Caritas in Veritate emphasizes authentic development as growth in virtue and love for each other and for God. Civil society, especially religion and the family, set upon a foundation of truth about man and what is good for him, is critical. In the last century, debates about the economic and political mix were driven by theories which, because they overemphasized the impact of economic factors (especially capitalism) on individuals and society, often saw religion and civil society as irrelevant. The failure of the alternative economic arrangements demonstrates the error of those theories and testifies to the importance of truth, religion, and civil society to authentic human flourishing. Excessive criticism of capitalism hinders learning this lesson by keeping the focus on economic factors rather than moving to the more central issues of truth and civil society.

I. Introduction

Released against the backdrop of what has been characterized as one of the biggest economic challenges since the Great Depression, Caritas in Veritate (CV) acknowledges the dangers in a global system without truth as the foundation on which people live and think about authentic development. While maintaining appropriate criticisms against the potential dangers of market systems, its very title reflects the Holy Father’s continuing emphasis on the central importance of truth rather than economic structures per se. We must have truth in order to know how to love others, to work for what is good for them, and to know what our goals for development ought to be at the national and personal levels. Benedict also reiterates John Paul II’s emphasis on the critical role of civil society (CV, no. 38); this includes the particularly important institutions of religion, family, civic organizations, and charities, in which people learn truth and love, acquire a spirit of gift, and experience opportunities to serve others.

Though the economic circumstances provided a context for the release of the encyclical, there is a danger that those circumstances may have shaped its interpretation in a way likely to hinder the document’s central messages. For a world dominated by an intellectual class hostile
to free markets, it was easy to overemphasize the “markets have failed” theme at the expense of the more essential issue of development without truth. How? The experience of the last century indicates that excessive criticism of markets results in too much emphasis on economic structures and too little on human nature, ideas, and civil society, which in turn implies that the central problem is economic arrangement rather than separation from truth.

Since the encyclical’s release, however, a number of events (e.g., the European fiscal crises) have transpired that encourage us to see past the distractions of anti-market sentiment, so that the message of the necessity of truth for development can be focused upon more strongly. This can be seen in two areas of civil society in which the idea of gift is so critical: marriage and volunteer activity/charitable giving. The following essay explores how overestimating the dangers of economic factors contributes to the undervaluation of religion and civil society, then turns to the two areas of family and charitable activity to see how that excessive critique hinders addressing today’s challenges to both and diminishes our appreciation of the role of truth in development.

II. Capitalism or Human Condition?
Lessons from the Twentieth-Century Experiments

This is the first social encyclical for which other economic systems such as fascism, National Socialism, communism, or socialism do not exist as feasible options and get barely a mention. Smaller scale variations and alternatives are included as positive possibilities within a free market system, not as entirely different systems. The issue is not choice of system, or the worker question, but true development in an era in which modernization and development are not necessarily the same.

Since the encyclical presumes a market economy, the question is what problems may arise under it, and the encyclical does not shy from confronting them. Nonetheless, there is a risk that by focusing on these problems in an intellectual atmosphere long hostile to markets (and where that antagonism to markets has often been linked to hostility to religion), we pass too quickly over what we should have learned from past economic experiments about how we should assess the potential problems of capitalism. If we mistakenly attribute to capitalism defects that are more general to modernity or human experience, we miss the chance to criticize those elements accurately. In so doing, we may inadvertently undermine faith and civil society by contributing to the philosophical materialism that is the more fundamental problem.
The twentieth century was in many ways the blossoming of the Enlightenment framework: there is no God, thus everything must be explained by material or non-spiritual causes. Individuals do not possess free will, independently contemplating truth and deciding upon it in virtue, but respond to various physical stimuli. Particularly important in this are economic factors, especially capitalism itself. Communism, fascism, and National Socialism all took the same starting point: Capitalism is especially destructive for society, causing social injustice, corroding character, and undermining interpersonal relations (Furet 175).

Buried beneath the differences between these ideologies was what they held in common: their materialist philosophical approach and its implication for their perception of capitalism and civil society. All three regimes rejected the Western heritage of faith and reason grounded in a Christian understanding of the human person, and justified their views as a response to problems hypothesized to be due to market systems. Religion was seen as an irrelevant superstition and civil society powerless against the onslaught of market forces (if not the tool or product of them). As a result, hostility to religion and civil society became wedded to the desire to eliminate capitalism (Yakovlev 21).

While the intensity of the ideologically-driven hatred of religion may have lessened, the general theoretical and philosophical premises continue to haunt us: Markets are bad and religion and civil society are irrelevant (or worse). The way that these assumptions were linked historically and still are linked theoretically means that positions on markets often influence perceptions of the role of religion: To assume that markets are especially destructive implies that other factors are less relevant. Excessive criticism of markets in such an intellectual environment risks prolonging that mistake by undervaluing the role of truth, religion, and civil society—that is, exactly those elements that Benedict XVI sees as central to authentic development.

### III. Moral Problems across Economic Systems

The way out is to get our understanding of the social impact of markets right. To do that, we must look at the good and bad in both market and non-market systems. But that is not what happened during the twentieth century. Instead, mountains of literature were written on the bad of capitalism and the (hypothetical) good of communism and other arrangements, while mere molehills appeared about the bad results of other systems and the good that arises under capitalism. The result was to perpetuate the overemphasis on economic factors.
To demonstrate the dangers of that error, the following section reviews a number of typical charges against markets—exploitation, greed, alienation, materialism, dishonesty and corrosion of character—and argues that each problem occurred in more severe form in the non-market systems. This is not to make the case for, or excuse, capitalism, but to keep the focus on the conclusion: Modern social theory assumed the basic problems were economic, not philosophical or personal. The fact that changing the systems did not solve the problems, indicates that these theories were simplistic at best. This conclusion leaves more room for human elements—faith, family, and human sinfulness—and the institutions of civil society that shape them (Fogel 2000:172).

For example, people often assume that capitalism induces firms to exploit workers as owners try to cut back on worker pay to fatten their own returns. For many, this is exemplified in the plight of workers in sweatshops around the globe. But this belief misses the fact that far worse were the collectivist nations’ enormous concentration of every type of power—economic, political, cultural, and military—in the hands of party leaders who had abandoned belief in truth. Fascist and National Socialist governments used their political control of the economy to oppress their people and murder millions. Communist nations established vast systems of prison/slave labor camps, in which scores of millions of workers were indisputably exploited, used up as resources before dying. The various communist countries were ultimately responsible for the deaths of approximately 100 million people by a variety of means ranging from direct murder and starvation to oppression and misguided policies (Courtois 4).

Marx held that alienation occurred when workers’ creations came to dominate the creators, something he thought inherent in the impersonal exchange of capitalism and the methods of production that reduced workers to mere extensions of the machines they used (Roberts xiii; Kolakowski 182). But by no definition did the alternatives fare any better. Average workers in communist economies were worse off than workers in capitalist countries, both materially and in opportunities for work to be an occasion of creativity. Moreover, the actual outcome of party officials ordering people around on senseless, selfish, or ideological criteria, not to mention sending them to labor camps or prison, alienated workers far more than impersonal market forces might have (Clark and Wildavsky 173).

Contrary to Marxist theory, changing the economic system did not result in people seeing their work as an avenue for creative expression to live up to their full potential. Further, atheistic communism, even with common ownership and absence of profits,
could not provide meaning in work via its purely materialistic philosophy. In *Laborem Exercens*, John Paul gets at the larger problem: poor understanding of human purpose, one corroded more by a disbelieving modern philosophical outlook than by capitalism, and the consequences of that for human creative effort. What is thus needed is not a new economic arrangement, but a Christian vision of work and its subjective dimension, one that people can use to understand their work and live out their creative efforts.

The greed on display during the current financial crisis seemed to corroborate the common assumption that capitalism is uniquely pernicious in causing it. But this observation misses the rampant greed that plagued communist countries. Despite communist leaders’ stated intention to form people uncorrupted by self-interest, selfishness thrived in centrally planned economies. Every communist country had to rely on special perks for party members to get anything done. People saw the party, not profits, as the means to get ahead.

Similarly, reports of financial misdeeds reinforce suspicions that capitalism undermines honesty and respect for truth by driving firms to lie—on financial forms, taxes, and corporate reports, to investors, customers, and partners. Few point out the incentives for truth that exist in capitalism or how endemic dishonesty was in non-market economies. Markets require honesty: Who would willingly contract with those they cannot trust? At the same time, while firms cannot survive dishonesty for long before customers, workers, and investors leave, in communist countries there was no such exit opportunity to force honesty. Everyone lied, from denying trade on the black market, to managers lying to meet production goals (Clark and Wildavsky 127-39; 199-200). Moreover, as Hayek predicted in his essay, “The End of Truth,” collectivist regimes—fascist, National Socialist, and communist—developed enormous propaganda divisions that corrupted every aspect of life from schools to universities to the media. People had to be sold the ideology to persuade them to cooperate, then data had to be manipulated or censored to make it appear that everything was going according to theory (Yakovlev 11,70).

What of virtue overall? First, experience indicates that the free economy encourages many virtues more effectively than do alternative economic arrangements: for example, courage, prudence, diligence, and creativity. Perhaps more surprisingly, other ostensibly more idealistic systems undermined virtue far more severely. What caused this? Shmelov and Popov argue that the very nature of the command economy caused degeneration in mores and ideals (75–6):
A purely administrative view of economic problems took root. Officials developed an almost religious belief in the “organization…” The public became apathetic and indifferent, acquired a parasitic belief in guaranteed jobs and social security, and considered that it was useless and even humiliating to put their shoulders to the wheel and work unsparingly (“we pretend to work and you pretend to pay us”).

Yakovlev attributes these results to the combination of a communist system that eliminated compensation for effort, and Marxist theory itself, which fostered suspicion of the truth and of human mores (9–50). Absent a profit motive, and with no private property to insure that one retained the fruit of one’s work, there was little incentive to be industrious or explore the needs of others. The result was not merely low production, but erosion of virtue as well.

Commitment to truth and virtue depends heavily upon the religious institutions of a society. While suspicion of material success as inimical to religious practice goes back millennia, another surprising result of the past century is that religious practice is so much more common in the more capitalistic U.S. than in Europe. Yet far worse were the outright (and generally successful) measures of religious persecution implemented by totalitarian regimes. Stalin alone was likely responsible for the deaths of over 100,000 priests (Pipes 66), and millions of other believers were killed or imprisoned.

Perhaps the best example of how assuming that capitalism is uniquely pernicious actually prevents us from thinking effectively about the true dangers we face can be seen in the common tendency to conflate materialism and consumerism. Consumerism—where people view consumption as the primary goal and source of meaning—is a genuine problem. It is natural to imagine that capitalism is especially conducive to consumerism because the economy only grows when people consume more, and firms have an incentive to encourage more consumption of their products. But the core problem is not consumerism, specifically; it is materialism, generally—the belief that the material world is all that there is and the seeking of meaning in it alone. Consumerism is just one variation, and it may be more likely to plague capitalist societies. But people in communist countries were materialistic; they just had less about which to be consumerist (Clark and Wildavsky 335; McCloskey 26). Many regimes raised populations obsessed with some variation of worldly success and hostility to the transcendent. The tendency to merge the two into the form particular to capitalism undermines our capacity to fight the broader moral problem.
IV. Learning from the Two Crises

Rather than seeking the lessons of what the collapse of the economic experiments meant for the importance of truth for development, scholars and commentators merely shifted the debate to the narrower question of which degree of capitalism—laissez-faire versus statist versions—was appropriate. Rather than address the failure of their theories, market opponents continued criticisms of capitalism and extolled the virtues of the European welfare states. Rather than addressing the genuine moral concerns that market critics identified, market proponents merely crowed, “capitalism is more efficient.”

That the fundamental problems were buried rather than resolved became evident when the financial crisis hit in 2008. Critics were prepared with canned arguments about greed, exploitation, self-interest, and consumerism in a regulation-free environment of laissez-faire carried to excess. Proponents were caught apparently unprepared—their efficiency argument seemed simplistic for ignoring instability and inequality—and unfeeling in their prescription to let the market work itself out. Market skeptics were quick to seize upon Caritas in Veritate as vindication of capitalism’s inability to serve authentic development.

The timing could not have been worse for cementing the wrong lessons. Observers correctly highlighted the need for a more complete vision of development than one that considered only material growth, but they hitched that concern to the erroneous view that reform of the political/economic system was all that was needed to achieve it. In the process, lessons about the importance of truth and our understanding of the human person were ignored.

Since then, the combination of improved understanding of the U.S. financial crisis and of the fiscal crisis that ensued in Europe after the encyclical’s release helps us focus on those lessons. The American crisis was at best a perfect storm (Hennessey et al.)—an unusual combination of separate events the independence of which provides few lessons about the nature of the system generally—or, as appears increasingly likely, a sad example of the impossibility (for business and government) of perfect information, and of good intentions and government policy gone awry on a massive scale.

Seeking to combat supposed discrimination in lending, the Clinton administration pressured banks into relaxing lending standards on loans for the poor and minorities (Liebowitz). It made the process palatable by inducing Fannie Mae and Freddie Mac to purchase more of the bad loans from the banks. Faced with the choice of fighting the government and being slandered as discriminatory, or playing along by
making almost risk-free loans (since they would be taken off their hands), banks took the easy way out.\textsuperscript{6}

Other factors played a role as well. Reserve requirements were allowed to be exceptionally low for mortgages. Some institutions sought to couple high return and stability by dealing in financial instruments that mixed mortgages with other pieces. Actions that would have been prudent decades earlier were no longer so, as everyone failed to account for the decreased safety of the mortgages.

Finally, and likely most importantly for turning a bubble or distortion into an economy-wide disaster, interest rates were kept excessively low. Intending to stimulate an economy slowed down in the years after 9/11, the Federal Reserve Bank pushed rates down to extremely low levels and held them there too long, provoking an asset bubble. Housing prices skyrocketed, with double-digit increases in several years, and median prices rising by about $100,000 over a four-year period.

People responded in all the expected ways. Many who already owned homes, perceiving that the increased value of their houses made them more financially secure, spent more and saved less. Others saw the chance to purchase an asset that would appreciate rapidly in value. Latecomers to the low-interest rate feast had to take out larger mortgages for houses which until recently had cost far less. Speculation ran amok. Borrowers took on loans (often lying to do so) confident they could always sell the house if they couldn’t make payments on it. Banks further relaxed their caution for the same reason.

This should not all be characterized as unreflecting gluttony at the feast, however. Prudence requires making decisions with the best understanding of conditions possible. Given the complexity of financial matters, this requires relative stability of prices and rules across time so that reasonable guidelines and practices can be established and widely learned. The massive and rapid policy (and interest rate) changes of the decade changed the circumstances and destabilized inherited wisdom, making prudent judgment difficult. While these events exemplify human error and sinfulness, they are not problems attributable uniquely to capitalism.

Far more important, however, have been the fiscal crises that unfolded across Europe in 2010. Unlike the U.S. case, fiscal problems in many countries and the specter of crises in others were driven by an inherent failure of the welfare state and the philosophical vision that went with it.

If rising housing values, low interest rates, and a wildly changing policy environment obscured people’s true financial state and
induced people to borrow too much or to attempt to live in homes beyond what they could sustain, the construction of societies with enormous government transfers has generated a similar problem, to an even greater degree. The problem in such cases is not people borrowing against their own credit, but massive reliance upon and borrowing against others, which becomes an unsustainable collective problem due to the combination of the fallacy of composition errors of perception, and the demographic fact of collapsing birth rates.

The fallacy of composition error is to believe that what is beneficial to one person can be applied to everyone. If Peter pays for Paul’s windows to be upgraded, Paul benefits from the program. If Peter also gets the same program, but paid for by Paul, then they are merely paying for each other’s windows, with no real gain (and an actual loss if they wouldn’t buy the windows in the absence of the program). While low levels of transfers across groups (especially from richer to poorer) can be reasonable and just, if these transfers become extensive, then people are simply paying for each other’s excessive consumption. The Peter and Paul case is obvious, but this dynamic is hard to see when government becomes too expansive. As a result, populations tend to demand too much from the state.

Moreover, the welfare state must take from those who are working and earning to fulfill its commitments to those who are not. But in Europe, the dearth of children is leaving those promises impossible to maintain. The next generation is too small to shoulder the burdens placed upon it. As Nobel Prize winning economic historian Robert Fogel has forebodingly written, “A specter is haunting the OECD nations. It is not the specter of poverty, or class warfare, as was the case a century ago when leisure was the privilege of the very rich and workers toiled from sunrise to sunset to earn enough to purchase meager amounts of food, clothing, and shelter. …The specter that now haunts OECD Nations is not class warfare, but intergenerational warfare” (2004:66).

This is a fiscal crisis driven by a demographic crisis. But why so few children? Is it only economics? Or is there a philosophical crisis, an attitude connected to the welfare state that, when compounded with a societal loss of the sense of the gift of life leads to a lack of the spirit of self-sacrifice necessary to bring forth new life?

If the fear was that capitalism would corrode social ties, leaving people more individualistic, it is now clear that the welfare state did not solve the problem (and might have made it worse). Far from binding people together in shared duty, its collapse at a time of high transfers but decayed intergenerational ties leaves groups—students, government workers, elderly, etc.—fighting to hold onto their piece of the public treasure.
The failure of the welfare state to create people committed to giving to others points to another of Caritas’s themes: the idea of gift. The encyclical (no. 34) emphasizes seeing everything as a gift and offering everything, including our economic activity, with that attitude. What fosters that spirit? Perhaps the best place to look is two areas where it arises most naturally: family and volunteer work/charitable giving. Within the family, people first learn what it means to experience everything, from goods to love, as freely given to them, and to freely give to others within that unit. In charitable and volunteer activity, people freely give of themselves to the needs of others.7

Marriage is under attack and has weakened in recent decades across the developed countries, from more socialist Sweden, where marriage is almost dead as a social institution, to the capitalist United States. Divorce rates, cohabitation, single parenthood, and out-of-wedlock births have soared (Popenoe and Whitehead).

Debate over the causes of this situation is highly contentious. Some claim it is the expected result of liberal (in a classical sense) society: People accustomed to living individualistically in their consumption and political choices extend that self-interested perspective to their families (Schindler). But if so, the problem cannot be restricted to capitalism (e.g., the choice mechanism), because the breakdown has extended across different types of economic systems, capitalist, socialist, and communist. Some argue that we have become too satisfied by our great wealth, too spoiled to bother working together (Fukuyama 166), while others contend the opposite: that family breakdown arises from increased economic stress (Fukuyama 163; Fogel 2000:172).

This economic stress explanation seems unlikely given that people are currently far better off by any historical or international standards than in the past and that the breakdown accelerated after a century of unprecedented gains in well-being (Fogel 2000:172; Fukuyama 164). Instead, it is reasonable to look for some factor or factors common across developed countries. Fukuyama (162–166) ascribes it to two major technical changes: birth control-abortion (Akerlof, Katz and Yellen) and the shift to a service economy. The first eroded social encouragement to marry to support a child conceived out of wedlock. The latter undermined traditional gender roles. These are economic factors but certainly are not unique to capitalism.

Additional causes posited include the rise of the welfare state and a cultural shift, especially among intellectual elites hostile to
marriage (Glenn and Sylvester). Both have also been common across a wide range of countries. Unfortunately, while cultural and public policy factors have probably been quite important, realization of this is deflected by the attraction to blaming capitalism, since it provides a convenient scapegoat for market critics on the right and left.  

Another place to examine the health of society with respect to its sense of gift is in volunteer work and charitable giving, where neither government nor business is directly involved. People have no commercial incentive to get involved with others who have no connection to them, and get little monetary gain from doing so. If capitalism fosters individualism, we should find less volunteer work in a market society and more in a socialist system.

Shockingly, studies find the exact reverse. Charitable activity—donations of both time and money—are far greater in the more capitalist United States than in European nations. As Arthur Brooks (120-1), writes,

[N]o Western European population comes remotely close the United States in per capita private charity. . . . Even accounting for differences in standard of living, Americans give more than twice as high a percentage of their incomes to charity as the Dutch, almost three times as much as the French, more than five times as much as the Germans, and more than ten times as much as the Italians

[As for] gifts of time . . . no European country reaches American volunteering levels—indeed, most don’t even come remotely close. For example, Americans are 15 percentage points more likely to volunteer than the Dutch (51 to 36 percent), 21 points more likely than the Swiss, and 32 points more likely than the Germans (fewer than one in five of which volunteer for any charities, churches, or other causes).

Why is volunteer work so much more common in the United States than in Europe? Brooks concludes that four factors are particularly critical: intact families, religious involvement, income, and skeptical attitudes towards government provision and activity. People are encouraged by faith to get involved. Limited government leaves room for individual initiative, removes the excuses and barriers to getting involved, and prevents the curse of “soft despotism” by which the population slowly lets all be controlled for them.

Wilcox adds that more extensive involvement of the state also tends to reduce church attendance directly, by reducing the number of
those who use churches’ services and come into contact with their programs, further eroding the capacity for churches to encourage both marriage and volunteer involvement. Berger concludes that capitalism tends to leave more freedom for civil society because less is under the control of the state (85). These findings indicate that the bigger threat to families and charity is likely not capitalism, but the excessive expansion of the aggressively secular welfare state.

VI. Conclusion

The title Caritas in Veritate captures the message appropriately: Development is about growth as people, in virtue, and in love for each other and for God. While government and economic structures are important, civil society, especially religion and the family, set upon a foundation of truth about man and what is good for him, is critical. In the twentieth century, this understanding was obscured by debates about the economic and political mix driven by theories that often saw religion and civil society as irrelevant, or as elements to be controlled, not as the more central locus of development. The collapse of communism as the last remaining of those theoretical mistakes should have given us the chance to reassert that truth. Christians failed to capitalize on the opportunity by joining the rest of society in a debate that moved from the type of system to the degree of capitalism, and that failure was prolonged by the financial crisis at the encyclical’s release. But the door is not yet shut. Events since then have helped bring the discussion back to the central message of the need for truth for human development. We can proclaim this message more effectively if we get the lessons of the last century straight, move away from excessive emphasis on economic factors, and keep the focus on truth.
Notes

1. An earlier version of this paper was presented at the 2009 meeting of the Society of Catholic Social Scientists.
2. While true exploitation should be condemned and addressed, we need to be careful to distinguish cases that arise from economic inefficiency (the majority) from outright oppression.
3. See *Centesimus Annus* (*CA*) no. 32.
4. This echoes one of Benedict’s points (no. 45) in the encyclical: the fact that the current economic crisis follows an explosion in discussions worldwide regarding business ethics perhaps points to the inadequacy of encouraging ethical principles in a society skeptical of truth in the first place.
5. When communism collapsed, no ground of meaning was left for nations who had traded in a Christian worldview for the new ideological ones. Years of anti-religious government policies and ideology had eroded the perception of the transcendent, leaving behind populations extremely materialistic even in the consumerist sense, even if they had few material goods to focus on.
6. Sadly, the policy, intended to make homeownership easier for poorer families, contributed to a financial collapse whose impact has been disproportionately borne by low income people generally and which will result in making mortgages far harder for them to obtain for years to come.
7. Following John Paul II before him (*CA*, no. 38), Benedict recognizes the primacy of the family before other considerations. After discussing issues of the environment, the document shifts to the family with the shockingly strong statement that the Church “…must above all protect mankind from self-destruction” (*CV*, no. 51). For all the attention often given to the treatment of environmental issues, Benedict recognizes that threats to society via collapse of marriage are more urgent.
8. This links many cultural traditionalists hostile to markets as fostering individualism and excessive consumption with many market critics who are hostile to traditional marriage itself as well as markets. This unfortunate alliance substantially undermines the capacity for Christians to engage secular opposition to traditional marriage.
References


