a world economy. The industrial worker pool has become worldwide and more subject to capital because of the technical de-skilling and fragmentation of production turning the worker into a tool.

Moral evaluations rest on and presuppose an underlying set of moral standards. The moral standards on which economic evaluations are made must address the morality of the production and distribution of goods.

In *Laborem Exercens*, John Paul II, affirms the principle that productivity must be aimed at fulfilling real human needs and at achieving real human fulfillment. “Man is the image of God partly through the mandate received from his creator to subdue, to dominate the earth. In carrying out this mandate man, every human being, reflects the very action of the creator of the universe” (*Laborem Exercens*, #4) The encyclical is, in fact, a meditation on the significance of being productive within the work process, a process that is both objective and subjective. The objective aspect of work refers to the productive process insofar as it is directed toward an external object, i.e. producing external goods while the subjective aspect refers to the process insofar as it is a process through which a person recognizes the self as a conscious and free subject. Manuel Valasquez states in his article *Ethics, Religion and the Modern Business Corporation* “Work, or productivity, thus has a twofold purpose: its objective purpose is to produce external goods from the earth’s resources; its subjective purpose is to enable humans to realize their identity as free beings capable of determining themselves.” (Gannon , 58) Work becomes distorted when the subjective dimension is lost. The moral evaluation also has a distributional aspect. Essentially Catholic Social Teaching on economic issues focuses on two points First that the poor and needy have a privileged place and secondly that all human persons are united in a social solidarity that implies an obligation to share one’s goods. These two points embody the fundamental distributional criteria implicit in Catholic social Teaching. A third moral evaluation focuses on the personal rights that economic arrangements must respect. A criteria for assessing how the individual is treated by Society’s productive processes. That the human person has a right to free self-determination is a central moral concept in *Laborem Exercens*. (Gannon, 59)

With the previous pages as background it is time to move specifically into the area of trade. Joseph Holland (Houck & Williams, 287-315) proposes five ethical norms for the free trade. The first principle declares that free trade ought to be fair trade. Recently the term “fair trade” has replaced the term “free trade” in the debate in order to distinguish “old” and “new” protectionism. The old protectionism was based on tariffs and export subsidies, which had a direct effect on employment. The so-called new protectionism is based on a broader range of government policies that affect the marketability of products. These recent policies flow from a corporate tendency “in advanced capitalism to use the state as a key instrument for rendering the nation competitive.” (Houck & Williams, 310) This new protectionism includes such factors as exchange rates, government subsidies to investors and producers, ecological policies, health and safety policies, military and labor policies and education. (Houck & Williams, 311) In this era tariff barriers may be absent or lessened but trade is subsidized in subtle ways. “If trade is to be free, it seems also that it should be fair, that is, with state supports relatively balanced on each side” (Houck & William, 311)

As Paul VI states in *Populorum Progressio* “...the rule of free trade, taken by itself, is no longer able to govern international relations. Its advantages are certainly evident when the parties involved are not affected by any excessive inequalities of economic power: it is an incentive to progress and a reward for effort. That is why industrially developed countries see in it a law of justice. But the situation is no longer the same when economic conditions differ too widely from country to country: the prices which are “freely set in the market can produce unfair results. One must recognize that it is the fundamental principle of liberalism, as the rule for commercial exchange.” (#58) and again “The teaching of Leo XIII in *Rerum Novarum* is always valid: if the positions of the contracting parties are too unequal, the consent of the parties does not suffice to guarantee the justice of their contract, and the rule of free agreement remains subservient to the demands of natural law. What was true of the just wage for the individual is also true of international contracts: an economy of exchange can no longer be based solely on the law of free competition, a law that, in its turn, too often creates an economic dictatorship. Freedom of trade is fair only if it is subject to the demands of social justice. (#59)

Holland’s second principle states “*that for free trade to be fair, it must include respect for the rights of labor and that when it does not the injustice may and indeed should be dealt with through the social clauses in trade arguments or tariff penalties proportionate to the violation*” (Houck & William, 312) The rights of labor have been defended in Catholic social Teaching since the time of *Rerum Novarum* in order to emphasize that competition in trade based on the exploitation and repression of labor is immoral. The conditions of workers in many developing nations has been the subject of much recent discussion and writing. John XXIII reminds us in *Pacem in Terris*, “beginning our discussion of the rights of man, we see that every man has the right to life, to bodily integrity, and to the means which are necessary and suitable for the proper development of life; these are primarily food, clothing, shelter, rest medical care, and finally the necessary social services.” (Par. 11) Each nation has, according to John XXIII an absolute obligation to contribute to the international society according to its abilities.

This mentality appears in opposition to the rules of international commerce where it is market values not human values that dominate the system of international trade. A just wage is a moral imperative imperative, which is determined by the minimum necessary to maintain a family in ordinary circumstances. A vehicle to help assure the “just or living wage” is through the organization of workers.

“The themes of the dignity of labor and of workers rights, of the need for a just wage , and of the duty of the state to protect the worker’s natural right to enter into working people’s associations are all carried forward from *Rerum Novarum*. They were echoed in *Quadragesimo Anno* (Pius XI, 1931) in its treatment of the claims of capital and labor, the principle of just distribution of wealth and property, and the need for a just wage. The same themes, of course, reappeared in that part of *Mater et Magistra* (John XXIII, 1961) which dealt with the subject of labor where we found the reaffirmation of the right of workers to organize with the extension to the view that organizations of workers’ is not only desirable but necessary, that unions are absolutely indispensable to modern society.” (Houck & Williams,) Unions are right to exercise their right to association. Labor unions are cited as one means to help promote or ensure the rights of workers and within society to promote justice for all. It is moral for nations to write into trade agreements “social clauses” which serve to protect the rights of labor. It would also seem to be justified to impose a penalty (justice tax) based on the degree of exploitation.

The third moral norm proposed by Holland states that “*corporations and governments must contribute to the economic rebuilding injured by departing corporations and foreign competition; and, reaching beyond the interim ethic, that such occasions offer the opportunity for creating, through cooperation with unions, local government and development and alternative technology*” (Houck & Williams,) Trade relations between nations may produce unemployment in some industries especially among unskilled workers of Third World nations. Trade policies can directly affect employment in any trading partner nation. For example, as many U.S. corporations relocated to the Texas-Mexican border, U.S. workers in industries such as the manufacture of clothing found themselves unemployed. As shoe manufacturers relocated their operations to Southeast Asia and China in order to take advantage of the large labor pool and low wage scales, U.S. workers were displaced. In the case of such displaced workers, it could be argued that it is morally required for governments not only to aid in the reconstruction and development of the afflicted communities, such redevelopment might be mediated through labor organizations. This moral obligation ought to be borne by corporations as well as governments. It is the responsibility of government to make sure that a corporation cannot just leave a community without shouldering any moral responsibility. This might offer the opportunity for real creative transformation of the international order.

In *Laborem Exercens*, John Paul II wrote that the first principle of the whole ethical and social order is the principle of the common use of goods. Material goods belong to the whole human family therefore the world market cannot be left to pure competition and free market forces. This is a fundamental principle of Catholic Social Teaching. International markets have a social function as well as a financial one and therefore a

social order is required. As the world market changes through advances in transportation and communication technology, it will be necessary to regulate the market for the whole international community. The case for free fair) trade rests on the projected rise in real income that can be obtained by “all individuals when each concentrates his efforts on the marketable production in excess of his own needs for goods and services that others can produce with relatively greater efficiency through similar concentration of effort.” (Houck & Williams, 239). One of the benefits of trade between nations is that incomes of individuals tend to rise. International trade represents a possible extension of productive opportunities for every nation. Therefore, the fourth moral norm can be stated: “*the democratic ordering of the world market by expanded international institutions according to the principles of the common use of goods ought to be applied globally.*” (Houck & Williams, 314)

The maturing international market is converting the world into a unified economic system since the volume of trade is resulting in a really interdependent world. The control of the world market tends to be concentrated in large centers of economic bureaucracies, i.e. transnational enterprises and geobanks. It is here that the Catholic principle of subsidiarity comes into play. The U.S. Catholic Bishops in their economic pastoral *Economic Justice for All* succinctly states: (government) “should undertake only those initiatives which exceed the capacity of individual or private groups” (Pius XI *Divini Redemptoris*, 1937 #49 quoted in *Economic Justice for All*, #120). It would appear morally justifiable for a nation to follow certain industrial policies, which would guarantee to some degree a relatively self-reliant industrial base. Such self-reliant strategies are justifiable and practical if they are accompanied by other strategies that increase bonding across the world economy. Therefore, the fifth ethical norm can be stated: “*independence and self-reliance should not be antagonistic, but complementary and mediated by the principle of subsidiarity and international institutions.*” (Houck & Williams, 315)

The trade policies of the developed nations raise some very serious complex moral questions. As C. Fred Bergsten states in his article “Trade Relations Between the United States and Developing Countries” (Houck & Williams, 233-258) :”If one’s focus is cosmopolitan and on absolute levels of income, a policy of virtually free trade is clearly suggested but at least a measure of protectionism seems to be called for if one concludes that a nation’s obligation is primarily to its own citizens and that relative income within a country’s borders is what counts.” (Houck & Williams, 233-4). It is generally the case that American workers who are adversely affected by free trade policies are substantially better off in absolute terms than workers in developing countries. Is absolute or relative poverty the key standard of measure?

There is some evidence that low income consumers in every land benefit from freer trade because “their marketbasket of consumer goods is relatively heavily weighted toward imported products including those where controls are frequently deployed or threatened such as apparel and footwear” (Houck & Williams, 234). The case for free trade rests on the rise in real income that can be obtained by “all individuals when each concentrates his efforts on the marketable activities he is best able to do and exchanges the production in

excess of his own needs for goods and services that others can produce with relatively greater efficiency through similar concentration of effort.” (Houck & Williams, 239) Foreign trade represents a possible extension of productive opportunities for every nation. “If a countries citizens desire to purchase a particular good or service, the country can either devote its own resources to production of the good, or it can, in turn be exchanged for the desired good.” (Houck & Williams, 240) The latter alternative usually requires less resources than the former. This basic proposition holds for all economies. The underlying philosophical foundation assumes that production is not an end in itself but only a means to the goods and services produced to satisfy human desires. Bergsten identifies some exceptions to the above philosophical assumptions. If trade is taking place freely then the distribution of income (wealth) will generally be different from the income distribution under the conditions where trade is not taking place freely. Even when the benefits of free trade accrues to a nation, it might still be the case that the real income of certain individuals will be reduced because these individuals lack the skills needed and/or are employed in occupations that are not benefited by such trade. In general a policy of free trade will benefit those parts of the economy whose efforts and resources are used extensively in export. “The theory of welfare economics suggests that liberal trade is superior to restricted trade in spite of these distributional effects, provided that income is redistributed from prospective gainers to prospective losers.”(Houck & Williams, 241). Since total income will have been increased it should be possible to, by suitable redistribution of wealth to make everyone better off.

In conclusion, the following quotes from *Centesimus Annus* might sum up the paper. “Even in recent years it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that countries which did this have suffered stagnation and recession, while the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level. It seems therefore that the chief problem is that of gaining fair access to the international market, based on the unilateral principle of the exploitation of natural resources of these countries but on the proper use of human resources. [72]”

“ It 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. But this is true only for those needs which are ‘solvent,’ insofar as they are endowed with purchasing power, and for those resources which are ‘marketable’, insofar as they are capable of obtaining a satisfactory price. But there are many human needs, which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not allow those burdened by such needs to perish. It is also necessary to help these needy people to acquire expertise, to enter the circle of exchange, and to develop their skills in order to make the best use of their capacities and resources. Even prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists something, which is due to the person because he is a person, by reason of his lofty dignity. Inseparable from that required “something” is the possibility to survive and, at the same time, to make an active contribution to the “common good of humanity””. (#34)

References

- Anonymous. "Vatican Officials urge W.T.O. to help Third World Nations." *America* Dec. (1999) 4-5.
- Anonymous. "Should Trade be Freed from more Fetters?" *U.S. Catholic* (March 1999) 9
- Aristotle *Politics* Loeb Classical Library, 1932
- Berger, Peter L.. *The Capitalist Spirit*. San Francisco: ICS Press, 1990
- Barrera, Albino "The Evolution of Social Ethics" *Journal of Religious Ethics*. Summer 1999
Berger, P. L. "The Pope, Liberty, Capitalism" *National Review* 43 (June 24, 1991)
Business Ethics Quarterly. 7(March 1997)57-70.
- Caron, John. "World Trade can Improve Life for All" *National Catholic Reporter* (Feb. 4, 2000), 18
- Cicero. *De Officiis* Loeb Classical Library, 1913.
- Friedman, Milton. "The Pope, Liberty, Capitalism" *National Review* 43 (June 24, 1991)S3-5.
- Gannon, Thomas M. S.J. (ed) *The Catholic Challenge to the American Economy: Reflections on the U.S. Bishop's Pastoral Letter on Catholic Social Teaching and the U.S. Economy*. New York: Macmillan Publishing Company, 1987
- Gray, J. "The Pope, Liberty, Capitalism" *National Review* 43 (June 24, 1991)
- Green, Ronald M. "Centesimus Annus: A Critical Jewish Perspective" *Journal of Business Ethics*. 12(1993) 945-954
- Hobgood, Mary. *Catholic Social Teaching and Economic Theory*. Philadelphia: Temple University Press. 1991
- Houck, John & Williams, Oliver F. (ed) *Catholic Social Teaching and the U.S. Economy*. Washington DC: University Press of America, 1984.
Journal of Business Ethics 7(1988) 445-452.
- Irwin, Douglas A. . *Against the Tide*. Princeton , NJ: Princeton University Press, 1996.
- John XXIII. *Mater et Magistra*. May 15, 1961

John Paul II. *Centesimus Annus* . May 1, 1991.

_____ *Laborem Exercens*. September 14, 1981

Kim, Kwan S.. “Who’s paying the price of a Free-market Economy?” *U.S. Catholic* 56(Jul1991) 20-27.

Laczniak, Gene R. “Distributive Justice, Catholic Social Teaching, and the Moral

Land, Richard D. “The Pope, Liberty, Capitalism” *National Review* 43 (June 24, 1991)S3-5.

Langholm, O. *Economies in the Medieval Schools: Wealth, Exchange, Value, Money, and Usury According to the Paris Theological Tradition 1200-1350*. Leiden, New York, and Koln: E.J. Brill,1992

Leo XIII. *Rerum Novarum*. May 15, 1891.

McCann, Dennis “Catholic Social Teaching in an Era of Economic Globalization” *Business Ethics Quarterly*. 7 (March 1997) 57-70.

McCann, Dennis “On Moral Business: A Theological perspective” *Review of Business* 18 (Fall 1997) 9-14.

McCarthy George E. & Rhodes, Royal W.. *Eclipse of Justice*. Maryknoll, N.Y: Orbis Books, 1992.

McHugh, Francis P. & Natoli, Samuel M. (ed) *Things Old and New*. Lanham, Maryland: University Press of America, 1993

Neuhaus, Richard John. “The Very Liberal John Paul II” *National Review* 15(Aug.11,1997)32-36

O’Grady, Mary Anastasia. “The Americas: John Paul II’s Mission in Mexico” *Wall Street Journal* (Jan 19, 1999)

Paul VI. *Populorum Progressio*. March 26, 1967

Pius XI *Quadragesimo Anno*. May 15, 1931.

Pilla, Anthony. “How to Implement ‘Economic Justice for All’” *America*. (Jan 1-31,1987) 76-79

Pines, Christopher L.. “The Bishops Dilemma with Capitalism: A Critical Analysis” The Responsibility of Marketers.” *Journal of Public Policy & Marketing*. 18(1999) 76-78

Riga, Peter J. *The Church of the Poor*. Techny, Illinois: Divine Word Publications, 1967

St. Augustine. *St. Augustine: Exposition on the Book of Psalms*. Edited by Philip Schaff, vol. VII *A Select Library of the Nicene and Post-Nicene Fathers of the Christian Church* New York: Brown Brothers, 1888.

St. Thomas Aquinas. *De Regno, Ad Regnum Cypri (On Kingship, to the King of Cyprus)* Translated by G.B. Phelan. Toronto: The Ponifical Institute of Mediaeval Studies, 1944.

Stackhouse, Max L. "John Paul on Ethics and the 'New Capitalism'" *The Christian Century* 108(May 29, 1991) 581-583.

Strain, Charles(ed) *Prophetic Visions and Economic Realities*. Grand Rapids, Michigan: William B. Eerdmans Publishing Company, 1989

Williams, Oliver R. "Catholic social Teaching: A Moral Compass for the Next Millennium" *Review of Business*. 19 (Fall 1997)15-22