

Work as Key to the Social Question

The Great Social and Economic Transformations and the Subjective Dimension of Work



John Paul II and the Value Theory of Labor

by [Charles M. A. Clark](#)

Senior Fellow, Vincentian Center for Church and Society

Professor of Economics, Tobin College of Business, St. John's University (NY)

Abstract

Catholic social thought disagrees with many of the conclusions of economic theory. This is particularly evident in John Paul II's *Laborem Exercens* in which a very different analysis of work is presented. The purpose of this paper is to argue that the conflict stems from conflicting "visions" of the economy and the underlying value premises upon which CST and economic theories are based on. The conclusion of this paper is that the CST tradition calls for not only different economic policies, but also an alternative theoretical structure from which to analyze the economy.

Introduction

From its inception the Catholic social thought (CST) tradition has called into question many of the accepted conclusions of economic theory. This challenge to economic theory is in the form of a moral critique of economic doctrines and institutions. However, this moral critique goes much deeper than merely raising ethical questions, for it strikes at the heart of the philosophical preconceptions that form the foundation of economic theory. In effect, CST challenges the "vision" of the economy and society that has dominated economic discourse, while at the same time offering an alternative "vision." It should not surprise anyone, moreover, that CST has developed different explanations of economic activity and different policy suggestions for shaping economic institutions.

This "moral" critique of CST is easily rejected by the majority of professional economists and public policy experts, who have insulated economic analysis from such attacks by claiming that their analysis of the economy is "positive", i.e. value neutral, and not

“normative,” yet such a protective shield does not hold up to any serious philosophical or methodological inquiry. This paper starts off with the premise that the “positive/normative” distinction is untenable for the simple fact that no substantive statement about the economy can be made without the theorist first making a series of value judgments that ultimately are based on normative proposition. Even the simple statement “the rate of unemployment is 4.5%” requires numerous discretionary, and in some ways arbitrary, decisions on how to define unemployment, who is included and excluded from the counting process, and, most importantly of all, deciding to chose “unemployment” as something that is significant enough to measure and investigate. All these decisions are ultimately based on values and value judgments, and are inescapably “normative.” All economic theory is built upon a “vision” of society, and the economy, which is derived from a set of beliefs of an “ideal” or good society, and hence all economics is based upon value judgments and beliefs.

The Catholic social thought tradition has an explicit “vision” of society and a very clear set of value premises and assumptions as to the nature of society, human nature, progress, and the common good, all of which are based on the Old and New Testaments and two millennia of Catholic social and philosophical thought. This challenge to economic theory is evident when we compare Pope John Paul II’s papal encyclical *Laborem Exercens* (“On Human Work”) with the conceptions of value and labor in classical and neoclassical economic theory. Working within the CST tradition, John Paul II lays out the basis of an understanding of value and labor that contradicts many long accepted doctrines in economic theory. Furthermore, John Paul II’s approach offers a greater understanding of the place of work in human existence, and avoids many of the theoretical traps that both the classical “Labor Theory of Value” and the neoclassical “Marginal Utility Theory of Value” have become entangled in.

The purpose of this paper is to demonstrate how the significant insights on the question of value and labor in LE, as well as the CST tradition in general, can enlighten our understanding of the economy and the purpose of economic activity. I will do this by first briefly reviewing the role of value theory in the history of economic thought. Second, I will give an overview of the two “natural” value traditions, the classical “objective” labor theory of value and the neoclassical “subjective” marginal utility theory of value and the understanding of labor that both of these traditions have produced. In the third section of this paper I will contrast the two “natural” theories of value just mentioned with the “social” theory of value that underlies CST. Next I will develop what we will call a “Value Theory of Labor” in LE as an alternative to the labor theory of value and the marginal utility theory of value. Finally we will examine some of the central doctrines that flow from this approach to economics, specifically the priority of labor over capital and the social nature of property. However, before we start our excursion into the history of economic doctrines we need to say a few words about the place of CST in economic discourse, to which we now turn.

Faith and Reason

At the outset of this paper we claimed that all economic theory is based on values and value judgments. This is not a new or original insight; the writings of Thorstein Veblen and Gunnar Myrdal have long since demonstrated this point.^[1] However, merely having a different value perspective is not the sole basis of the CST challenge to economic theory. From its outset, the Catholic intellectual tradition has always combined faith and reason in their analysis of economic and social questions. In fact, it seems to have been the goal of the CST tradition, as well as the more general Catholic intellectual tradition, to use the identifier “Catholic” in both senses of the word, that is with a capital “C” and with a lower case “c”. This is seen especially in the writings of St. Thomas Aquinas. The CST tradition is explicitly based on the Gospels, which gives it the C, but it is also based on the Christian natural law tradition (to be distinguished from the secular natural law tradition following Grotius) which attempted to develop a universally true moral code, which though derived from the Divine Law of God, was discoverable and could be demonstrated independent of Church doctrines. Here reason is what was emphasized, producing an analysis that exists at many layers. Ultimately the doctrines and conclusions of CST are based on the life and teachings of Jesus, yet they are developed and argued in terms of human reason and thus can be accepted or rejected (by non-Catholics) on the criteria of reason and experience. This allows the tradition to engage secular and non-Catholic/Christian based analysis of economic and social issues.

Role of Value Theory in Economic Thought: Order and Prices

The purpose of economic theory is to bring a sense of order out of the chaos of observed everyday economic activity. This is no easy task, as observed economic activity does not order itself into neat and obvious (or natural) categories. Since observations alone do not produce coherence, a sense of an order must precede observation. All observations are based, at least partially, on the perspective, or point-of-view, of the observer (the theorist). For economic theory this perspective comes from the “vision” of the theorist/observer. This “vision” or, to use Thorstein Veblen’s terminology, “philosophical preconceptions,” is based on the theorist’s idea of a “good” or “ideal” or “just” society, and thus ultimately reflect the values of the theorist, or, more properly, the “values” of the intellectual milieu and tradition within which the theorist is working. For economists, these “values” usually enter economic theory in the form of the “theory of value,” upon which most theoretical explanations of market economies are based.

Although the theory of value is a foundational concept in all economic theory, it is not widely understood by the majority of economists. Too often it is depicted merely as a theory of prices, yet this misses the significance that the theory of value has in economic theorizing, *for prices are only significant if they reflect an underlying order in the economy* and it is this underlying order that the theory of value addresses. As Robert Heilbroner has stated: “Prices are the means by which market societies in general, and capitalist societies in particular, establish social coherence from the otherwise uncoordinated activities of their actors. Prices link the world of action and that of order” (1988, p. 107). Thus prices are only meaningful if they reflect something more significant. It is with value theory that the

underlying forces of the economy are exposed, and it is from the perspective of such a theory of value that the theorists organize and bring order to the multitude of seemingly random and chaotic observed economic activities. The theory of value thus shapes the entire body of economic theories and doctrines. Ultimately, the theory of value supplies the underlying rationale of economic activity.

In the history of economic thought two value theories have dominated how the economy has been understood (although we will see that there is a viable third option which avoids the traps of these two approaches): the objective tradition which culminates in the labor theory of value; and the subjective tradition best exemplified in the marginal utility theory of value.

^[2] Both the labor theory of value and the marginal utility theory of value are examples of “natural” theories of value, in that they attempt to find in nature (including human nature) an explanation of the underlying order of the economy, and hence prices. And both reflect the enlightenment goal of discovering the “natural laws” of economic activity, laws that are independent of time and space (Clark, 1992). This is to be contrasted with social theories of value that argue that the underlying order in the economy stems from the historical and social context of economic activity (as seen in the Institutionalist tradition).^[3]

The objective tradition is best seen in the classical economics’ doctrine of the labor theory of value. The labor theory of value has two origins: the theory of property of John Locke; and the economic analysis of Adam Smith. John Locke’s theory of property is well known and will only be briefly mentioned here. In the *Second Treatise on Civil Government*, chapter five, Locke gives a moral defense of the institution of private property based on the argument that property is a mixture of an individual’s labor (which only the individual can own) and natural resources which are free to all (gifts from God). Leaving aside the limitations (and loopholes) Locke mentions, the basis of a social order based on private property is ultimately based on labor.^[4] Building on the Lockean tradition, and searching for a yardstick to measure economic growth and relative prices, Adam Smith chooses labor as the component common to all commodities that determines their.^[5] We see this in Smith’s early formulation of the question of value:

In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days or two hours labour, should be worth double of what is usually the produce on one day’s of one hour’s labour” (1976, p. 65)

Smith elsewhere notes that “Labour .. is the real measure of the exchangeable value of commodities” and “Labour alone, ... never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price” (Ibid., pp. 47; 51). Value is here defined by the classical tradition based on the production process, with labor, as the most basic element

in this process, as the cause and measure of value.^[6] While Smith eventually develops a cost of production theory of “natural prices”, it is clear that the underlying force that regulates prices, and thus brings order to the economy is labor. It is left up to David Ricardo, Karl Marx and finally Piero Sraffa (the classical tradition) to work out the logical problems of arguing that relative prices are determined by a commodities labor content.

With Marx we get a new twist to the labor theory of value, for he was more interested in the social context of the economic process than in merely explaining relative prices. For Marx the essence of capitalism, hence its ultimate value and driving logic, was in the creation of surplus value. Here Marx notes that there is a difference between the value created by the laborer and the value of labor as a commodity. As a commodity, the “objective” value of labor was its cost of production (which, it could be argued, can be reduced to the sum total of the past and present labor necessary to support and reproduce the laborer), while the “exchange value” created by the worker, the monetary value to the capitalist of the goods and services produced by the worker, was completely a separate matter. It is obvious to Marx (and anyone else who thinks about it for a few seconds), that the monetary value of the former will be less than the monetary value of the latter, and that this difference is the source of the capitalist’s profits (surplus value). While Marx never explicitly calls this profit theft, and he clearly understands that part of the surplus must be accumulated and invested for future production, thus all value created cannot be paid out in wages to the worker, there is a clear implication that the worker is due more and the capitalist is due less. After all, Marx does refer to this process as “exploitation.” For Marx this is the key to understanding capitalism, for it is here that the driving force of capitalism, the search for profits, is made real. Hence the underlying ideal of the social order (accumulation of capital) is also the force that brings order to the individual economic activities that make up the economy. The surplus value this process creates is thus the difference between two “objective” factors, the objective value of labor as a commodity (determined by its cost of production) and the objective value created by labor (their product or output). While Marx has a more humanistic understanding of the human person in many of his earlier social and political writings, in *Das Capital* (and his mature economic writings) it is the person as a producer that is emphasized.

The marginal utility theory of value, which forms the basis of the dominant school of economic theory today – neoclassical economics – is also an attempt at a natural explanation of value and the underlying order of the economy. However, this tradition looks not to the process of production to find economic order, but instead examines the inner psychology of the consumer and the producer to find an invariant yardstick. Here value is derived from the “utility” experienced by the consumer of a good or service and the “dis-utility” experienced by the producer or seller of the good or service. The amount of additional (marginal) utility or dis-utility that takes place in the exchange is determined by the scarcity of the good or service, which determines how much additional satisfaction consuming the good will yield (marginal utility) as well as the difficulty of supplying the good to the market (marginal cost, with costs ultimately being measured in terms of utility). The greatest proponent of this tradition, Leon Walras, states the basis in nature of this approach when he wrote: “any value in exchange, once established, partakes of the character of a natural phenomena, natural in its origins, natural in its manifestations, and natural in its essence... (for things to)

have any value at all, it is because they are scarce, that is useful and limited in quantity—both conditions being natural” (Walras, 1954, p. 69).

The subjective tradition, which is based on the philosophy and psychology of the Utilitarianism developed by Jeremy Bentham, is an attempt to place the ultimate ordering properties of the marketplace within the head of each individual and the limits of natural resources. The subjective dimension of man here is understood simply in terms of the utility of consumption and the dis-utility of work or effort, with a balance between the two producing an equilibrium in both the individual and the market (this is the underlying order). Just as with the classical “objective” tradition, this underlying order and value are a function of nature and natural laws as understood by the Protestant and secular natural traditions of the enlightenment.

Marc Tool (1986, p. 89) has correctly noted: “In the classical and much of the neoclassical tradition in economics, the maximal satisfaction of wants, notably consumer wants, has been and remains the basic criterion of judgment, the standard of value, the basis on which to distinguish between good and bad, proper and improper, and desirable and undesirable.” This is clearly seen in Adam Smith’s statement “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” (Smith, 1976, p. 660). This is even more obvious in the neoclassical tradition where value is directly measured by satisfaction in consumption (utility). The difference between the two traditions is that the classical tradition emphasized the primacy of production, as it necessarily comes before consumption can take place, whereas the neoclassical tradition merely assumes production, placing all their emphasis on exchange.^[7] The understanding of the worker in these traditions comes from each respective “value” premise, work is a commodity whose value is determined by its cost of production or it is a dis-utility to be balanced against the utility of earning money (for consumption) whose price is determined by impersonal market forces.

Natural Law and the Social Theory of Value

We have called the classical and neoclassical traditions of value theories “natural” theories of value for they attempted to find the ultimate “value” and ordering principles of the economy in nature. The influence of the secular natural law tradition lead them to use exclusively natural metaphors and analogies to develop their theories, and, in the end, to rely heavily on mathematical formalism as their method of analysis. All this forced modern neoclassical economic theory to exclude all historical and social context from their theoretical undertakings (Clark 1992). A social theory of value instead emphasizes the role of historical and social context in explaining economic order and prices, and in the manifestation of “values” that regulate human behavior. It may seem paradoxical, but it is the natural law tradition of St. Thomas Aquinas that causes the Catholic social tradition to rely on social causes to explain economic activity, and to thus adopt a social rather than a natural theory of value.

The natural law tradition within the Catholic intellectual tradition is based on a conception of the natural law as a moral code, and not as a set of physical laws. To quote the greatest modern proponent of this tradition, Jacques Maritain, the “natural law is an *ideal order* relating to human actions, a divide between the suitable and the unsuitable, between what is proper and what is improper to the ends of human nature or essence. This is an ideal order or divide which rests on human nature or essence and the unchangeable necessities rooted in it” (Maritain, 2001, pp. 29-30). It is not rooted in physical necessity, such as the law of gravity that cannot be violated. It is a moral code, which is often violated by human’s who choose to act contrary to it or who do not understand it. Furthermore, this natural law tradition does not hold that human reason is enough to discover the natural law, nor that this law is independent from divine law. As Jacques Maritain has noted:

Eighteenth-century rationalism assumed that Natural Law was either discoverable in Nature or a priori deduced by conceptual and rational knowledge, and from there imposed upon human life by philosophers and by legislators in the manner of a code of geometrical propositions. No wonder that finally “eight or more new systems of natural law made their appearance at every Leipzig booksellers’ fair” at the end of the eighteenth Century, and that Jean-Paul Richter might observe that “every fair and every war brings forth a new natural law” (Rommen, 1947, p. 107). I submit that all the theories of Natural Law which have been offered since Grotius (and including Grotius himself) were spoiled by the disregard of the fact that Natural Law is known through inclination or connaturality, not through conceptual or rational knowledge. (Ibid., p. 23)^[8]

We can understand at this point in what the error in the conceptions of a thinker like Grotius consisted. While maintaining that Natural Law presupposed in fact God’s existence, he wrote the celebrated sentence in which he said that even if, on an absurd supposition, God did not exist, Natural Law would continue to exercise its dominion and its authority over us. The fact is that he was concentrating solely upon the order of nature—as deciphered by human reason—and did not perceive the relationship between the order of nature and the eternal reason. (Ibid., p. 46)

Maritain also notes that our understanding of the natural law comes first through social activity: “For the knowledge of the primordial aspects of natural law was first expressed in social patterns rather than in personal judgments. This knowledge has developed from the inside, within the double protecting tissue of human inclinations and human society” (Ibid., p. 35-6). The influence of natural philosophy on economic theory has been well documented, and as we have already mentioned, it has lead to the treatment of economics as if it were a physical science, with the required exclusion of social and historical context.^[9] “One of the main errors of the rationalist philosophy of human rights has been to regard positive law as a mere transcript traced off from natural law, which would supposedly prescribe in the name of Nature all that which positive law prescribes in the name of society. They forget the immense field of human things which depend on the variable conditions of social life, and on the free initiative of human reason, and which natural law leaves

undetermined” (Maritain, 2001, p. 62). Thus a social analysis based on this natural law tradition would not seek merely to produce an imitation of the natural sciences. Instead it would look to social formations and institutions to explain how humans behave and look to the Natural Law to discern how they should behave. These are, of course, connected in that human behavior is intentional, with motives playing an important role in shaping human actions. What people perceive to be how they should behave will influence how they will behave, however imperfectly this influence will be, as well as their imperfect understanding of how they should behave (the natural law). The effect of this natural law tradition on Catholic social thought, as it pertains to the question of values in economics and economic theory in general, is that the underlying values and nature of the human person do not come from our investigations into nature or human reason, but instead from our understanding of the Natural Law and human nature, which ultimately comes from God. The underlying value premise of CST is the dignity of each individual, a dignity originates from our being made by God in the image and likeness of God (Genesis). All social formations that are just and right must first respect the inherent dignity of all persons. Thus we must view individuals as subjects and not as objects. This is the starting point of John Paul II’s understanding of human work.

Objective and Subjective Dimensions of Human Work

Within classical economics the value of labor, like the value of all other commodities, stems from its cost of production (in Ricardo this is given the memorable term the “iron law of wages,” which is a subsistence wage), with the cost of production ultimately being reduced to the theoretical final term of labor. This is an objective theory of value, as we have seen above, because value is determined by something that is real and outside the person (cost of production). Marx builds on this tradition to show that the difference between the “exchange value” of labor, determined by its cost of production as a commodity,^{i[10]} and the “use value”^[11] of labor (its contribution to output) to explain the origins of profits (“surplus value”). The neoclassical tradition stresses that value is determined by subjective factors, that is factors that are in the mind of the individual economic actor (utility on the demand side and dis-utility on the supply side).^[12] The conclusion of both traditions is that the value of work is determined by the market system, in the same way that all other prices are determined, and that this promotes the ultimate values of each tradition: production (for consumption) in classical political economy and the maximization of the consumption of “utility” in the neoclassical tradition.

In *Laborem Exercens* both the objective and subjective dimensions of labor are analyzed, but there is an important change in the meaning of the terms “objective” and “subjective.” When John Paul II makes the distinction between the objective and subjective dimensions of work he is using the terms more in line with philosophical discourse and not as they have been used in the history of economic thought. The objective dimension of work (5) is the produce or output of work in general (with no effort to determine what is the output that is the result of labor and that which is the result of capital, i.e., the means of production). The value of labor is completely independent of this objective dimension of work, for the CST

tradition asserts a different yardstick for evaluating the economy. Instead of cost of production or utility in consumption, the CST tradition's basic value premise is the dignity of all individuals: 'The dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured' (*Economic Justice for All* in O'Brien and Shannon, 1992, p. 584). The value of labor, for the CST tradition, and John Paul II in *Laborem Exercens*, stems from the subjective dimension of labor, yet it is not the psychological concept of utility that is the basis of value, but the human person (worker) who is the true subject of work that determines the subjective sense of work. This is the yardstick, or value criteria, that stems from the contention that man is created in the "image of God" and is a child of God, thus all must be treated with the dignity befitting such an entity. "There is no doubt that human work has an ethical value of its own, which clearly and directly remains linked to the fact that the one who carries it out is a person, a conscious and free subject" (6).

Such a concept practically does away with the very basis of the ancient differentiation of people into classes according to the kind of work done. This does not mean that from the objective point of view human work cannot and must not be rated and qualified in any way. It only means that the primary basis of the value of work is man himself, who is its subject. This leads immediately to a very important conclusion of an ethical nature: However true it may be that man is destined for work and called to it, in the first place work is "for man" and not man "for work." Through this conclusion one rightly comes to recognize the pre-eminence of the subjective meaning of work over the objective one. Given this way of understanding things and presupposing that different sorts of work that people do can have greater or lesser objective value, let us try nevertheless to show that each sort is judged above all by the measure of the dignity of the subject of work, that is to say, the person, the individual who carries it out. (6)

Here John Paul II is attacking the notion that labor can be treated as just another commodity, of evaluating labor, and the economic system in general, in terms of economic purposes solely: "the danger of treating work as a special kind of 'merchandise' or as an impersonal 'force' needed for production always exists, especially when the whole way of looking at the question of economics is marked by the premises of materialistic economism. ... Man is treated as an instrument of production, whereas he – he alone, independent of the work he does—ought to be treated as the effective subject of work and its true maker and creator"(7).

By asserting a different value standard (dignity of the individual and the promotion of the common good) the CST tradition offers a different analysis of the value of labor and how it should be evaluated. From at least the time of Thomas Aquinas, the Catholic tradition has rejected the notion that the value of the worker is somehow determined by market forces, and that the worker's income should not be determined solely by these blind market forces, because, it has always argued, that there is a fundamental difference between the value of work and the wages of the worker. As John A. Ryan (1942, pp. 251-252) has noted:

"Equality between pay and work" is nonsense. There exists no third term by

which to make the comparison. These incommensurate entities can no more be directly compared, as regards their equality or inequality, than sound and color. Nor does 'equality between pay and the value of work' mean anything, unless we are told how value is to be determined. ... The sum of the matter is that there can be no equality (nor inequality) between pay and work, but that pay can be equal (or unequal) to the value of the work; but the value of the work has to be ascertained and determined by some extraneous factor, such as, the civil law, the higgling of the market, the decrees of a trade union, or the worker's cost of a decent maintenance.

The CST tradition, based on the value criterion of the inherent dignity of all persons, clearly calls for the final criteria mentioned by Ryan as a minimum ethical standard. Minimum equity criteria flows directly from choice of value criteria. Both the classical and neoclassical traditions had faith that market forces would generate wages rates that promoted their ultimate goals, production for the classicals and consumption of utility for the neoclassicals. Their faith in the benevolent marketplace blinded them to the reality that market forces could produce starvation wages that infringed upon both production and consumption. It is this reality that has caused the intervention in markets to produce fairer wages as a constant feature in all market based economies.

In many ways St. Thomas Aquinas was ahead of his time, for in his doctrine of the "just price" he noted the historical and social factors that actually determine prices and wage rates, and that fairness had to be an essential feature in generating economic order, including the establishment of relative prices and wage rates. Here we see a clear example of the natural law as a moral ideal working through social and historical factors to produce socially beneficial results. Thus in setting the price of labor, the CST calls for the requirement of a living wage. Allowing any system of wage rate determination that does not produce this minimum ethical standard is a violation of social justice. Here the CST tradition is following, in some ways, the lead of Smith. After all it was Adam Smith who wrote: "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, cloath and lodge the whole body of the people, should have a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged" (Ibid., p. 96). Smith also notes that the liberal reward of labor "increases the industry of the common people. The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives" (Ibid.). Here we see the two components of social justice, that all share in social output so that all can best contribute to society.

By basing value on the dignity of every individual, the CST tradition has developed a very different view of labor and the laborer. In both classical and neoclassical traditions labor is treated as a commodity. In the CST tradition work is seen as part of the human condition, an important way in which the individual can participate in society and contribute to the common good. As John Paul II writes: "Work is a good thing for man—a good thing for his humanity—because through work man not only transforms nature, adapting it to his own needs, but he also achieves fulfillment as a human being and indeed in a sense becomes 'more a human being'" (9). CST can make this claim because it takes a wider perspective

on human work. It is not merely paid employment, but includes all forms of social participation and contributions to the common good. Thus activities that do not promote the common good, such as forms of paid employment that are clearly below the dignity of the individual (such as prostitution), are not considered valid forms of work, and activities, such as raising of children, care for the elderly and all forms of non-paid activities that meet legitimate human needs, are considered valid work. Work here is redefined beyond the definitions of economism and instead is broadened to the realm of social participation, which is both a human right and a social duty, both stemming from the inherent dignity of each individual. In the classical and neoclassical traditions work is any activity for which one gets paid. Smith and Marx distinguished between productive and unproductive labor, which for Smith related to contributions to output of goods and services, whereas for Marx the distinction was merely based on whether a capitalist earned profits from the employment of the worker. Both are based on a conception of the common good that does not look beyond the market aspects of society. A realistic understanding of the economy needs to see people as more than just producers and consumers.

Work as Central to the Social Question.

In economic analysis, work is seen solely from an economic perspective. Labor is studied as a commodity, whose price is determined by the supply and demand of labor in a competitive market. The supply of labor is determined by the dis-utility of working and the wage rate (utility of working) whereas the demand of labor is a function of investment (supply of capital) and the wage rate (cost of workers from the perspective of the employer). The wage rate adjusts up and down solely to equate the quantity supply and demand of workers (reach equilibrium). This is a very unrealistic depiction of the labor market for many reasons, not the least of which is that one would have a hard time finding actual wage rates that are determined solely by supply and demand. Most are administered prices determined by negotiation, government regulation and other historical and social factors. Moreover, work is more than just paid employment (the only activity given value in standard economic analysis). Much valuable activity takes place outside of the marketplace. Furthermore, the social, political and psychological aspects of work as a social activity need to be included if we want to understand labor in a market economy. Most importantly of all, one of the most important institutions that influence labor markets and worker's activities is the family, which is given no place in standard neoclassical economic analysis.

It is only by taking this broader view of work that we see the great insight of the statement that "work is central to the social question," for it is not mere paid employment, what Marx would call exploitation,^[13] that is being considered here. Although the Catholic social tradition is in many ways reacting to the rise of capitalism and its effect on the social and cultural values of society, its underpinning is eternal and independent of specific social and economic formations. The underlying value being asserted here is that all, as children of God and as persons with free will, have both the right and obligation to participate up to their fullest potential in society, and that this participation takes on many forms, one of which in a capitalist society is paid employment, but that does not exhaust the realm of

possibilities on how one can contribute to the common good and develop to one's potential.

Priority of Labor over Capital

One of the most controversial concepts in *Laborem Exercens*, especially from the perspective of businessmen, is the section on the Priority of Labor. This is directly contrary to the understanding of the relation between labor and capital in both classical and neoclassical economics. While Smith is, in some ways closer to John Paul II than the other classical, for he notes that the interests of the workers are always equivalent to those of society, while those of the managers of capital are always contrary to the interests of society, it is clear in Smith that the economic process is run by and for capital. Smith felt that in the long run there was a "harmony of interests" as both the workers and the "masters" (capitalists) needed each other and thus shared a common interest, yet he needed the invisible hand of the market to harmonize these apparently conflicting short run interests. With David Ricardo and Marx this harmony disappears, replaced by the class struggle (with Ricardo siding with the capitalists and Marx with the workers).^[14] The neoclassical tradition tries to get around this conflict by conducting their analysis in terms of individuals and not social classes. Thus all are in a struggle with all (moving us back to Hobbes's view of society). The analysis of "laissez-faire capitalism" provided by neoclassical economic theory is thus designed so as not to see the reality of the Industrial Revolution, completely ignoring the reality that prompted *Rerum Novarum*.

By asserting the priority of labor over capital, John Paul II and the CST tradition brings back common sense and humanity into economic analysis. John Paul II write: "we must first of all recall a principle that has always been taught by the church: the principle of the priority of labor over capital. This principle directly concerns the process of production: In this process labor is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause. This principle is an evident truth that emerges from the whole of man's historical experience" (12). This is true in many ways. First, all capital is produced, that is produced by past labor and machines that were themselves produce by past labor and capital, and if we carry this to the beginning we are left with merely labor as the efficiency cause. Second, the means of production are merely instruments of the collective knowledge of the community and are, in and off themselves not very important. As Thorstein Veblen long ago noted, if you take away the digging stick of a primitive farmer, he will easily replace it, but if you take away the knowledge of how to construct and use a digging stick, then you have really impoverished that person. This is just as true for a complex modern economy, as witnessed by the ease with which the defeated powers of WWII were able to rebuild their economies and societies and compare this with the effects of the Vandals burning of Rome's books and the prolonged Dark Ages that set in when this great storehouse of knowledge was all but lost to Europe.^[15] But more important than the historical primacy of labor is the argument, which flows naturally from the value criteria of CST, that labor is the subject of the economy, whereas tools and knowledge (capital) are not. The economy must be run to serve the needs of people and not the opposite – people serving the needs of the economy (whether as slaves

to machines, money capital or technology). This is the economism and materialism that John Paul II writes so strongly against.

This consistent image, in which the principle of the primacy of person over things is strictly preserved, was broken up in human thought, sometimes after a long period of incubation in practical living. The break occurred in such a way that labor was separated from capital and set in opposition to it, and capital was set in opposition to labor, as though they were two impersonal forces, two production factors juxtaposed in the same “economistic” perspective. This way of stating the issue contained a fundamental error, what we can call the error of economism, that of considering human labor solely according to its economic purpose. This fundamental error of thought can and must be called an error of materialism, in that economism directly or indirectly includes a conviction of the primacy and superiority of the material and directly or indirectly places the spiritual and the personal (man’s activity, moral values and such matters) in a position of subordination to material reality. (13)

The priority of labor over capital is thus justifiable based on the criteria of both faith and reason. Both the Old and New Testaments, as well as CST tradition, tell us that things need to serve people and not the other way around, so capital needs to serve workers in their efforts to serve other people (the purpose of economic activity) and themselves. The priority of labor comes from the value of the labor being based on the subjective dimension of labor, the laborer as a person with dignity. However, the priority of labor over capital is also supported by reason. This is so for two reasons. First, the worker is prior to capital (the worker’s tools). These tools are merely to support the worker and the ends of the worker. Secondly, it is not the material manifestation of capital that is important (the actual tool) but it is the fact that the capital object is merely the accumulation of the knowledge of the community (CA, 32). This is a trendy point to make in the “new economy,” yet it is true for all economies. This knowledge needs to be used for the common good of society as it is the inheritance of all, and should not be monopolized by a few.^[16] This essentially social nature of capital leads to the question of private property, to which we now turn.

Social Nature of Property

Through the history of political, social and economic thought there have been numerous explanations and defenses of the institution of private property. All have emphasized either issues of morality and justice, or of efficiency and expediency, with the more compelling arguments having included elements of both. For Adam Smith the institution of property has its origins in labor as a natural right, following John Locke’s labor theory of property already mentioned. However Smith also goes to some length to stress the benefits of private property for the efficient management of economic affairs. His argument thus relies on both justice and expediency. While Smith clearly understood the social context of the institution of property, in fact he notes that the reason for the existence of the State is to protect the

property of the haves against the have-nots,^[17] he relies on the “invisible hand” of the market (divine providence) to ensure that the individuals will use their private property towards the common good, that it is in their self-interest to serve others. In one of Smith’s most famous quotations he makes this very clear. “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages” (Smith 1976, p. ??). In Smith the social nature of property is seen in the need for social institutions (the State) to protect private property and elsewhere in the recognition by Smith of the importance for social and cultural institutions to support economic progress. This dual understanding of property seems to have been lost on the most devoted followers of Adam Smith in our present time, for although there are exceptions, modern economists are more comfortable leaving such discussions to philosophers and political theorists, and instead have used their intellectual energies to exclusively defend property rights on efficiency grounds. To this end they, like Smith, rely heavily on the “invisible hand” of the market and a faith that this will produce the best possible outcomes. Infringements on private property rights are an assault to the efficiency of the economy, and thus hurt all in society. Thus they typically argue for unlimited freedom for property owners.

The question of private property has been an important element in the Catholic intellectual tradition since at least St. Thomas Aquinas, and it has been a key theme in the CST literature since *Rerum Novarum*.^[18] In this tradition both aspects of property: of justice and of efficiency are given equal weight. This tradition relies heavily of the understanding of property developed by St. Thomas Aquinas. Three themes are strong and constant in this tradition: 1) the necessity to protect private property; 2) the requirement that property be used to promote the common good and 3) the social nature of property. Aquinas’ defense of private property is pragmatic. Property tends to be used more efficiently towards the common good when individuals hold it. According to Aquinas “the institution of private property is “legitimate,” and “indeed necessary for human life” inasmuch as (a) persons are more likely to care for what they possess themselves, (b) “human affairs are more efficiently organized if the proper care of each thing is an individual responsibility,” and (3) “peace is better preserved” if persons are content with their own property” (O’Neill, 1994, p. 787). Yet the privateness of property does not remove it from the community, for its use must be used for promoting of the common good. Aquinas argues that it is not immoral for a starving man to steal food to feed himself or his family; in times of scarcity all property becomes common. The defense of private property and the responsibility to use property for the common good go hand in hand as they both stem from the requirement that property be used in a manner that furthers the well-being of all in society.

The Catholic social thought tradition recognizes something that modern economic theory seems to have forgotten, the social nature of property. The right to private property comes from and through the community and it is both right and reasonable that the community have its interests promoted and protected in this institution. As John Paul II has written, “It is necessary to state once more the characteristic principle of Christian social doctrine: the goods of this world are *originally meant for all*. The right to private property is *valid and necessary*, but it does not nullify the value of this principle. Private property, in fact, is

under a ‘social mortgage,’ which means that it has an intrinsically social function, based upon and justified precisely by the principle of the universal destination of goods” (*Sollicitudo Rei Socialis*, 42). This principle of the universal destination of goods is of paramount importance for CST, for it sets a minimum criterion from which to evaluate economic outcomes. All have a right to a decent minimum standard of living, a right that comes from God’s having given humanity the resources of the earth (CA, 31) and the gift of intelligence. “‘God intended the earth and all that it contains for the use of every human being and people. Thus, as all men follow justice and unite in charity, created goods should abound for them on a reasonable basis’. All other rights whatsoever, including those of property and of free commerce, are to be subordinated to this principle” (PP, 22).

Concluding Thoughts.

In this paper I have tried to argue that, by providing an alternative set of value premises, a different “vision” of society, CST presents a different perspective on the question of work inhuman society. One could easily extend this analysis to the questions of what is society? What is human nature? What is efficiency? What is the purpose of economic activity? The list could be endless. Here we have used John Paul II’s encyclical *Laborem Exercens* and its analysis of some aspects of human work to demonstrate this point. In each example we have used we have seen that the CST tradition offers a fuller and more complete analysis of the place of work in human life, the relationship between labor and capital and the social nature of private property. In analyzing work in a modern capitalist economy we do not get very far if we start off with the “vision” of neoclassical economic analysis, of autonomous economic atoms searching for equilibrium *sans* history or culture. A more complete picture comes from a different starting point, one that looks at the human person as more than a commodity, that allows, in fact, highlights, social and historical context as important for understanding labor as a social, as well as economic, activity. CST raises questions that modern economists have a hard time addressing simply because what needs to be included in the answers, values beyond market prices, is excluded from the very “vision” they use to understand the economy. CST offers the starting point (the right questions) for a more realistic and empirically valid understanding of economic activity. It also presents a more compelling “moral” perspective of the legitimacy and purpose of economic activity. Although CST doesn’t present an alternative economic theory, it does cry out for new approaches and alternatives to the current orthodoxy.

References:

Clark, Charles M. A. 2001. “Wealth and the Common Good” mimeo.

Clark, Charles M. A. 2001. “Catholic Social Thought and the Economic Problem”

OIKONOMIA, Feb. pp. 6-18.

Clark, Charles M. A. 1995, "From Natural Value to Social Value" in *Institutional Economics and the Theory of Social Value*, Edited by Charles M. A. Clark, (Boston: Kluwer).

Clark, Charles M. A. 1992. *Economic Theory and Natural Philosophy*, (Aldershot, U.K.: Edward Elgar).

Locke, John. 1960 [1690]. *The Second Treatise on Civil Government*, (Oxford: Basil Blackwell).

Maritain, Jacques. 2001. *Natural Law: Reflections on Theory & Practice*, edited and introduction by William Sweet (South Bend, Indiana: St. Augustine's Press)

O'Brien, David J. and Thomas A. Shannon. 1992. *Catholic Social Thought: The Documentary Heritage*. (Maryknoll: Orbis Books)

O'Neill, William R. 1994. "Private Property" in *The New Dictionary of Catholic Social Thought*, edited by Judith A. Dwyer (Collegeville, Minn.: The Liturgical Press), pp. 785-790.

Rommen, 1947,

Ryan, John A. 1942. "The Economic Philosophy of St. Thomas" in *Essays in Thomism*, edited by Robert E. Brennan, O.P., (New York: Sheed & Ward).

Smith, Adam. 1976. *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by R. H. Campbell and A. S. Skinner (Oxford: Clarendon Press).

Stark, Werner. 1976 [1943]. *The Ideal Foundations of Economic Thought*. (Fairfield, N.J.: Augustus M. Kelly).

Tool, Marc. 1986. *Essays in Social Value Theory*, (Armonk, NY: M.E.Sharpe).

Veblen, Thorstein. 1990 [1919]. "On the Nature of Capital" in *The Place of Science in Modern Civilization*, (New Brunswick, N.J.: Transaction Publishers).

Walras, Leon. 1954. *Elements of Pure Economics*, (New York: Augustus M. Kelly).

Notes

[1]For a short explanation of the role of values in economic theory see my “Catholic Social Thought and the Economic Problem” *OIKONOMIA*, 2001, Feb. pp. 6-18.

[2]We are only concerned with the dominant variations of these two traditions, leaving aside the many variations within the two traditions, which, however interesting they might be, are not relevant to our line of inquiry.

[3]For more on the contrast between natural and social theories of value see my “From Natural Value to Social Value” in *Institutional Economics and the Theory of Social Value*, Edited by Charles M. A. Clark, Kluwer, 1995.

[4]Locke meant for labor to be not only the ultimate justification of value(his theory of property) but also as an explanation of prices: “‘tis Labour indeed that puts the difference of value on every thing” (Locke 1960, p. 338)

^{xii}[5]Showing his support for Locke’s theory of property, Smith writes: “The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable” (Smith 1976, p. 138).

[6]This is to be compared with the doctrines of Mercantilism that Smith was reacting against, which place the question of order and the creation of the social surplus in the field of exchange and not in production.

[7]In fact the neoclassical tradition has a hard time dealing with issues of production. It is really a theory of exchange with each actor having a given endowments that they trade. Where these endowments come from has always been problematic for neoclassical economic theory.

[8]“It is important to recognize that human reason does not discover the regulations of natural law in an abstract and theoretical manner, as a series of geometrical theorems. Moreover, it does not discover them through the conceptual exercise of the intellect, or by way of rational knowledge. I think that the teachings of St. Thomas here should be understood in a much deeper and more precise fashion than is usual. When he says that human reason discovers the regulations of natural law through the guidance of the inclinations of human nature, he means that the very mode or manner in which human reason knows natural law is not rational knowledge, but knowledge through inclination. .. Through the channel of natural inclinations the divine reason imprints its light upon human reason. This is why the notion of knowledge through inclination is basic to the understanding of Natural Law, for it brushes aside any intervention of human reason as a creative factor in Natural Law” (Ibid., pp. 33-4; 43).

[9]The natural sciences that influenced the development of economic theory, deal with universals and not with particulars, and universals are independent of space (social context) and time (Historical context). For an extensive elaboration of this theme see my *Economic Theory and Natural Philosophy* (1992).

^[10]Marx and Smith, but not Ricardo, note that the value of labor as a commodity has historical and social factors in its determination, and not just cost of production, that is for them the cost of labor, its exchange value, is influenced by what is the accepted standard of living for a worker and his family, this being determined by social and historical factors.

^[11]Smith makes the important distinction between “exchange value” and “use-value” to demonstrate that “use-value” does not determine relative prices and is thus not a determining factor in the theory of value.

^[12]In Alfred Marshall’s famous scissors determination of value he has demand (utility) and supply (cost of production) as the two factors generating values, but eventually, for reasons of logical consistency and mathematical formalism, this cost of production is replaced with dis-utility in the high theory.

^[13]For Marx paid employment is by definition exploitation, for the capitalist would not hire a worker unless he felt that the “use-value” of the worker (their productivity) was greater than their “exchange-value” (the wage). Yet, one must remember Joan Robinson’s famous quip here: “The only thing worse than being exploited is not being exploited”. By looking at the broader and more important issue of social participation we can focus our efforts at the real goal, a society where social participation at all levels is maximized.

^[14]Actually it is the Industrial Revolution that kills this apparent harmony of interests. Before the industrial revolution the worker and capital (tools) were inseparable, workers owned their own tools. Once the factory system was developed, this unity was broken. See LE (12).

^[15]See Veblen’s “On the Nature of Capital” in *The Place of Science in Modern Civilization*, 1990 [1919].

^[16]See my “Wealth and the Common Good” (mimeo, 2001) for an argument of how much private wealth is the result of monopolization of socially created “wealth.” This is particularly true for intellectual property.

^[17]“Wherever there is great property there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many. The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security. He is at all times surrounded by unknown enemies, whom, though he never provoked, he can never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it. The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government.” (Smith 1976, p. ??)

^[18]See: RN (4); QA (44-52); MM(104-121); GS (71); PP (22) and CA (30-43).
