

JUST WAGE OR JUST SYSTEM?

Examination of a Middle Class Conscience

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This paper will begin by summarizing the history of the “just wage” concept in Catholic Social teaching. Practical difficulties with the just wage have led to the more recent concept of a “just system” for the working poor.

I will then suggest how individuals can help to develop and maintain a just system, through their life work.

The paper concludes with discussion of specific policies and attitudes that harm the working poor..

HISTORICAL BACKGROUND OF THE JUST WAGEpage 3
WORKING FOR A JUST SYSTEM..... page 24
SPECIFIC ISSUES.....page 28

HISTORICAL BACKGROUND OF THE “JUST WAGE”

1. The Need for a Just Wage Concept Develops (1250–1825)

- Creation is Intended to Benefit All

God created the earth and gave man dominion over it. The material goods of the earth are provided for the needs of all men.

It is not practical for each individual to use an undivided share in all of the goods of the earth, or even in all of the goods of a small locality. What is everyone's business is no one's business.

- Private Property as a Means

The institution of private property is a means by which goods of the earth can be located, developed, manufactured, improved, transported, and otherwise made useful for consumption.

As goods are brought into private ownership by capture (fishing, hunting, occupation of land); and as basic goods (lumber, ore, crops, herds) are refined by labor, some men inevitably acquire control of more goods than others. Indeed, some men, at some times, through natural disaster, illness or disability, or indolence, will not have enough goods to sustain life.

Those who have goods hire those who do not, to work. Workers can thereby earn a share of the goods of the earth to sustain life. Their work, if wisely managed by their employer, will increase the wealth of the community in general, and the employer in particular. Thus, the initial disparities of wealth tend to become exaggerated over time.

(“The rich get rich...”)

- The Employer's Leverage

The poor man is compelled to work. Yet even as he works, he helps to create greater leverage for his employer to use against him in negotiating wages. The poor man depends upon regular paychecks to live. His employer, though he expects to receive more benefit from labor than he pays out in wages, is less compelled to hire. The employer can usually withstand a period when the business is idle far better than his workers can forego paydays.

British economist David Ricardo described the predicament of the worker 180 years ago. "The Iron Law of Wages" reflects the reality that an employer who consults only his financial interest will pay just enough to supply his workers with minimal food, clothing, and shelter. (He would do as much for work animals.) Other employers, because of moral concern or social compassion, may prefer to pay more than the bare minimum, but they must compete with those who are motivated entirely by financial interest. In this competition the moral employer tends to be driven out of business.

- Industrialization – Property’s hidden weakness exposed

Private property, instituted and justified as a means to provide more goods for all, can thus operate to provide very little for many. This weakness in the operation of the economic system was masked before the Industrial Revolution. Almost everyone was engaged in peasant agriculture and almost everyone was desperately poor. The agricultural employer has a compelling need for numbers of willing workers at harvest time. Agricultural workers, who are growing and storing food, cannot practically be denied subsistence. Further, the landlord and his peasants had a social (although certainly not equal) relationship. They knew each other, lived near each other, and worshipped together.

The mask slipped and the weakness became apparent when large mines and factories were developed. Unlike farms, these new enterprises could be shut down for extended periods. Shutdowns (“lockouts”) might even benefit the employer, when used to reduce the inventory of products held for sale. Also, the owners of the large new enterprises tended to be corporate shareholders. They lived at a distance and were not acquainted with the circumstances of the workers. Instead local managers were charged to run the enterprise at maximum profit. Industrialization enabled the iron law of wages to operate with grim efficiency.

1. Passages from pre-1815 European Thinkers concerning Private Property and Wages

- Thomas Aquinas

“(T)he possession of all things in common, and uniform freedom” are said to be of the natural law, because, that is, the distinction of possessions and slavery were not brought in by nature, but devised by human reason for the benefit of human life. Accordingly the law of nature was not changed in this respect, except by addition.” (Thomas Aquinas (1225–1274), *Summa Theologica*, Part I of Second Part, Q 94, Art 5, Reply Obj 3

“Workmen who offer their labor for hire are poor men who toil for their daily bread, and therefore the Law commanded wisely that they should be paid at once, lest they should lack food.” Thomas Aquinas, *supra* Q 105, Art 2, Reply Obj 6)

- John Locke

“God gave the world to men in common, but since He gave it them for their benefit and the greatest conveniences of life they were capable to draw from it, it cannot be supposed He meant it should always remain common and uncultivated. He gave it to the use of the industrious and rational (and labor was to be his title to it); not to the fancy or covetousness of the quarrelsome and contentious”. John Locke (1632-1704); *Second Treatise of Government* (1690); Chapter 5, Property, para 33.

- Montesquieu

Charles de Seconant, Baron de Montesquieu (1689-1755) perceived that work formerly done by slaves could be done more efficiently by hired labor, so that both master/employer and slave/employee would benefit.

"Before Christianity had abolished civil slavery in Europe, working in the mines was judged too toilsome for any but slaves or malefactors: at present there are many men employed in them who are known to live comfortably. The magistrates have, by some small privileges, encouraged this profession: to an increase of labor they have joined an increase of gain; and have gone so far as to make those people better pleased with their condition than with any other which they could have embraced. No labor is so heavy but it may be brought to a level with the workmen's strength, when regulated by equity, and not by avarice." *The Spirit of Laws* Book XV, para 8

Montesquieu saw that the master had an incentive to engage free labor rather than own slaves. The master would be free from the care and expense of housing, feeding and clothing his workers. The worker also benefited. He could choose his own lifestyle within the limits of his wages, selecting food, clothing and shelter to meet his desires. Most of all, the worker would have the incentive to put by some capital of his own, so that he could educate his children, and perhaps give them a modest inheritance.

- Rousseau

Jean Jacques Rousseau (1712–1778) saw the state, not as a natural and necessary combination of persons to protect and advance the interests of all, but rather as a regime slyly imposed upon the poor by the rich. The rich benefit more than the poor from the existence of the state because both their lives and their property are secured. The poor,

with no property to protect, and restrained by the state from robbing the rich, benefit less.

Insatiable ambition, the thirst of raising their respective fortunes, not so much from real want as from the desire to surpass others, inspired all men with a vile propensity to injure one another, and with a secret jealousy, which is the more dangerous, as it puts on the mask of benevolence to carry its point with greater security. In a word, there arose rivalry and competition on the one hand, and conflicting interests on the other, together with a secret desire on both of profiting at the expense of others. All these evils were the first effects of property and the inseparable attendants of growing inequality. *The Origin of Inequality Among Men*, (p. 353)

- Adam Smith

Adam Smith, (1723-1790) was the first to theorize extensively on the relationships among capital, land and labor. All wealth is derived from labor:

"It was not by gold or by silver, but by labor that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labor which it can enable them to purchase or command. (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations* (p.13)

Capital is labor that has been saved rather than consumed. The owner must judge where and how he will risk his capital. Smith described the profit motive:

"As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labor adds to the value of the materials. In exchanging the complete manufacture either for money, for labor, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced. He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him; and he could have no interest to employ a great stock rather than a small one unless his profits were to bear some proportion to the extent of his stock" (p. 21)

“As soon as land becomes private property, the landlord demands a share of almost all the produce which the laborer can either raise, or collect from it. His rent makes the first deduction from the produce of the labor which is employed upon land ”

“It seldom happens that the person who tills the ground has wherewithal to maintain himself till he reaps the harvest. His maintenance is generally advanced to him from the stock of a master, the farmer who employs him, and who would have no interest to employ him, unless he was to share in the produce of his labor, or unless his stock was to be replaced to him with a profit. This profit makes a second deduction from the produce of the labor which is employed upon land. The produce of almost all other labor is liable to the like deduction of profit. In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed. He shares in the produce of their labor, or in the value which it adds to the materials upon which it is bestowed; and in this share consists his profit.” (pp. 27-28)

Smith thus compares agriculture, where the rent to the landlord was a share of the crop, with manufacturing, where the share to the landlord is cash rent paid by the capitalist employer. Both the landlord and the employer are compensated for devoting their assets to the work.

Smith then turns to the factors involved in setting wages for the workers.

"Thus far at least seems certain, that, in order to bring up a family, the labor of the husband and wife together must, even in the lowest species of common labor, be able to earn something more than what is precisely necessary for their own maintenance.

"There are certain circumstances, however, which sometimes give the laborers an advantage, and enable them to raise their wages considerably above this rate; evidently the lowest which is consistent with common humanity" (p. 29)

This phrase concerning wages, "the lowest which is consistent with common humanity ", is the first reference that I have found to a theory of a living wage. It is ambiguous. Does Smith intend to state *The Iron Law of Wages* as later developed by Ricardo? Or does Smith believe that there is a standard of some comfort implied in the phrase "common humanity"?

It appears that Smith did not believe that the Iron Law of Wages prevailed in his time (1776):

"There are many plain symptoms that the wages of labor are nowhere in this country regulated by this lowest rate which is consistent with common humanity." (p. 31)

Smith then demonstrated that the lowest rate was not prevalent in England. The labor force was not mobile. Workers seldom traveled from regions where wages were low to take work in regions where wages were higher. Since they were able to maintain themselves in the lower-paid regions, the workers in the higher paid regions must have some degree of affluence.

Similarly, it was common in England that the wages of basic laborers would fluctuate with the seasons, being somewhat higher in summer than in winter. Since laborers could sustain themselves on the lower wages paid in winter, there must have been at least some degree of affluence in summer. Also the prices of basic provisions varied, both seasonally and year to year, while wages were much less volatile. Since laborers could sustain themselves when provisions were expensive, there must have been some level of affluence when the prices of provisions fell.

Smith believed that the condition of workers was improving:

"The common complaint that luxury extends itself even to the lowest ranks of the people, and that the laboring poor will not now be contented with the same food, clothing, and lodging which satisfied them in former times, may convince us that it is not the money price of labor only, but it's real recompense which has augmented.

"Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, laborers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well-fed, clothed and lodged." (Emphasis supplied.) (p. 33)

These last two sentences state the basic premise of the encyclical *Rerum Novarum* (1891).

Smith goes on to deplore the notion that hard times are good for society. When hard times force workers to work for less, that means that some workers are idle. The whole effort of all the people to increase the wealth of the nation is reduced. Smith also appeals for better working conditions:

"If Masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate than to animate the application of many of their workmen. It will be found, I believe, in every sort of trade, that the man who works so

moderately as to be able to work constantly not only preserves his health the longest, but in the course of the year, executes the greatest quantity of work" (p. 35)

This exhortation follows a discussion of the evils of overwork, and the tendency of workers to extend themselves beyond what is wise unless restrained by the employer.

Another statement by Smith, in relation to the actions of government to regulate the economy of a nation, reflects his concern for the workers.

"Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce." (p. 287)

Smith held that the mercantile economic philosophy was erroneous because it was not the most efficient way to increase the wealth of the nation. The basic flaw of mercantilism was that it inhibited consumption, which was the whole purpose of the economic system.

- Alexander Hamilton

"A power over man's subsistence amounts to a power over his will." Alexander Hamilton, (1757-1804) *The Federalist*, (1789) Number 79.

Hamilton commented on the provision in the U.S. Constitution which prohibits raising or lowering the salary of the President during his term of office. Hamilton held that it was necessary to restrain Congress, the employer with the power of the purse, from subordinating the President, its employee, by economic leverage.

- Thomas Malthus

Thomas Malthus, (1766-1834) in *Work on Population* (1798) began an ominous trend in economic thinking. He considered the wages of labor only as a factor in the growth of population.

"The price of labor, when left to find its natural level, is a most important political barometer, expressing the relation between the supply of provisions, and the demand for

them, between the quantity to be consumed, and the number of consumers; and, taken on the average, independently of accidental circumstances, it further expresses, clearly, the wants of the society respecting population; that is, whatever may be the number of children to a marriage necessary to maintain exactly the present population, the price of labor will be just sufficient to support this number, or be above it, or below it, according to the state of the real funds, for the maintenance of labor, whether stationary, progressive, or retrograde. Instead however, of considering it in this light, we consider it as something which we may raise or depress at pleasure, something which depends principally on his Majesty's justices of the peace". (quoted by David Ricardo in *The Works and Correspondence of David Ricardo*; Cambridge (1951) at pages 218-219)

Malthus was right to say that legislation cannot be entirely relied upon to control the economy. Supply and demand, Adam Smith's "invisible hand" have much to do with how the economy will respond to legislated changes in the price of goods or the price of labor. Malthus departed from Adam Smith, however, in viewing "society" as the primary goal. He saw individual laborers as means to achieve society's goals. In contrast, Smith saw consumption by individuals as the purpose of production.

2. Various Responses to the Wage Problem Disclosed by Industrialization (1815 – 1891)

As industrial enterprises grew larger and less personal, workers realized that all of the benefits of the new system were going to capitalists. Workers received only what "The Iron Law of Wages" required for their continued existence. Skilled workers, whose skills had been rendered obsolescent by factory machinery, now competed with children for jobs tending machines. The wage level tended to drop toward a level sufficient to support a family in which men, women, and children all worked for wages. A single wage could not support a family.

The pain and hopelessness experienced by workers were intense. Every conceivable response to the disparity between workers and employers had an advocate.

- David Ricardo – Laissez Faire

The most famous economist to deal with the issue of wages was David Ricardo, *On the Principles of Political Economy and Taxation*. (1817)

"There can be no rise in the value of labor without a fall of profits. If the corn is to be divided between the farmer and the laborer, the larger the proportion that is given to the latter, the less will remain for the former" (p. 35)

"Labor like all other things which are purchased and sold, and which may be increased or diminished in quantity, has its natural and its market price. The natural price of labor is that price which is necessary to enable laborers, one with another, to subsist and to perpetuate their race, without either increase or diminution. The natural price of labor, therefore, depends on the price of the food, necessaries and conveniences required for the support of the laborer and his family. With a rise in the price of food and necessaries, the natural price of labor will rise; with the fall in their price, the natural price of labor will fall." (p. 93)

"The market price of labor is the price which is really paid for it, from the natural operation of the proportion of the supply to the demand; labor is dear when it is scarce, and cheap when it is plentiful. However much the market price of labor may deviate from its natural price, it has like commodities, a tendency to conform to it."

"When the market price of labor is below its natural price, the condition of the laborers is most wretched. Then poverty deprives them of those comforts which custom renders absolute necessaries. It is only after their privations have reduced their number, or the demand for labor has increased, that the market price of labor will rise to its natural price, and that the laborer will have the moderate comforts which the natural rate of wages will afford." (p. 94)

"It is not to be understood that the natural price of labor, estimated even in food and necessaries, is absolutely fixed and constant. It varies at different times in the same country, and very materially differs in different countries. It essentially depends on the habits and customs of the people. An English laborer would consider his wages under their natural rate, and too scanty to support a family, if they enabled him to purchase no other food than potatoes, and to live in no better habitation than a mud cabin; yet these moderate demands of nature are often deemed sufficient in countries where "man's life is cheap", and his wants easily satisfied. Many of the conveniences now enjoyed in an English cottage would have been thought luxuries at an earlier period of our history". (pp. 96-97)

Ricardo's economic analysis is sound. He explains the relationship that the factors in the economy bear to each other. Unfortunately the beauty of the mathematical certainty of economics blinded him to the overall goal of the economy, which Adam Smith properly taught was adequate consumption by the great mass of the population. Ricardo therefore saw that all government help for the poor was a tragic mistake:

"The friends of humanity cannot but wish that in all countries the laboring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertion is to procure them. There cannot be a better security against a superabundant population. In those countries where the laboring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries." (p.100)

"These then are the laws by which wages are regulated ,and by which the happiness of far the greatest part of every community is governed. Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature.

"The clear and direct tendency of the poor laws, is in direct opposition to these obvious principles: it is not, as the legislature benevolently intended, to amend the condition of the poor, but to deteriorate the condition of both poor and rich; instead of making the poor rich, they are calculated to make the rich poor; and whilst the present laws are in force it is quite in the natural order of things that the fund for the maintenance of the poor should progressively increase, till it has absorbed all the net revenue of the country, or at least so much of it as the state shall leave to us, after satisfying its own never failing demands for the public expenditure."

"This pernicious tendency of these laws is no longer a mystery since it has been fully developed by the able hand of Mr. Malthus; and every friend to the poor must ardently wish for their abolition." (pp. 105-106)

Ricardo did allow that abolition of the poor laws "should be effected by the most gradual steps" in order to moderate the distress of the poor.

- Socialism/Communism

Since private property was instrumental in producing the harsh effects of the Iron Law of Wages, why not do away with private property? Socialists and Communists reached that conclusion. They would have the emerging bureaucratic national state make all important economic decisions. Goods would be produced and allocated to consumers rationally according to an overall plan. Allocation would no longer occur as the haphazard result of the varying degrees of economic leverage (capital, health, talent, luck, initiative and education) available to individuals.

Socialism seemed logical, but more than twenty-five years before any state put it into practice, Pope Leo XIII condemned it, on principle, as contrary to human nature. History has confirmed that judgment.

- Henry George-Single Tax

Henry George (1839 –1897) proposed the "single-tax", in *ProgressandPoverty* (1879). George wanted to abolish private property in land, so that the value of land could be shared by all, as given by the Creator. Improvements to land, such as buildings, wells, fences, etc. would be owned as private property by the individuals who constructed

them. The single tax would be imposed upon the value of land only. The value of the improvements would not be taxed, and all other taxes would be abolished.

The state would function as a medieval feudal lord, collecting land taxes as a perpetual ground rent from the occupants. I could not find an explanation as to how the land would be valued for calculating the tax. Since the single tax was intended to capture all of the value that accrues to land due to its location in the community, there would be no market for land as such. Lacking a market valuation mechanism, the state, with voter support, might raise the level of the single tax on land to the point of confiscation of the buildings and improvements.

On the wage issue, Henry George followed David Ricardo. In reply to *Rerum Novarum*, George wrote:

"Your Holiness seems to assume that there is some just rate of wages that employers ought to be willing to pay and that laborers should be content to receive, and to imagine that if this were secured there would be an end of strife. This rate you evidently think of as that which will give working-men a frugal living, and perhaps enable them by hard work and strict economy to lay by a little something.

But how can a just rate of wages be fixed without the higgling of the market, any more than the just price of corn, or pigs, or ships, or paintings be so fixed? And would not arbitrary regulation in the one case as in the other check that interplay that most effectively promotes the economical adjustment of productive forces? Why should buyers of labor, any more than buyers of commodities, be called on to pay higher prices than in a free market they are compelled to pay?" (p. 139)

George saw that legislating a just wage would be impractical. He could not see any middle ground between legislated wages and the "Iron Law of Wages" of classical liberal economic theory. (Ricardo)

- Social and Economic Remedies

Workers and social reformers tried many remedies for low wages and poor working conditions: Merriman, (pp. 699-713)

Luddites sabotaged machinery. They tried to force a return to the craft system, under which their skilled labor had been respected and financially rewarded.

Hours of child labor and women's labor were restricted.

Some wealthy owners established model communities, where workers had housing and amenities provided, as well as better wages.

The city of Paris operated worker shops during hard times to help the unemployed.

Labor union organizers developed economic leverage for workers by combining to shut down workplaces with strikes.

Government credits and subsidies were offered for worker-owned shops.

Cooperative societies were established to manufacture, market, or purchase goods efficiently by uniting the economic power of their members, on a non-profit basis.

- Religious Responses

Church leaders responded to the wage problem in several ways. Some urged that the wealthy should contribute charity (alms) for the relief of the poor. Some urged that the government should provide directly for the poor. Some urged the poor to accept their lot as the will of God. ("The poor you always have with you...")

The leaders whose teachings most influenced *Rerum Novarum* advocated that the Church should work to change attitudes. Neither the class warfare taught by Marx, nor the economic warfare taught by Ricardo, was a satisfactory model for relations between groups of God's children.

Frederic Ozanam

Antoine Frederic Ozanam of France, (1813-1853) advocated a balance of remedies: limited government intervention for extraordinary circumstances, education for workers, freedom for labor unions, and moral exhortation to employers to accept workers as human beings. He organized the Society of St. Vincent de Paul to aid the poor. Ozanam taught that there must be a fair proportion between the financial rewards to employers and the rewards to the workers. (Ryan and Husslein, (p.19-20).

Ozanam was among the first to teach that the problems of the Iron Law of Wages could not be resolved by economic and political measures alone. An appeal to the moral sense, the desire to do right by our fellow human beings, was essential.

Wilhelm Emmanuel von Ketteler

Archbishop Ketteler of Mainz (1811-1877), preached a Catholic theory of property. Economic issues should be approached in a spirit of Christian charity, to establish a just community. Ketteler's ideas were the inspiration for the Christian Democratic parties of the late 19th and early 20th century in Europe. Ketteler relied upon Christian education and law reform to relieve the lot of the poor. He agreed that the rules of private property and the law of wage contracts should control the management and administration of business, (production). On the other hand, he insisted that the right to enjoy the benefits of the goods thus produced (consumption), should be governed by the traditional rule that the goods of the earth are intended for all.

Sharing of goods would not be forced by the state under Kettler's system. Rather the Church would strongly encourage sharing, in the spirit of Apostolic times and monastic communities - "voluntary communism".

Ketteler allowed for public ownership of some essential enterprises, such as railroads, even though he recognized that the discipline of the profit motive would be lost. However, he insisted that government must purchase such businesses, and could not seize them from their owners.

Bishop Ketteler correctly foresaw the inevitable tyranny of socialism, and he forcefully rejected it. He endorsed cooperatives, but realized that they would suffer from the inability to raise capital, and they would lack strong central management. (Ryan and Husslein, pp. 24-39)

The Church and Labor Unions

Archbishop Kettler endorsed labor unions, but he feared that secular unions would become violent during strikes, or might be lured into socialism. He therefore preached that unions should be based on Christian principles.

Cardinal Gibbons of Baltimore had to make a practical choice in 1887. The Knights of Labor was a large, effective U.S. labor union, but it was not under Church auspices. Worse, it had begun years earlier as a secret society, and had only recently removed that feature. Catholics were forbidden to take part in secret rituals, yet many Catholic workers were members of the Knights of Labor. Gibbons' presentation to the Pope succeeded in averting condemnation of the union by the Church. He quoted from his ally, Cardinal Manning of Westminster, England, who was an early proponent of what is now called the "preferential option for the poor".

"We must admit with calm and accept with a good will the fact that industry and the accumulation of wealth hold the second place in our preoccupations; that the moral state and domestic condition of the working population ought to hold the first." (quote from Manning found in Ryan and Husslein, pp. 153-154)

4. Social Justice Encyclicals

From 1250-1891, I found no author who suggested a rule or formula that could be applied to determine whether a particular wage was just or not. Adam Smith believed that wages in 1776 were minimum to adequate, "the lowest consistent with common humanity", but that real wage levels were gradually rising. Frederic Ozanam asked for a "fair proportion" in dividing the benefits of an enterprise between employer and workers. Fuzzy enough, indeed!

Fortunately our sense of injustice is more sharply honed than our sense of justice. Like obscenity, we know an unjust wage when we see it, and the injustices of unrestrained economic liberalism were obvious.

Rerum Novarum

Leo XIII faced a most comprehensive, yet conflicting and confusing range of ideas and suggestions about labor issues as he wrote *Rerum Novarum*. He sorted it all out by first condemning socialism, and endorsing private property, both on principle. He then dealt with the practical problems of workers by demanding a priority for labor, and by calling for employers and workers to strive together for justice. This seemed impractical, even foolish to many; yet Leo's approach led to great benefits for workers, and thus all of society, in the 20th century.

In *Rerum Novarum*, "On the Condition of Workers" (1891), Leo XIII stated in very positive terms:

- Workmen must be allowed a Sunday rest. (para 44)
- Hours of labor must be adjusted to the age and sex of the workers to safeguard health. (para 45)
- Consent to a wage between employer and workman is necessary, but the workman's consent does not in itself ensure justice. The economic leverage of the employer must not be used to exploit workmen. (para 47-49)
- The natural law, that the wage must support the wage-earner "in reasonable and frugal comfort", supersedes any bargain to the contrary. (para 49)
- A just wage will support a worker and his family and enable him "to put by a little property". Laws should favor ownership of property by as many as possible. (para 50)
- The state is "unjust and cruel, if in the name of taxation, it deprives the private owner of more than is just". (para 51)
- Unions and other associations that support workers are encouraged. (para 52)
- Workmen, employers, the church, government and philanthropists should all cooperate, in charity and mutual respect, to "ensure the well-being of the poor". (para 63)

The influence of *Rerum Novarum* was somewhat blunted, at least in the countries governed by legal systems derived from the English common law, by unfortunate terminology. The encyclical refers frequently to the "rights" of workmen concerning wages and working conditions, but it fails to emphasize that these "rights" are not to be taken as legal rights. They are moral rights, and do not establish duties for employers that would be enforceable in court.

Rerum Novarum described the general outline of a just economy that would conform to the natural law. The encyclical was a firm exhortation to the bishops to preach a new

social gospel to their flocks. *Rerum Novarum* sets the standard against which the morality of each nation's economic system should be measured.

Quadragesimo Anno

Pope Pius XI issued *Quadragesimo Anno* (1931) "On the Reconstruction of the Social Order". He finessed the fact that *Rerum Novarum* had not made a clear distinction between moral objectives and legal duties by citing a non-existent passage from *Rerum Novarum*, that the moral duties of property owners "cannot be enforced by legal action". (Quad Anno - para 47)

Pius XI taught:

- Neither employer nor workers can properly claim all of the benefits produced by their joint contributions to the enterprise. Each should receive a fair share. Despite improvements between 1891 and 1931, workers were still not receiving a fair share. (paras 57-58)
- Workers should be able to save and own property, not only for their own security, "but have also assurance that when their lives are ended they will provide in some measure for those they leave after them". (para 61)
- He encouraged enterprises in which workers shared in ownership or management, or profits.
- "The worker must be paid a wage sufficient to support him and his family". (para 71)
- If "existing circumstances" make it impossible to pay a just wage, "social justice demands that changes be introduced as soon as possible whereby such a wage will be assured to every adult working man". (para 71). (This is the beginning of the "just system" concept.)
- The condition of the business must be taken into account. "It would be unjust to demand excessive wages which a business cannot stand without its ruin". But management's "lack of energy or lack of initiative or because of indifference to technical and economic progress, that must not be regarded a just reason for reducing the compensation of the workers". (para 72)
- Wages should not be so high or low that unemployment results. (para 74)
- Subsidiarity-"(I)t is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations [or individuals] can do". (para 79)

Laborem Exercens

In 1981, Pope John Paul II, in keeping with his emphasis on respect for the dignity of each individual human person, defined "man" as the subject of work, rather than "production". Work is good, man thereby becomes a co-creator with God Himself in developing creation for the good of all. (para 25.2) John Paul II taught:

- In addition to the "direct employer", who signs the paycheck and orders the work, the role of the "indirect employer", society, must also be recognized. The state must have a just labor policy, and the community of states must cooperate in trade. (para 17.1)
- Unemployment is an evil to be fought, and insured against. (para 18.1)
- "Just remuneration for the work of an adult who is responsible for a family means remuneration which will suffice for establishing and properly maintaining a family and providing for its future, either through a family wage-that is a single salary given to the head of the family for his work, sufficient for the needs of the family without the other spouse having to take up gainful employment outside the home -or through other measures such as family allowances or grants to mothers devoting themselves exclusively to their families". (para 19.3)
- Medical care should be easily available and cheap, and there should be provision for old age. (para 19.6)
- Unions should struggle for social justice, but this must not be a "class struggle". Unions seek the good of the workers, but not harm to others. (para 20.3)

Centesimus Annus (1991) John Paul II taught:

- The "welfare state" violates the principal of subsidiarity, "by intervening directly and depriving society of its responsibility". The welfare state "leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending" (para 48.5)
- Alienation occurs "when people use one another, and when they seek an ever more refined satisfaction of their individual and secondary needs". "A person who is concerned solely or primarily with possessing and enjoying, who is no longer able to control his instincts and passions, or to subordinate them by obedience to the truth, cannot be free". (para 41.4)

The Catechism of the Catholic Church (1992)

The Catechism states that "paying unjust wages" is a sin against the Seventh Commandment. (para 2409) This applies to the "direct employer". "Rich nations have the grave moral responsibility toward those nations which are unable to insure the means of their development by themselves". (para 2439) This applies to the "indirect employer".

WORKING FOR A JUST SYSTEM 4. Practical Policies

Let us apply some of the principles of social justice to develop a just system for the working poor:

Respect for the dignity of each individual
A decent material standard of living
Support for the family, especially families with young children
Subsidiarity
Be wary of the welfare state

These principles can usually be best advanced by following three guidelines:

- 1) It is better for the working poor to have money, and choose their own life-styles, than to receive aid “in kind”.

Funds that are targeted toward home-heating assistance, food stamps, child daycare, housing, medical care, transit coupons, etc, are less effective than cash in improving the life of the working poor. The Lord knows far better than anyone how we should use the earth. Nevertheless He gives each of us freedom to decide, for well or ill, how to use it. His example should be kept in mind when targeted aid programs are proposed.

- 2) As it is good for the working poor to have money rather than vouchers, it is better that they keep their own money, rather than have their money taxed away and returned as entitlements.
- 3) We must maintain a balance among the three basic institutions in a society: government, families, and religion.

- When government becomes too powerful, we suffer tyranny. Democracies can be tyrannical.
-
- When families become too powerful we suffer tribalism.
-
- When religion becomes too powerful, we suffer theocracy.

The balance in the United States is currently skewed to favor government. Tribalism and theocracy are not present threats. Those who seek to strengthen the family and religion are ill-advised to attempt to do so by further enhancing the powers of government. I will employ these guidelines when discussing specific issues.

6. Leadership Roles for a Just System

CHURCH The moral virtues enable economic production to flourish, and enable consuming families to enjoy material success. Initiative (prudence), fair dealing (justice), hard work (fortitude), and thrift (temperance), foster production for all, and promote the welfare of the working poor.

The virtue of love for neighbor –charity- fosters the corporal works of mercy toward the dependent or non-working poor. (They are not considered in this paper).

Church leaders should always be careful to distinguish between the two types of public issues which they address from the pulpit and in the public square. Issues like abortion, euthanasia and the death penalty are clear-cut in a modern society. The proper approach is to repeat the message of life until society recovers its senses.

On the other hand, it will always be difficult to define “ a just system”, and it will change over time. Reasonable people will differ concerning the wisdom and practicality of well-intentioned measures to achieve justice. The Church has wisely refused to endorse candidates for public office, leaving the ultimate prudential choice to the voters. Church leaders should likewise refuse to endorse any specific economic measure proposed to aid the working poor, even as they emphasize the papal principles of social justice at each opportunity. The Church should inform and focus policy debates rather than lobby for specific legislation.

Church leaders should be wary of the notion that government is the preferred agent for helping the working poor. Transactional friction devours too much of the public’s funds as they pass from taxpayers, to tax collectors, to treasury, to agency budget, to agency staff, to regulations for entitlements, to processing applications, to eventual distribution to low income families.

There is sad truth in Samuel's lesson to the Israelites:

“The rights of the king who will rule you will be as follows: “He will take your sons and assign them to his chariots and horses, and they will run before his chariot. He will also appoint from among them his commanders of groups of a thousand and of a hundred soldiers. He will set them to do his plowing and his harvesting, and to make his implements of war and the equipment of his chariots. He will use your daughters as ointment-makers, as cooks, and as bakers. He will take the best of your fields, vineyards, and olive groves, and give them to his officials. He will tithe your crops and your vineyards, and give the revenue to his eunuchs and his slaves. He will take your male and female servants, as well as your best oxen and your asses, and use them to do his work. He will tithe your flocks and you yourselves will become his slaves. When this takes place you will complain against the king whom you have chosen, but on that day the Lord will not answer you". (1 Samuel 9: 11-18)

"Faith-based organizations", which depend upon charitable donations and volunteer workers, are the preferred agents to help the working poor. Charitable agencies operate in a free market. Agencies that are dedicated, well-run, and produce good results prosper through increased donations and additional volunteer help. (Habitat for Humanity is nationally known.) Agencies that waste funds, or pursue obsolete programs, or do not inspire spiritual growth, tend to wither until new leadership emerges.

Individual moral development is stifled when government taxes away the assets of low-income families. On the other hand, there is room for decision, and a moral attitude toward consumption, when funds are not pre-allocated. The Church can teach the working poor about adequate provision for today, and prudence and trust in the Lord for tomorrow.

BUSINESS

Business leaders can further social justice by strict adherence to the Ten Commandments in all of their dealings with workers and others. They must set a good example for the whole world of work. They should also join with academics and professionals in discerning, analyzing, and publicizing areas where the economic system fails to operate justly.

THE WEALTHY

Wealthy individuals and families should use their economic power to further a just society. Private wealth and initiative are most effective in ameliorating the inevitable injustices of any economic system.

Those who are better off should be urged to wisely select and generously support church, charitable, educational and cultural organizations. The Church knows, better than any other institution, that we cannot attain a just society in this world. It would be misleading and cruel to pretend that we can. But we can be charged to approach justice by pulling back from the materialism, consumerism, and spiritual indifference that afflict so many. Donations to establish worthy causes are essential, but wealthy individuals should also provide leadership and encouragement for new approaches to deal with changing circumstances.

ACADEMICS AND PROFESSIONALS

Academics, through research and networking, can study the economy and suggest remedies for social injustices. Doctors, lawyers, accountants, business consultants and journalists, have day-to-day experience with the problems of the working poor. They have a duty to act, through their professional organizations and by political activity, to correct practices that adversely affect the working poor.

GOVERNMENT

In a democracy, government is all of us who can vote. We are each morally responsible in that way. Elected officials and senior administrators have a special duty to protect the working poor.

7. Specific Issues HOUSING

A decent home is an essential good that each of us seeks from the economic system. Let's review some obstacles to affordable housing, and what we can do to remove them:

- Discrimination. There is nothing wrong with families and ethnic groups clustering in low-income neighborhoods, *if* that is their choice. There is everything wrong about tactics which block a family from moving into the most affluent neighborhood that it can afford. Neighborhoods should change slowly, as families gradually make decisions about their housing. When the complexion of a neighborhood changes overnight, block by block, from white to dark, we see the ugly downside of unjust housing practices. Satisfaction with housing and property values plummet, and fear rises, as “blockbusting” proceeds. We must recognize this pathology.

Families who work for a better lifestyle must not be restrained from buying a better house or renting a better apartment. They should be able to relocate for convenience to schools, jobs, shopping, church or recreation. When large parts of a metro area are off-limits to minorities, pressure builds for them to upgrade by moving into the few neighborhoods where there is less resistance.

We can allay the fear that arrival of a few minority families inevitably spells doom for the lifestyle and property values of all who live in the neighborhood. Most Americans are sympathetic to families that are trying to “move up”, but they fear “tearing down” their own circumstances. This fear is reasonable. It tends to divide the working poor. The fear can be allayed by a tested strategy that removes the pressure for minorities to cluster in a few neighborhoods solely because they are unwelcome in others.

Fair housing comparison teams are pairs of couples who shop for homes or apartments at close intervals. A minority couple is followed by a white couple. The couples have “mirror” qualifications (income, number of children, employment stability, etc.). If the minority couple is discouraged from entering the neighborhood, or told that the home or apartment is already under contract, and the white couple is welcomed immediately thereafter, a *prima facie* case of housing discrimination is laid, and the real estate agent may lose his license. When they know that violations will be prosecuted vigorously, sales agents and apartment managers will advise their principals that the risks of housing discrimination outweigh the benefits. Fair housing policy will advance from theory to a reality.

It does not work to leave enforcement of discrimination laws to the individuals affronted. Why should they come forward? They are looking for a home, not a lawsuit. When turned down, even with a flagrantly false excuse, most will seek another home rather than complain.

The real estate agent who discriminates wants a commission, not a fight to retain his license. He discriminates because he doesn't want to get the reputation of allowing “them” into the neighborhood where he works, for fear of losing further commissions. When it becomes clear that “they” can live anywhere they can afford, discrimination will be checked. Violations must be sought out and prosecuted vigorously for a time, until the lesson is learned.

NEW HOUSING FOR THE POOR

Low-income people, and until quite recently almost all people, were accustomed from childhood to "hand-me-downs". Clothing, beds, toys, and bicycles endured multiple siblings, and often cousins, until their economic value was totally recovered. Only recently have any considerable number of young families been able to buy a new car. The capital cost of the second half of a car's useful life is much lower than the cost of the first half, so almost all first cars are used cars. An enormous number of Americans, at all economic levels, have never lived in a new house or apartment.

Yet, when we deal with housing for the working poor, too much effort and expense are devoted to building new housing. Low-income people are identified, isolated by income level, and deprived of the strength of existing neighborhoods. We use a roundabout bureaucratic process that gives tax breaks, or provides low-interest loans, for entrepreneurs who build apartments for the poor. These buildings are not designed to attract people who want to live in them. They are designed to meet a cookie-cutter national standard for housing, and built as cheaply as possible. They provide the legal minimum amount of floor space, the legal minimum quality of appliances and construction materials, the legal minimum of workmanship and finish, and occupy the legal minimum amount of land. They are beautified by the legal minimum of landscaping. The result is almost always a dreary encampment that proclaims "PROJECT" from three blocks away. This housing has so often failed that the strategy is shifting to scattered site projects containing fewer units. Nevertheless, new public housing does not support a neighborhood. It continues to depress the property around it.

Even cheaply built new apartments cost about \$100 per square foot, in addition to the land cost. At the same time older apartments, designed and built to attract people rather than warehouse them, are readily available on the market at half the cost. Non-profit organizations, with common sense tenant management and maintenance policies, do a good job with older buildings. They support established neighborhoods rather than depress them.

The problem is not that the working poor don't know where or how they want to live. The sole characteristic that sets them apart is that they have less money. If poor families could keep what we tax away from them, many of them could provide for themselves in the housing market. As needed, the market would grow to serve them

TAX POLICY vs. LOW INCOME WORKERS

Leo XIII was correct to warn: "The state is unjust and cruel if in the name of taxation, it deprives the private owner of more than is just".

Legislators, presidents and governors, and we who elect them, grind the face of the poor through taxation that favors the more politically powerful middle-class. Let's consider a few examples:

- Social Security Tax (FICA)
- Federal Income Tax

- Property Tax

Social Security was adopted in the 1930s as an "insurance policy". If Social Security were offered today by a private insurance company as an endowment policy for retirement, with full disclosure, it would be rejected out of hand by any prudent consumer. The details:

1. Pay to the insurance company (U.S. government) "premiums" consisting of 12.4 percent of every penny you earn, without any exemption or deduction, even for income taxes. Begin to pay premiums as soon as you start to work, even as a teenager.
2. The rate of premiums may be increased by the company from time to time.
3. At age 62 you may elect to receive payments, but the Company reserves the right to change the amount of benefits at any time, and also reserves the right to delay the age at which you can begin to receive benefits. And, when benefits are paid, the company will take back a substantial percentage (as income tax) so that you will continue to pay premiums even after you retire.
4. The policy benefits provide a return of about 2 percent per annum, compounded, upon the premiums paid by policyholders.
5. Premiums paid into this company, unlike any other, are not invested in stocks, mortgages, bonds, real estate, or in any other assets. Your premium dollars are used at the company's discretion to fund other company activities that have nothing to do with your policy or your retirement.
6. But don't worry that benefits will not be paid to you. While the company anticipates that benefits paid will soon exceed the premiums collected, it plans to make up the difference by collecting additional premiums from your children.
7. The company is not regulated by any state insurance commission. You yourself are a "stockholder" in the company, entitled to vote for the president and for one member of each of the two houses of the "board of directors". However, management is not required to disclose to you the workings of your policy. In fact the president and the directors have been grossly deceiving you, and your parents and your grandparents, about their scheme for over 60 years.
8. There is no benefit paid at death to your family, but if you die before you begin to receive benefits the company will pay a benefit to your minor children.
9. Your Social Security insurance policy is intended to provide retirement security, but it is not your property in any conventional sense. Your policy cannot be assigned, it cannot be cashed in, and it cannot be borrowed against.

Leo XIII very properly called for the worker to be able to "put by a little property" to secure his old age. How did we get into the fix that the "company", our own government, instead begins to seize our property in adolescence, and exerts absolute control over it? How can the worker accumulate any property for his old age if the government takes more than a tithe? We need a policy to secure the old age of the working poor with assets they now own.

The federal income tax, now about 85 years old, began by taxing a very small percentage, levied upon a very small number of very high-income Americans. During World War II the alchemy of withholding was combined with patriotic fervor to finance the emergency. Now, 55 years after the end of that war, a large part of the income of every American, young and old, rich and poor, is taxed away. Every working American must file an income tax return. Withholding tables are skewed so that many low-income people are compelled to file returns in order to recover taxes that were over-collected during the prior year.

About 30 years ago inflation, for which the government (each of us) is responsible, pushed many low income people into higher tax brackets, and rendered the exemptions for dependents nugatory. The injustice eventually became so obvious that something had to be done.

The fair solution:

1. Increase exemptions. No income tax should be due until a family has received a family wage.
2. Eliminate withholding on low incomes.

The government has no right to withhold from the working poor. It will refund the money in 18 months. The transaction costs (time and money expended by employers, the government, and low-income workers to calculate, withhold, pay, report, process, file returns, and eventually calculate and pay out refunds) are all wasted. The whole sham produces no overall economic benefit.

What solution was actually adopted to deal with excess income taxation of the working poor? The Earned Income Tax Credit! In addition to the wasted transaction costs that could have been avoided, we added a new process, a confusing form by which *some* of the more astute low income workers recover *some* of the tax unjustly withheld from them, by filing for a tax credit. The beneficiaries of this additional “Rube Goldberg” device are the members of Congress who portray themselves as sending checks to the poor. They conceal the fact that the money was unjustly taken from the poor in the first place.

Property Taxes And Housing

Those not from Minnesota bear no responsibility for my state’s particularly outrageous property tax, but describing it here serves two important functions.

- First, it will release an unhealthy accumulation of bile, and thus contribute to the health of at least one member of this conference.
- Second, Minnesota provides an example of a mind-set among legislators that has almost certainly produced similar outrage in your jurisdiction, if you should choose to look into it.

The details: many Minnesotans, (about 50 percent of those in the Minneapolis-St. Paul metropolitan area), live in rented apartments rather than single-family housing. Renters, except for a few in luxury apartments, have lower incomes than those who own their own homes. Yet the property tax rate on modest apartments is *double* the tax rate on modest homes. This injustice existed because homeowners know the amount of the property taxes that they pay, and homeowners vote.

Renters' property tax is not itemized; it is included in monthly rent payments. Also, renters are less likely to vote.

It became generally known that the poor are grossly over-taxed on their housing. The Legislature had to act. The obvious solution: reduce the rate of property tax on apartments to the rate paid by homeowners. Legislators refused. They claimed that the burden of the property tax was borne by "rich owners". This denied two facts:

1. The owner's only source of payment of the property tax is the rent paid by tenants. Property tax is "passed through" to renters.
2. The market for rental housing is free, open and competitive. A large number of buyers (renters) are served by a large number of sellers (owners) who are in direct competition with each other. The owner of a duplex competes on a level field with the owner of 1000 units. No barrier prevents new owners from entering the rental housing market.

If property taxes were reduced, and rents were not, the potential for additional profit would attract other providers into the apartment market to take advantage of the opportunity. The windfall to current property owners from the tax reduction would quickly evaporate, and the working poor would pay less for their housing.

The actual solution:

The Minnesota Legislature dealt with the injustice of property taxes on renters by adopting a "rent credit". Legislators cast the apartment owner as the "bad guy". He must still collect excessive rent in order to pay the excessive tax upon his renters' housing. In addition, the owners must now provide rent payment statements to each renter in January, account for vacancies, and track down renters who have moved. Then in October, just before the November elections, legislators, having cast themselves as the "good guys", send out rent credit checks to the renters which make up a *part* of the excessive tax rate. As the sage said, "I try to be cynical about government, but it's so hard to keep up".

MEDICAL CARE DECISIONS

These decisions require a doctor and a patient. Why are employers, insurance companies, federal and state legislatures, and health maintenance organizations also involved in making medical decisions? It violates the principle of subsidiarity to add five new parties to a two-party decision.

We began to get into this mess when wages were frozen during World War II. Labor was scarce, so employers added hospitalization insurance as a hidden wage boost. Employers and insurance companies developed a financial interest in health decisions. First dollar coverage, and even minimal co-pay insurance policies, violates two basic economic principles.

1. If you give something away, there will never be enough. (Free parking, an open bar.)
2. Never insure a risk that you can afford to carry yourself. (Don't "trade dollars" with the insurance company.)

Why do we assume that families who manage to replace roofs, hot water heaters, TV sets and cars cannot manage similar amounts for health care? A major medical insurance policy makes sense, like fire insurance for the home. A medical policy should have a significant "deductible" provision, like home fire policies. The first \$1000 or \$2000 should be paid by the family. The benefit:

- The premium for the coverage above the deductible would be much less
- Market forces would control health costs, (better than the HMO's). Families would care about the costs, risks, and benefits of medical procedures, and they could shop for better rates.
- The unnecessary tests now given to protect against malpractice suits, could be eliminated by waivers.
- Expensive, time-wasting paper shuffling would be avoided.

CHILD CARE Pre-school children in low-income families can be cared for in several ways:

1. By mother (or father) at home.
2. At the home of a relative, neighbor or friend, either paid or by exchange of services.
3. At a licensed day-care home.
4. At a professional day-care facility.
5. At a day-care at work.
6. By combining the above in various ways.

Why are options 3, 4, and 5 subsidized, and options 1 and 2 are not? Why does a licensed day-care mother get government money to feed her charges, but not to feed her own children?

Society has a vital interest in good care for our youngest members. Parents have an even stronger interest in the welfare of their own children. If it is necessary for the

government to fund day-care, couldn't it be done better by increasing the income tax exemption for pre-school children?

CONCLUSION

Middle-class voters, who often accuse the wealthy of neglecting the poor, have power to improve the lot of the working poor by modest changes in the economic system. All of society would be strengthened if the working poor controlled more of the fruits of their work.

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