

**FREEDOM OF ECONOMIC INITIATIVE,  
INTERMEDIARY GROUPS, AND A  
PERSONALIST ECONOMY**

by

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**“The individual today is often suffocated between two poles represented by the State and the marketplace.” [John Paul 1991, §49].**

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**In economic affairs, as in other human activity, there are three kinds of freedom: freedom *from*, freedom *to*, and freedom *for*.<sup>1</sup> Freedom *from* means the absence of any physical constraint or psychological compulsion on a person’s acting. For example, freedom from a federal government that does not allow drilling for oil offshore; freedom from a state government that licenses casino gambling knowing that many who gamble are addicted. Freedom *to* refers to the freedom to do as one pleases, to buy and sell, to produce and consume, to borrow and lend, to hire and work, to invest, to innovate, and the like. Freedom *for* is the freedom to become a better person, to strive for human perfection by doing good and avoiding evil, by for instance submitting to the demands of the three principles of economic justice -- commutative, distributive, contributive.<sup>2</sup> Freedom *for* is called perfect freedom by some. [Dulles, p. 7]. We prefer to call it heroic freedom. It is attested to in economic affairs for instance by the first-responder, the blood and living organ donor, and the whistleblower.**

**In the following, we are concerned with four questions. What are the three ways in which decisions are made in economic affairs? What role does economic freedom play in a market economy? How important is economic freedom in a market economy? How best to preserve and protect freedom of economic initiative?**

### **WHAT ARE THE THREE WAYS IN WHICH DECISIONS ARE MADE IN ECONOMIC AFFAIRS?**

**The conventional wisdom regarding decision-making in economic affairs is that there are only two ways: the individual acting alone and the state acting collectively. Efforts to identify a “third way,” which have occupied some Catholic social economists over the years, have been largely abandoned. We are convinced, however, that there truly is a third way as indicated most effectively by Joseph Becker more than 60 years ago.**

**Society makes *three* major choices in allocating functions to its members: it**

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<sup>1</sup> Our understanding of the different types of freedom was greatly enhanced by Grisez and Shaw [pp. 1-10] and Dulles [pp. 1-9].

<sup>2</sup> Commutative justice requires the parties to a transaction to exchange things of equal value and impose equal burdens on one another. Distributive justice requires the superior to distribute the benefits and burdens of the group among his/her subordinates in some equal or proportional fashion. Contributive justice requires that insofar as a member of a group receives benefits from belonging to that group he/she must maintain and support that group.

chooses between the individual and the group, between the private and the public group, and between more and less democracy within groups. In each instance the principle of subsidiarity is a proper guide to the correct choice because the members of human society are persons, with the perfections and imperfections of persons. That is to say – taking the three justifications for the principle of subsidiarity in inverse order – rulers are not always able to do what is best for their subjects; even when they are able, they are not always willing; even when they are able and willing, the members may prefer to do it for themselves, for *even good government is not a substitute for self-government when the governed are persons.* [Becker, pp. 8-9, emphasis added].

Becker adds that subsidiarity implies that “decision making should be shared as widely as possible” and that in political affairs “maximum democracy means full and direct participation by every member in every decision the group makes.” [Becker, pp. 4-5].

Becker’s *Shared Government* is a study of the role of advisory councils in state employment security programs.

... the great growth of centralized government in the United States presents problems for liberty and efficiency and ... a prime factor in the solution of these problems is furnished by the existence of voluntary groups intermediate between the state and the individual. [Becker, p. xiii].

These advisory councils represent working examples of the third way.

Years later William Waters found it necessary to underscore the third way because even prominent Catholic social economists were losing sight of it.<sup>1</sup>

[Catholic] principles *dictate* a structure or preferred model, negatively if not positively. For example, market liberalism or *laissez-faire*, which assumes automaticity, is excluded by the principles; so is centrally planned socialism – subsidiarity does not allow it. By the time logic expunges most economic systems, one is left with an economy of group decision making, a solidarist

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<sup>1</sup> Two American Jesuit economists -- Bernard Dempsey and Thomas Divine – were instrumental in establishing the Catholic Economic Association in 1941. However, they did not speak with one voice. Dempsey was a staunch advocate of the solidarist economics of Heinrich Pesch; Schumpeter served as Dempsey’s doctoral dissertation director at Harvard University. Divine, on the other hand, championed the conventional economics of Lionel Robbins who directed his dissertation at the University of London. [Zollitsch, p. 5]. Waters contends that the orthodox economics espoused by Divine eventually that dismissed the third way became the dominant position within the Association and the *Review of Social Economy*. [Waters 1990, pp. 91-98].

one. [Waters 1993, p. 34; emphasis in original].

Though it constrains freedom *to do as one pleases*, the third way – private, voluntary group decision-making – limits the need for the state to intervene in economic affairs thereby protecting the individual from an even greater loss of freedom *from constraint*.

In addition to Becker and Waters, supporters of solidarism or intermediary bodies include Heinrich Pesch,<sup>1</sup> Gustav Gundlach, Oswald von Nell-Breuning, Joseph Schumpeter, Goetz and Henry Briefs, Richard Mulcahy, Rupert Ederer, Clifford Besse, Franz Mueller, Joseph Solterer, and Bernard Dempsey. Others, including Kenneth Boulding, James Hayes, and Walter Froehlich, have been greatly concerned with the economic agent as represented in orthodox economics in terms of strict individuality preferring instead to construct economic theory around personhood. Under Peter Danner [2002] solidarist economics has become personalist economics.

Solidarism is an economic system that is constructed around a market structure in which decision-making is shared by private persons, private groups, and public authorities but is located preferentially in private persons who notwithstanding their human imperfections have the necessary competency to know their own needs and wants and therefore should be largely free *to do as they please*, to control the process that helps them meet those needs and satisfy those wants. At times, however, private persons are unable to address their own needs and wants as for example when market forces relocate economic resources in a way that creates local pockets of unemployment and poverty or persons find themselves at cross purposes as with disputes between employers and workers. Under those circumstances, solidarism proposes the establishment of private groups such as supra-firm alliances (see below) to intervene and help these persons sort through the issues that are keeping them from serving their own best interests. These private groups are grounded in solidarity in that they arise from agreement to pursue a specific objective not as private persons acting alone but through private group action. This action is not collusive in nature as long as the parties involved are not motivated by the opportunities to exploit others not included in the group.

Following *Quadragesimo Anno* [Pius XI, §§ 75,80], these private groups represent the implementation of the principle of subsidiarity that underscores the importance of intermediary organizations between the private person on the one hand and the much

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<sup>1</sup> Solidarism is most closely associated with Pesch. For more about his work see Ederer's English language translation of Pesch's *magnum opus -- Lehrbuch der Nationalökonomie/Teaching Guide to Economics*, by Heinrich Pesch translated by Rupert J. Ederer, The Edwin Mellen Press, ten-volume set, 2002-2003. References to the works of the other persons listed here are available from the author on request.

more powerful public authority on the other hand. They have the effect of protecting the private person from a heavy-handed public authority. Moreover, by establishing themselves closer to that person those groups are able to provide greater opportunities for that person to participate actively and freely in the decision-making process. In solidarism, public authorities intervene only when the private person and private-group decision-making process break down. These private, voluntary groups agree to surrender some of their freedom *to do as one pleases* in order to protect themselves from an erosion of freedom *from constraint* when government intervenes in their affairs.

Shortly before his death in January 1950 Schumpeter spoke openly and approvingly of the reconstruction of the economy along the lines suggested in *Quadragesimo Anno* as an “alternative system to socialism that would avoid the ‘omnipotent state’” and in a private conversation with Goetz Briefs urged him and by implication his colleagues in the Catholic Economic Association to design such an alternative. [Waters 1961, pp. 136-137].

Many years later Waters insightfully set down the four hard-core principles of solidarism. First, economic decision-making is regulated by private institutions and groups in which the public authority is limited by the principle of subsidiarity. Second, the basic unit of the economy is the person whose behavior is much more erratic than the utility-maximizing individual, at times acting rationally and at other times non-rationally because the person functions in an economic environment that is at once cooperative and competitive. Most importantly, however, the person has a sacred dignity that cannot be diminished in any way whereas the individual of orthodox economics is valued instrumentally. Third, solidarism rejects the determinateness of orthodox economics and identifies economics not as a natural science but a moral science. Fourth, most fundamentally the rights of the person are not contractual in nature. They are instead inalienable because they derive from their sacred dignity. [Waters 1988, pp. 117-120].

Pope Francis recently affirmed the second and fourth hard-core principles. Man is “not simply an additional economic factor, or a disposable good, but is equipped with a nature and a dignity that cannot be reduced to simple economic calculus.” [Francis 2013b, p.1].

Pius XI repeated his advocacy of intermediary groups in *Divini Redemptoris* [§§ 32, 68]. His successors also affirmed such groups vigorously: John XXIII in *Pacem in Terris* [§§ 53, 64,

72, 130 and others], Paul VI in *Populorum Progressio* [§ 33], John Paul II in *Centesimus Annus* [§§ 13, 49], and Benedict XVI in *Caritas in Veritate* [§ 7].<sup>1</sup>

Subsidiarity is first and foremost a form of assistance to the human person via the autonomy of intermediate bodies. Such assistance is offered when individuals or groups are unable to accomplish something on their own, and it is always designed to achieve their emancipation, because it fosters freedom and participation through assumption of responsibility ... subsidiarity is the most effective antidote against any form of all-encompassing welfare state. [Benedict XVI, § 57].

At a 1946 consistory Pius XII affirmed the principle of subsidiarity: “... each social activity is by nature subsidiary; it must be a support to the members of the social body; and it must never destroy them or absorb them.” [Pius XII, 1946, pp.133-145].<sup>2</sup> Dempsey reports that Pius XII again explicitly affirmed subsidiarity in his address to the Eighth International Congress of Administrative Sciences in 1950 and by implication in his address to the Italian Federation of Commerce six years later. [Dempsey 1958, pp. 275-276]. See also the general affirmation of subsidiarity and intermediary bodies in the *Catechism of the Catholic Church* [§ 1894].

In keeping with solidarism’s contemporary rootedness in personalism, we prefer to change from “solidarist economy” to “personalist economy” where instead of referring to the economic agent as *homo economicus* we substitute the *acting person*. The essence of the difference between these two representations of the economic agent is as follows. *Homo economicus* is an autonomous, utility-maximizing individual functioning mechanically in a physical world where pleasure and pain are measured and compared in a decision-making process that is entirely rational and essentially passive. The *acting person* is an embodied spirit who addresses the needs and wants of the body and spirit in a decision-making process that is rational at times, emotional at other times, but is essentially active because the *acting person* is a living, breathing, existential actuality, not a utility-calculating machine. Positing *homo economicus* as machine-like allows orthodox economists to

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<sup>1</sup> The citations referenced here are intended to be indicative of papal support for the principle of subsidiarity and intermediate bodies over the years. They are not to be taken as exhaustive. To date, Francis has referred to subsidiarity on one occasion in an address on collegiality among the bishops of Latin America and the Caribbean (see Francis 2013a, p. 1).

<sup>2</sup> Translation from the original Italian by Dr. Anthony Cervone who for many years served on the foreign language faculty at the University of Central Florida where he specialized in the Italian language and culture.

construct an economic theory of behavior that parallels the hard sciences. The economic agent is predictable and for that reason the findings of economic analysis are presented with certainty.

*Homo economicus* relates to others in terms of the effects, so-called positive or negative externalities, that the behavior of others produces for *homo economicus*. *Homo economicus* everywhere and always is self-centered: “What’s in it for me?”<sup>1</sup> The *acting person* relates to others in terms of the positive or negative effects that the behavior of the *acting person* has on self or others. At times the *acting person* is self-centered; at other times he/she is other-centered. At times it’s “What’s in it for me?” At other times it’s “What’s in it for thee?”

*Homo economicus* springs forth from the 17<sup>th</sup>-18<sup>th</sup> century Enlightenment, the dominant western philosophy of the time – individualism – and the script stage of human communication. The *acting person* springs forth from the electronic stage of human communication and the new philosophy of the times – personalism. Even contemporary heterodox economists cling to the individual as with Davis whose *The Theory of the Individual in Economics* begins as follows: “This is a book about our understanding of the individual in economics.” [Davis 2003, p. 1]. Unlike orthodox economists who see the individual as an autonomous being, Davis asserts that he and other heterodox economists see the individual as socially embedded. Even so, he asserts that “*heterodox economics, which does not generally emphasize the individual, in fact offers elements of an adequate theory of the individual.*” [Davis 2003, pp. 16-19; emphasis in the original].

#### WHAT ROLE DOES ECONOMIC FREEDOM PLAY IN A MARKET ECONOMY?

Competition organizes economics affairs on the basis of the human disposition to undertake certain tasks individually for the individual reward. To function effectively, competition depends on society valuing economic *freedom* because how does competition come into play if human beings do not enjoy the freedom necessary to compete? Here we refer to freedom *to do as one pleases* and freedom *from constraint* by others, especially the government.

Perhaps no one depends more on economic *freedom* in economic affairs – freedom *to do as one pleases* and freedom *from constraint* -- than the entrepreneur who triggers change in five ways. In the marketplace, the entrepreneur introduces a new good or service and penetrates a new market. In the workplace, the entrepreneur utilizes different materials in the production process, introduces a new process of production, and develops a new way of

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<sup>1</sup> Mueller recently explained positive externality as follows. “I benefit from my neighbor’s education, if it makes her a more productive worker and thus increases the taxes she pays thereby lowering the tax burden on me.” [Mueller 2013, p. 13; emphasis added].

organizing, managing, administering a business enterprise. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the process of production.

Entrepreneurs are persistent. Indeed, Schumpeter identifies persistence as the key personal trait of the entrepreneur, setting him/her apart from others. The entrepreneur is dogged in the pursuit of his/her innovational ideas, and simply does not give up in the face of opposition. Entrepreneurs are visionary in the sense that they see opportunities and possibilities where others see nothing beyond the present. Large established companies resist entrepreneurial change in a way that is reminiscent of Newton's third principle of motion: for every action there is an equal and opposite reaction. Thus entrepreneurs often are associated with small companies including ones that they themselves established specifically to implement their innovational ideas. They are driven at times by the survival needs of the company, but are not always successful. However, they are more likely to accept the risk of failing and to try again in a culture where failure in business does not spell personal failure and they are free *to* act in economic affairs.

Left free *to do as they please*, successful entrepreneurs engage in a dynamic process that has two major effects. First, they create new business enterprises, new jobs, new resource requirements that translate into new opportunities for workers, resource holders, suppliers, investors, and communities. At the same time, they destroy old business enterprises, old jobs, established supplier networks that translate into financial hardship or ruin for other workers, resource holders, investors, and communities. The entrepreneur is the quintessential *person in action*.

#### HOW IMPORTANT IS ECONOMIC FREEDOM IN A MARKET ECONOMY?

John Paul spoke eloquently in 1987 about freedom in the United States on the occasion of his meeting in Miami with President Reagan to celebrate the bicentennial of the U.S. Constitution in which he describes freedom as “a great gift, a great blessing of God.” Here he means perfect freedom, heroic freedom, freedom *for* “the fullness of human life ... preservation of human dignity and ... safeguarding of all human rights.” [John Paul II 1987b, §3].

Also in 1987, John Paul made the extraordinary statement in *Sollicitudo Rei Socialis* that “... one must not overlook that *special form of poverty* which consists in being deprived of fundamental human rights, *in particular* the right to religious freedom and the right to *freedom of economic initiative*. [John Paul 1987a, §42; emphasis added].

Four years later in *Centesimus Annus* John Paul's commented further on the centrality of freedom to human nature and warns against the violent suppression of self-interest: “... where self-interest is violently suppressed, it is replaced by a burdensome system of

bureaucratic control which dries up the wellsprings of initiative and creativity.” [John Paul 1991, §25].

In that encyclical John Paul condemned socialism and provided conditional approval of the market economy by calling for “*a society of free work, of enterprise and participation.*” [John Paul 1991, §35; emphasis in original].

Elsewhere in *Centesimus Annus*, John Paul centers attention on the fundamental error of socialism.

Socialism considers the individual person simply as an element, a molecule within the social organism ... the concept of the person as the autonomous subject of moral decision disappears ... [a] person who is deprived of something he can call “his own”, and of the possibility of earning a living through his own initiative, comes to depend on the social machine and on those who control it. [John Paul 1991, §13].

John Paul’s condemnation of socialism derives importantly from the crisis in Eastern and Central Europe in 1989 where two factors played a critical role: “the violation of the rights of workers” and “the violation of the human rights to private initiative, to ownership of property, and to *freedom in the economic sector.*” [John Paul 1991, §§23, 24; emphasis added]. The historical record regarding socialism, he notes, is that human alienation has not been reduced but collectivism has only added to it. The state, he argues, is to be guided by two principles in economic affairs: subsidiarity to assure economic freedom and solidarity to defend the weak, limit the autonomy of the parties who determine conditions in the workplace, and provide basic support for jobless workers. [John Paul 1991, §§ 41, 15].

Rather than condemning profits out of hand, John Paul offers the following conditional approval: “Profit is a regulator of the life of a business, but it is not the only one: *other human and moral factors* must also be considered which, in the long term, are at least equally important for the life of a business.” [John Paul 1991, §35; emphasis in original].

Economic freedom is the foundation of the modern business economy. [John Paul 1991, §32]. Further John Paul re-affirms the Church’s commitment to freedom as a necessary condition to assure the “transcendent dignity of the person” [John Paul 1991, §46]. Here again we take his meaning as perfect freedom, heroic freedom, freedom *for personal development.*

While the right of private property assures that the goods produced belong to the person who produced them, that he can call “his own,” and who thereby has a rightful claim on the use of those goods, that claim is not absolute. There is a second claim on their use based on the principle of the universal destination of the earth’s goods that states that the

material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in their use by the right of private property. [John Paul 1991, §§30, 34].

John Paul is not alone among recent pontiffs in this matter. Francis, to illustrate, insists that "... all political and economic activity ... must ... enable the maximum expression of freedom and creativity ... while... it must promote and guarantee their responsible exercise in solidarity, with particular attention to the poorest." [Francis 2013b, p. 1].

### HOW BEST TO PRESERVE AND PROTECT FREEDOM OF ECONOMIC INITIATIVE?

The principle of subsidiarity states that (1) larger, stronger elements of society should not take on the functions of smaller, weaker elements, but instead (2) should help the smaller, weaker elements function more effectively. That means, for example, if a private company is fully capable of generating electric power, there is no need for power generation to be directly in the hands of the government. Instead, the government might offer the private company tax credits on its investments in new power generation facilities ~~in order~~ to help that company bring that power on line. It also means that if airport security, for instance, cannot be handled effectively by private companies, the federal government should intervene and take control of security. Thus, subsidiarity protects the private person from an overreaching government and helps assure that he/she will be able to act freely in economic affairs.

By affirming a strong preference for private enterprise compared to public enterprise, the principle of subsidiarity effectively decentralizes ownership and control of economic activities that in turn lead to (1) a greater diversity of goods and services produced because entrepreneurs have a freer hand; (2) a smaller risk that large-scale mistakes will be made because in general private enterprises are smaller than public enterprises; and (3) private enterprises that are more responsive to their customers because they are driven by the profit motive. The principle of subsidiarity encourages a sense of community through the establishment of private organizations midway between the state and the person.

Citing public statements by Pius XII, Dempsey 50 years ago expressed a powerful sense of urgency regarding the principle of subsidiarity and intermediary groups. Due principally to the degeneration of the guilds into a system that suppressed competition and the ideas of the French Revolution that led directly to the totalitarian state, intermediary bodies no longer have a functional role in economic affairs. [Dempsey 1958, pp. 276-277]. Accordingly, we endorse in large measure Dempsey's warning that "the state has rendered extinct all institutions governing economic life except itself." [Dempsey 1958, pp. 275-276]. However, our efforts to find and document the existence of private, voluntary intermediary groups in the United States suggest that all is not lost.

There are two kinds of intermediary bodies in the economic order that are of special interest: supra-firm alliances and inter-firm partnerships. These bodies fulfill the general functions of the “vocational groups” that Pius XI refers to in his 1931 encyclical *Quadragesimo Anno*. In contrast to orthodox economics that perceives cooperation as invariably zero-sum collusive behavior, personalist economics sees it as having positive-sum possibilities.

An inter-firm partnership is cooperation between two or more firms in which there are no new formal organizational arrangements. A supra-firm alliance is cooperation between two or more firms by means of a distinct, formal organization that has a staff and its own decision-making role. Of the two, the supra-firm alliance is the more complex organization and more subject to attack as a collusive agreement.

Cooperation and decentralization of decision-making occur *within* business enterprises and organizations as, for example, when workers are empowered to participate in decision-making through the establishment of quality circles and large companies are restructured to allow their subsidiaries more control over decisions. These too represent subsidiarity in action as “subsidiaries” implies. However, they are not addressed herein because they are already well-known and documented and in general involve a single functional unit wherein competition is subordinate to cooperation whereas partnerships and alliances occur across functional units wherein competition has to be dampened for cooperation to come to the fore.

#### **Inter-firm Partnership.**

An inter-firm partnership involves a nonformalized understanding between, for example, a producer and supplier, an employer and employment agency, an entrepreneur and a banker in which their day-to-day relationship is governed by more than the profit-maximization rule. Such an understanding may arise initially from firms’ sharing common space such as a parking lot or garage, a hallway or elevator, a loading dock or delivery agent. An understanding may arise even among competing firms that form a critical mass in one location in order to better serve each one’s best interests without exploiting the others involved. Examples abound in the United States both today and years ago: Chicago (railroads), Detroit (autos), Silicon Valley (computing), Pittsburgh (steel), Milwaukee (beer), New York (finances), Boston (medical education), St. Louis (shoes). Such partnerships, known locally as “antique alley,” “farmers market,” “restaurant row,” or “flea market,” develop even in small cities.

#### **Supra-firm Alliance.**

To be an authentically separate level of decision-making, the supra-firm alliance must be formalized and largely independent of the larger and more powerful public authority. The supra-firm alliance must be voluntary (so as not to usurp control from a member of the group that is functioning satisfactorily) and representative of the various private-individual organizations that are allied (so as to know more precisely its own domain). The supra-firm

alliance should be supportive but nonintrusive in the sense that if a member encounters organization-specific dysfunction in the workplace and asks for assistance, the group should be ready and willing to provide whatever help it can in order to deal with the dysfunction in a satisfactory fashion.

At the supra-firm level, control of the workplace proceeds not through owning property but through sharing problems. Thus, the workplace at the supra-firm level may be defined as any work site(s) where dysfunction is occurring that cannot be managed satisfactorily at the intra-firm level and where the immediately affected persons voluntarily request assistance from a private group of persons, all of whom are familiar with the work site(s), understand the dysfunction occurring there, and have some direct interest in the good or service produced there.

The supra-firm alliance is to the economic order what the vital organ is to the human body. Just as vital organs in the human body are specialized cells with a specific function that is essential to physical health and well-being, so too the supra-firm alliance is a specialized group (often, in an industry sense) of private parties to provide for the well-being of the economic order. Dysfunction is as inevitable in the economic order without such alliances as illness is in the human body with a failing or missing vital organ.

Supra-firm cooperation falls into two general classes: industry-specific and area-specific. As to the industry-specific type, the cooperating firms likely are competitors in the product market. With respect to the area-specific variety, the allies may compete in the product market and probably compete in the resource market, particularly the labor market. The following six examples reflect the great diversity of such alliances, and drive home the lesson in subsidiarity that when private enterprise acting alone cannot manage certain problems it is not necessary to turn immediately to government for assistance.

**United Way** is a well-established and highly-regarded organization operating in many U.S. cities that brings together local business enterprises and other organizations to raise funds to help those in the area who are needy. It is a prime example of a supra-firm alliance that allows the member organizations to be more effective in addressing unmet need collectively than they would be acting individually. United Way brings the source of assistance closer to the needy, enabling it to assess those needs more accurately, thereby reducing the need for government intervention.

**Advanced Book Exchange (AbeBooks)** is the world's largest online marketplace for used, rare, and out-of-print books. The exchange brings together thousands of independent booksellers worldwide. Each seller decides which books to list, their general condition, price, and other information. Buyers can browse the books through a convenient search function. The on-line exchange allows buyers to comparison shop and sellers to reach a much wider market.

**The Business Software Alliance** was established to combat piracy of software products. BSA members include among others Adobe, Apple, Borland, Microsoft, and Symantec. To help reduce the unauthorized installation of proprietary software products without a license, BSA has been supporting the preparation of an annual report on the extent of piracy and dollar losses by country every year since 1992. Unrestrained piracy takes away the economic gain (profit) necessary for private enterprise to survive and thereby destroys the very means by which new and better products and services are brought to the marketplace.

**Louisiana Offshore Oil Port (LOOP)** is a limited liability company that offloads and stores foreign crude oil from tankers for eventual transport by pipeline to refineries throughout the Gulf Coast and Midwest. LOOP was organized in 1972 and has four owners: Ashland Oil, Marathon Ashland Pipe Line, Marathon Oil, and Shell Oil. To assure the safe handling of oil from deep draft supertankers, the offloading is done at a terminal located 18 miles off the Louisiana coast in 110 feet of water. A pipeline transports the oil to onshore storage facilities and from there to the participating owners' refineries. LOOP was built and continues to operate only because the four owners understand that they can reduce the risks in offloading and transporting crude oil more effectively by working together than by operating independently. To reinforce cooperation, LOOP's board of directors is organized on the democratic principle that, irrespective of company size or ownership share, every participating company has just one vote.

Established in 1972, **PRIDE of St. Louis** is a voluntary labor-management organization in the construction industry that meets monthly to identify and deal with stress points that interfere with the completion of building projects on time and within budget. PRIDE members include representatives from the various building trades, construction firms, architectural and engineering firms, and material suppliers. It is an excellent example of private group decision-making that seeks to find ways to deal with problems in the construction industry that cannot be addressed by private individual decision-making and eliminates the need for public group intervention.

**Geismar Area Mutual Aid (GAMA)** is an organization of petro-chemical companies located adjacent to one another along the Mississippi River in Geismar, Louisiana. These companies are committed to assist a member company with trained fire-fighting and hazardous materials teams in the event of an emergency such as a fire, explosion, or accidental discharge. Its website ([www.gamaid.org](http://www.gamaid.org)) is accessible only to a member company.

United Way is an area-specific alliance. AbeBooks and Business Software Alliance are industry-specific. PRIDE, LOOP, and GAMA are both area-specific and industry-specific. The Appendix contains several other examples of supra-firm alliances.

**Cooperation Is Not Collusion.**

Ever since Smith's *Wealth of Nations* economists have stressed that competition is the force that organizes and energizes the market economy. Any effort to dampen competition, they have argued for more than two centuries, is harmful and for that reason is looked at askance.

It follows that in orthodox economics, supra-firm alliances and inter-firm partnerships are largely regarded as collusive, as deliberate efforts on the part of producers to extract from consumers by devious means what they are not able to earn honestly through competition. All such practices are characterized as zero-sum arrangements that are to be exposed and rooted out.

We are not naive in this matter. Collusion and zero-sum practices for well over a century have plagued the U.S. market economy and have been used to victimize less powerful persons such as consumers, small businesses, and taxpayers. It is fully appropriate to break up such practices and to prosecute and punish the perpetrators.

Even so, we are not blind either. Cooperation also organizes and drives the market economy, although more so in an economic order where the social value of community is prized along with the social value of individual freedom that undergirds competition.

The alliances and partnerships that we have in mind are expressions of the organizing and energizing force of cooperation. What distinguishes these alliances and partnerships from collusive arrangements is that they yield positive-sum outcomes. Rather than being condemned, these types of alliances and partnerships should be affirmed as means that ultimately help meet human material need and satisfy human wants.

Positive-sum cooperation at both the supra-firm level and the inter-firm level is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. In the United States, inter-firm and supra-firm cooperation evoke the usual resistance that all entrepreneurs encounter. The successful entrepreneur understands at least intuitively that cooperation is not a substitute for competition and that cooperation is not possible without striking a new balance between the sociality of human beings and their individuality.

## CONCLUDING COMMENTS

John Paul rejects the notion that the Church has a preferred system for organizing economic affairs. Instead he argues that economies must be organized “through the efforts of all those who responsibly confront concrete problems in all their social, economic, political, and cultural aspects, as these interact with one another.” [John Paul 1991, §43]. In this regard he underscores the importance of the market, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in

enterprise decision-making, the universal destination of the world's goods, and the legitimacy of profit. [John Paul 1991, §§43, 48, 15, 30, 35]. He rejects socialism out of hand. [John Paul 1991, §§13, 35].

How does capitalism measure up as an acceptable system for organizing economic affairs? John Paul's answer, to simplify, is that it is not acceptable if under such an economic system freedom is absolute and its ethical and religious dimensions are denied. If, on the other hand, economic freedom is not absolute, where it is constrained as we have indicated in the foregoing, that kind of economic system is acceptable. [John Paul 1991, §42].

How does a personalist economy measure up? Unlike capitalism and socialism, John Paul does not refer directly to a third way of organizing economic affairs. However, twice in *Centesimus Annus* John Paul addresses the significance of bodies in the social order between the individual on one hand and the state on the other, and recognizes that they originate in the very nature of human beings.

... the social nature of man is not completely fulfilled in the State, but is realized in various *intermediary* groups ... including economic, social, political and cultural groups which stem from human nature itself and have their own autonomy ... [John Paul 1991, §13; emphasis added].

Apart from the family, other *intermediate* communities exercise *primary* functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric ... [John Paul 1991, §49; emphasis added].

Our personal on-site experience at LOOP, PRIDE, and GAMA indicates that these private, voluntary groups emerge not to apply the principle of subsidiarity to economic affairs or to implement Catholic social teaching, but in response to problems that cannot be addressed by individuals acting alone or are better addressed through group action. The group organization is not profit-maximizing, though it can help improve the profits of its members by resolving the problems besetting those members.

The economics profession needs to recognize that besides capitalism and socialism there is a third way – a personalist economy -- to organize economic affairs. John Paul and others have supplied a modern philosophical foundation -- personalism -- to replace the absolutist individualism of the capitalist system and the suffocating collectivism of socialist regimes that he condemns in *Centesimus Annus*.

A personalist economy is organized around John Paul's recommendations from *Centesimus Annus*, specifically the following: the market, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination of the world's goods, and the legitimacy of profit. [John

Paul 1991, §§43, 48, 15, 30, 35]. The *most important* characteristic of a personalist economy is economic freedom. Its *distinguishing* characteristic is the unique role played by cooperating intermediary groups.

More work must be done to accumulate the evidence indicating that a personalist market economy offers a viable and practical “third way.” This work entails identifying intermediary bodies, especially supra-firm alliances, that are positive-sum arrangements for addressing problems in the marketplace or workplace that cannot be addressed successfully through individuals acting alone.

At a time when big government is getting bigger, creating even greater distance between decision-makers and the persons affected by their decisions, intermediary alliances based on non-collusive cooperation such as PRIDE and LOOP offer promise for slowing the growth of big government, thereby helping preserve the free exercise of economic initiative and demonstrating the viability of a personalist economy.

With its heavy reliance on intermediary groups to preserve and protect economic freedom, a personalist economy represents a viable alternative to the absolutist individualism of capitalism and the suffocating collectivism of socialism. The evidence that we have presented herein, which we submit breaks the stereotype of private group decision-making as necessarily and exclusively collusive, demonstrates that a personalist economy is more than a viable alternative. In the United States it is a functioning reality with promise of someday finally defeating socialism as the only option available for a dysfunctional capitalist economy.

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## APPENDIX

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