John Paul II and Employee Participation in Corporate Governance

Michael Lower
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IN CORPORATE GOVERNANCE

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INTRODUCTION

Employee participation is a broad term that might include codetermination measures (employee representation on the corporate board), employee representation through works councils, or collective bargaining arrangements or employee share ownership. In this article, the term will be used to refer to governance norms, institutions and practices that give individual employees reasonable opportunities to participate in the planning of the work that they do and a measure of control over how it is to be carried out. In other words, it will be used to refer to arrangements that put the employee "in charge" of his or her own work. Employee participation in the sense referred to in this article is concerned with the immediate working conditions of the individual employer and is essentially a managerial question. This article will look at what Pope John Paul II had to say about the question of employee participation in his social encyclicals and examine the reasons for the positions that he took.

It seems unlikely that a full-blown system of employee participation could be legally imposed since what is workable must depend on the specific circumstances and on the good faith of managers and employees. Still, the state might be able to play a role in setting the context by promoting a particular vision of the purpose of the corporation, and through information and consultation provisions, providing for mandatory works councils, giving tax breaks for employee share ownership, or even (most controversially) through the imposition of mandatory codetermination for some or all corporations established in its jurisdiction. John Paul II, for reasons that will be examined, was skeptical about the effects of state interference in matters that could be dealt with by organisations at sub-state level (whether private or public) or through the market. He thought, however, that as a last resort, the state could have a role in promoting and guaranteeing important elements of the common good and human rights. Whether—and how—the state should intervene

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in any particular context is not usually a matter for the Church, and John Paul II carefully distanced himself from pronouncing on the technical, political, and strictly economic aspects of the question of employee participation.

John Paul II also examined the question of the ethical relationship between labour and capital and this aspect of his teaching, with its profound implications at both the practical and theoretical levels, will be analyzed. Catholic Social Thought ("CST") magisterium (official papal teaching), starting with Rerum Novarum in 1891, had emphasized both the positive role of private property as an institution and the fact that it was ultimately subject to a "social mortgage." John Paul II developed this aspect of CST as he explored the relationship between capital and labour and stressed the profound links between the two concepts. He especially insisted on the ideas that capital should be at the service of labour and that efforts should be made to associate labour with capital ownership. These conclusions are a logical consequence of the anthropological and ethical framework within which John Paul II's encyclicals operate. This article will explain John Paul II's contribution to CST on the question of the relationship between capital and labour.

It is important to understand both what John Paul II recommends and why he does so. If followed through, his approach can make an enormous difference to individual fulfillment in the workplace, to our understanding of the relationship between ethics and economics, to the nature and social importance of the corporation and of the appropriate relationship between the corporation and the state. Each of these issues is of the utmost importance.

CST has long been associated with attempts to give employees an independent voice in economic affairs, both at the level of an entire economy and within firms. John Paul II continued and amplified these calls for workers to be made active subjects in these spheres in his trilogy of social encyclicals, Laborem Exercens, Sollicitudo Rei Socialis, and Centesimus Annus. This article will acknowledge John Paul II's debt to earlier magisterium and place his social encyclicals within the broader context of CST generally. It will be seen that John Paul II's social encyclicals bear the twin hallmarks of continuity and renewal that character-

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ize CST generally. He takes up CST's perennial principles, provides a deeper understanding and clearer explanation of them, and applies them to contemporary circumstances.

The first section of this article will explain the essential nature of CST and its relationship with other disciplines. Although CST is a branch of moral theology drawing on both Revelation and natural law theory, it is accessible to believers and non-believers alike. It deals with questions that are the concern of every human person and has a strongly philosophical flavor (both because of the questions that it is concerned with and because of the language that it uses). CST insists that every social institution should be analyzed from the perspective of concern for the individual human person; it is founded on a distinctive understanding of what makes for human self-realization and builds its social ethics on the foundations of Christian anthropology. In terms of magisterium, modern CST began with Leo XIII's *Rerum Novarum* in 1891 and was added to most recently by Benedict XVI's encyclical *Deus Caritas Est*. The first section will briefly outline the principal CST documents that are relevant to the employee participation question. It will introduce some, but not all, of CST's principles and values; the focus will be on those principles and values that are especially needed for an understanding of John Paul II's pronouncements on employee participation and share ownership.

The second section of the article considers the relevance of CST to corporate governance. From its inception, modern CST (as embodied in the series of papal encyclicals beginning with *Rerum Novarum*) has been concerned with capital-labour relations in modern industrial conditions. It has, thus, been concerned to explain the social value of private property, on the one hand, and of human work (and the worker), on the other. One of the characteristics of the modern age is that capital-labour relations are often played out in the context of some type of business organization (often a large public company). Thus, there is a need to understand, in ethical terms, the purpose of human communities such as the firm and the relationship among shareholders, employees and managers. The point of communities such as the firm and the state is that they reflect the deep-rooted human tendency to pursue the good in communion with other persons and to see that communion as itself a component of the


good life. Specifically, the firm as a collaborative relationship of workers with other workers and of workers with financiers is capable of providing a rich set of possibilities for the members of the firm to achieve their self-realization through work and provides investment opportunities for those with capital at their disposal. The firm can, therefore, play an enormous role in facilitating the efforts of employees and shareholders to achieve their self-realization. This section of the article will examine *Laborem Exercens*, John Paul II’s encyclical on the significance of human work and the ways in which it builds up both the individual and communities. It will then outline what CST says about private property as an institution. After that, it will look at ways of establishing an ethically acceptable relationship between capital and labour. Finally, it will consider what John Paul II had to say about employee participation.

A number of states have mandatory codetermination (employee representation on corporate boards) as a feature of their company law systems as well as systems of information and disclosure and works councils. This article will consider whether CST in general, and John Paul II’s social encyclicals in particular, require these systems. This raises the question as to whether or not the state (or any global or regional organization) has any right to get involved in the organization of relations within the corporation or workplace. Even if one concedes that the state has such a right, there is also the question as to whether private bargaining ought to be given preference over “statist” solutions. While codetermination, works councils, and so on may be useful for employees, they do not amount to employee participation in the full sense of the term. In the last analysis, employee participation is a managerial issue involving the question of the design of the work process. Works councils, codetermination, employee share ownership, or having a human resources director on the corporate board may be good things in their own right and useful complements to employee participation, but they are not, in themselves, employee participation.

The succeeding section of the article is especially theoretical in nature. Much contemporary theorising about corporate governance questions, such as the desirability of employee participation and employee share ownership is written by scholars from the law and economics school. In *Laborem Exercens* especially,
John Paul II had much to say about the dangers of focusing too narrowly on the economic dimension of values such as work and institutions such as property and the firm. He stressed the need to avoid reductionist approaches and to keep human well-being in its totality in view. This suggests a need to rethink the relationship between ethics and economics so that the two can work fruitfully together.

I. Catholic Social Thought

A. Nature and Sources of Catholic Social Thought

John Paul II, in both *Sollicitudo Rei Socialis* and *Centesimus Annus*, emphasized that CST is a branch of moral theology. Thus, its purpose is to analyze social institutions in the light of what Revelation has to say about the nature and vocation of the human person. CST is practical rather than speculative; it seeks knowledge for the sake of guiding decision-making and action rather than knowledge for its own sake. Moral theology is "[t]he systematic effort to discover who we are and what we are to do if we are to be fully the beings we are meant to be . . . ." CST looks at the principles that ought to govern life in society and the construction and operation of institutions (such as the firm) if social life is to facilitate the self-realization of the individual.

CST critiques social institutions (such as the state, private property and the firm with its associated governance arrangements) from the perspective of the integral self-realization of individuals. If CST interests itself in employee participation it is not because it claims any competence in finance and economics; rather, it is because of a conviction that work has an absolutely indispensable part to play in every aspect of the well-being of the employee (material, social, psychological, spiritual and so on). Further, part and parcel of being a human person is an intense desire to be in control of one's own life (especially in its most fundamental and character-forming dimensions). Thus, employee participation (as defined earlier) is of critical importance if the workplace is to make the contribution that it can, and should, make to the overall well-being of the worker.

CST is rooted in Revelation but modern CST is principally found in a series of papal encyclicals. Modern CST began with

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7. See *Sollicitudo Rei Socialis*, *Centesimus Annus*, supra note 2, at para. 41; *Centesimus Annus*, supra note 3, at paras. 54–55.
9. For a history of CST, see generally RODGER CHARLES, *CHRISTIAN SOCIAL WITNESS AND TEACHING: THE CATHOLIC TRADITION FROM GENESIS TO CENTESIMUS*.
Leo XIII's promulgation of *Rerum Novarum* in 1891 although the way for it was prepared by the practical efforts of concerned clergy and laypeople to create Christian and humane responses to the industrial revolution that swept Europe in the late nineteenth century. Leo XIII’s successors contributed to the development of CST through a series of encyclicals and radio messages. Many of the encyclicals were written to commemorate anniversaries of *Rerum Novarum*. *Laborem Exercens*, for example, came ninety years after *Rerum Novarum* while *Centesimus Annus* marked the centenary of Leo XIII’s encyclical. Also of the greatest significance for John Paul II’s social magisterium, as Samuel Gregg has shown, was *Gaudium et Spes*, one of the principal documents to issue from the Second Vatican Council. Benedict XVI’s first encyclical, *Deus Caritas Est*, is the most recent contribution to the social magisterium. In 2004, the Pontifical Council for Justice and Peace published its *Compendium of the Social Doctrine of the Church*. At a local level, Bishops’ conferences have also made contributions to CST. *Economic Justice for All*, the 1986 Pastoral Letter of the United States Bishops, is one example of such a contribution. It explains CST principles, analyzes policies and institutions in the light of them and then offers suggestions as to the sorts of reforms that might be needed to overcome injustices in United States economic life.

**B. Christian Anthropology**

CST’s principal contribution to social ethics is derived from its understanding of the human person and the purpose of human life. It draws on natural law but its deepest and most characteristic insights come from Revelation and especially from

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Annus (1998). For a shorter account showing the development of CST in both historical and conceptual terms, see generally James V. Schall, *Catholicism, Business, and Human Priorities*, in *The Judeo-Christian Vision and the Modern Corporation* 107 (Oliver F. Williams & John W. Houck eds., 1982).


reflection on the person and teaching of Christ. An understanding of Christian anthropology (the Christian vision of the nature and purpose of human life) is absolutely vital if CST is to be understood. John Paul II’s magisterium is full of reminders of the need to avoid reductive understandings of the human person (approaches that would reduce the human person to a series of social relationships, focus on the material and economic aspects of human well-being, or that would concentrate on the human person as consumer or as one who experiences pain or pleasure). Clearly, these reductive anthropological starting points have implications, unhelpful implications as it happens, for individual and social ethics.

CST is a system of social ethics; it seeks to describe the conditions that societies and their institutions need to possess in order to help individuals to live fruitful and effective lives. Christian anthropology describes who the human person is and the vocation of the human person. CST builds on this to develop a system of social ethics; it provides the ethical foundations on which any human society (including the firm) has to build if it is to be successful. CST is careful to spell out its anthropological basis because it is convinced that there is a profound and organic link between the individual and the societies of which he or she forms part. Communities exist to facilitate the efforts of each individual member to achieve integral self-realization. Thus, it is natural that the central focus of CST is to ask whether societies and social relations are so structured as to facilitate these efforts. It is also clear that this inquiry cannot begin unless one has a clear picture as to what a human person is like and what the elements of integral self-realization of the human personality are. This is why CST is built on Christian anthropology.

Christian anthropology is theological in nature. The first account of the creation of man is found in the *Book of Genesis*: “So God created man in his own image, in the image of God he created him: male and female he created them.” This is the text that lies at the heart of Christian anthropology and it imparts fundamental lessons about the dignity and the social nature of the human person. The notion that each individual human per-

15. For concise summaries of Christian anthropology, see *Gaudium et Spes*, supra note 12, at paras. 12–22 and *Compendium*, supra note 13, at paras. 105–51.


son is created in the image and likeness of God and so has an immense dignity is central to Christian ethics: what characterizes the human person is precisely the fact that he or she is an "I"—a unique and unrepeatable individual. Further, this text suggests that the human person is inherently social and is driven by a need to experience communion with other persons. God is a Trinity of Persons in communion with each other and we, likewise, are designed for life with others. In *Economic Justice for All*, the United States Bishops put it like this: "Christian theological reflection on the very reality of God as a Trinitarian unity of persons—Father, Son and Holy Spirit—shows that being a person means being united to other persons in mutual love." This idea is reinforced by the fact that God created man "male and female"; this reference to the complementarity of the sexes, with the echoes of marital communion, highlights the fact that there is something incomplete about the individual person (paradoxical as this may seem given what was just said about the dignity of the individual). The human person is called to transcend himself or herself and this transcendence, if it is to be satisfying, has to take the form of self-giving to another person (another human person such as one's spouse). In the last analysis, the human person, like it or not, is called to enter into the most thorough-going communion with God himself; human life is a search for God. The human person is designed not merely to coexist with others, but to transcend himself or herself and to be open to communion with God and others. The reference to the human person as having been created as "male and female" points to marriage as the primary, most thorough-going form of interpersonal communion (at the human level). But every dimension of human life and growth is necessarily played out in a social context and these social bonds are, themselves, an irreplaceable source of enrichment for the human personality. One can speak of a "law of the gift" written on the human heart; we are made to give ourselves to other persons (God in the first place). Reason and experience confirm the validity of this insight; not only do we need human communities to help us meet the whole range of human needs, but we also need social

18. Id.
23. Id. at para. 24.
relationships for their own sake. The human person is inherently social. As Francis Canavan puts it, "[c]ommunity is as natural to man as is individuality."24

The human person feels called to integral self-realization: to develop his or her potencies (bodily, intellectual, emotional, spiritual and so on). Each human person feels compelled to pursue his or her integral self-realization and this finds its ultimate expression in union with God. In Laborem Exercens, John Paul II explained: "Man has to subdue the earth and dominate it, because as 'the image of God' he is a person, that is to say, a subjective being capable of acting in a planned and rational way, capable of deciding about himself and with a tendency to self-realization."25 The human vocation is a call to self-realization. This point is clearly and succinctly made by Paul VI in Populorum Progressio:

In God's plan, every man is born to seek self-fulfilment, for every human life is called to some task by God. At birth a human being possesses certain aptitudes and abilities in germinal form, and these abilities are to be cultivated so that they may bear fruit. By developing these traits through formal education or personal effort, the individual works his way toward the goal set for him by the Creator.26

Later, the passage continues:

Self-development, however, is not left up to man's option. Just as the whole of creation is ordered towards its Creator, so too the rational creature should of his own accord direct his life to God, the first truth and the highest good. Thus human self-fulfilment may be said to sum up our obligations.

Moreover, this harmonious integration of our human nature, carried through by personal effort and responsible activity, is destined for a higher state of perfection. United with the life-giving Christ, man's life is newly-enhanced; it acquires a transcendent humanism which surpasses its nature and bestows new fullness of life. This is the highest goal of human self-fulfilment.27

27. Id. at para. 16.
Stephen Bainbridge has expressed dissatisfaction with the concept of self-realization. He points out that Christianity speaks of virtue and self-denial and argues that CST's insistence on the importance of the human urge to pursue self-realization is incompatible with these Christian ideals. Bainbridge goes so far as to say that Christians ought to view the search for self-actualization as quite sinful. But the concept of self-realization is firmly embedded in Christian anthropology; the human tendency to realize oneself through the pursuit of goods such as communion with others, work and so on is taken as given. It is this tendency which drives all human actions. Moreover, this view of human nature and the meaning of human actions is highly compatible with the concepts of virtue and the Christian practice of self-denial. Human virtues are habits that facilitate the pursuit of self-realization. Self-denial plays a number of important roles in the Christian life: it is both a type of prayer (an aspect of the effort to achieve union with God) and a form of discipline that helps to keep unruly passions in check. In this latter respect, self-denial makes it easier for the reason and will to take charge of the pursuit of self-realization.

Bainbridge's unease about "self-realization" does, however, suggest some important problems. There is, in fact, a danger that self-realization could be conceived as a type of moral body-building and acquire narcissistic overtones. In other words, the danger of an excessive preoccupation with the self is a real one and this may be at the heart of Bainbridge's concerns. But Christian ethics avoids this danger (though individual Christians may not always do so). Each person is primarily responsible for the direction of his or her own life. At the same time, the Commandment to love one's neighbour as oneself prohibits one from valuing one's own self-realization above that of others and calls for a positive effort to do what one reasonably can to help them. Further, communion with others and making a gift of oneself to others is an aspect of one's own self-realization.

Rationality and free will are central to our understanding of what it is to be human. Freedom is a fundamental human value and an essential element of human dignity. Although the human person may be conditioned in many ways (by heredity, upbringing, or social factors), this conditioning is not so absolute as to do away with free will. Freedom or autonomy is an abso-

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29. Id. at 782.
30. Id. at 783.
olutely central feature of the human personality. This, as will be seen later, has profound implications for social ethics. According to the Christian vision of the human person, freedom and rationality are intimately intertwined in human decision-making. Reason provides freedom with a compass and (all being well) directs it towards those choices that are consistent with human dignity and the integral self-realization of the human person. The *Compendium of the Social Doctrine of the Church* explains that freedom determines the growth of man's being as a person through choices consistent with the true good. In other words, the human personality is built up and enriched by certain types of choices. Christian anthropology is committed to the notion that there are certain goods that it is fitting for human beings to pursue, that these goods are (essentially) the same for all people and that reason is capable of discovering those goods. But these goods are capable of being integrated into a life that is successfully tending towards self-realization in myriad ways and combinations. Human freedom is best regarded as the scope for the exercise of creativity and personal taste and style as one endeavors to give effect to the tendency to self-realization through responsible and intelligent choices of actions and values.

Christian anthropology sees human nature as being flawed (but not completely undermined) as a result of original sin. The *Book of Genesis* describes a sin of rebellion by Adam and Eve that had profound consequences for the human race and for the whole of creation. The *Catechism of the Catholic Church* explains the results of original sin for Adam and Eve:

The harmony in which they had found themselves, thanks to original justice, is now destroyed: the control of the soul's spiritual faculties over the body is shattered; the union of man and woman becomes subject to tensions, their relations henceforth marked by lust and domination. Harmony with creation is broken: visible creation has become alien and hostile to man. Because of man, creation is now subject "to its bondage to decay." Finally, the consequence explicitly foretold for this disobedience will come true: man will "return to the ground," for out of it he was taken. *Death makes its entrance into human history.*

Original sin and its consequences are transmitted to the whole human race but they are overcome as a result of Christ's

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33. On original sin generally, see *id.* at paras. 385-421.
Redemption. So CST is not utopian; it takes account of the flaws in human nature and the tendency to selfishness, laziness and general back-sliding that are just as much part of the human experience as self-giving and the search for fulfilment and union with God. A workable system of social ethics has to take the whole truth about the human person, with its light and darkness, into account. Self-interest, in forms both reasonable and unreasonable, is part and parcel of daily experience. John Paul II made this comment in *Centesimus Annus*:

> [M]an, who was created for freedom, bears within himself the wound of original sin, which constantly draws him towards evil and puts him in need of redemption. Not only is *this doctrine an integral part of Christian revelation*; it also has great hermeneutical value insofar as it helps one to understand human reality. Man tends towards good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it. The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony. In fact, where personal interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity.

CST, including its calls for employee participation, can only be well understood against the backdrop of Christian anthropology, for CST explains the ethical conditions for the construction of truly human communities that are at the service of the integral self-realization of their members (whether political communities, the family or specialized communities such as the firm). In *Centesimus Annus*, John Paul II draws out the link between one’s anthropological understanding and one’s vision of life in society. His comments are specifically directed at socialism (*Centesimus Annus* was written at the time of the retreat of communism in Eastern Europe) but are clearly relevant to a wider set of approaches to social life (including one-sidedly economic approaches):

> [T]he fundamental error of socialism is anthropological in nature. Socialism considers the individual person simply as an element, a molecule within the social organism, so that the good of the individual is completely subordinated to the functioning of the socio-economic mechanism. Social-

34. See id. at paras. 599–623.
ism likewise maintains that the good of the individual can be realized without reference to his free choice, to the unique and exclusive responsibility which he exercises in the face of good or evil. Man is thus reduced to a series of social relationships, and the concept of the person as the autonomous subject of moral decisions disappears, the very subject whose decisions build the social order. From this mistaken conception of the person there arise both a distortion of law, which defines the sphere of the exercise of freedom, and an opposition to private property. 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. This makes it much more difficult for him to realize his dignity as a person, and hinders progress towards the building up of an authentic human community.36

To summarize the foregoing sketch of Christian anthropo-
logy, the human person is called to integral self-realization (to effective participation in the goods that human reason discovers to be fulfilling and worth striving for). There is great scope for creativity and self-expression in choosing precisely how to pursue the good and the human person shapes himself or herself through the exercise of this freedom. The human person is called to interpersonal communion; only the relationship with God is capable of fully satisfying this yearning for communion and self-transcendence. Original sin has introduced disorder into human nature, but has not utterly vitiated the human capacity to take meaningful steps towards self-realization.

CST seeks to explain the social conditions that make it possible for the human person to pursue the ends of human nature. On the basis of what Christian anthropology has to say, it is logical that CST should emphasise the need for social structures that facilitate social friendship, autonomy (the freedom to make one's own decisions as to how human goods are to be pursued), creativity, and self-expression (that social structures should make it possible for individuals to express their own personality creatively in their social interactions). These are indeed amongst the guiding values of CST.

36. Id. at para. 13.
C. CST Principles and Values

CST has developed a number of fundamental principles that "constitute the very heart of Catholic social teaching" and that are the "primary parameters of reference for interpreting and evaluating social phenomena", these include the dignity of the human person, the common good, subsidiarity, and solidarity. CST has also developed the principles of the universal destination of goods and of participation. CST's principles establish the ground rules for the organisation of societies that are in accordance with human dignity. The principles of the common good, of participation, of subsidiarity, and of the universal destination of goods are also highly relevant for an understanding of John Paul II's pronouncements on employee participation (although the principles are interconnected and should be thought of as constituting a unity). The principle of subsidiarity will be explored in the section of this article dealing with the relationship between the state and the firm. The concept of the universal destination of goods will be looked at as part of the discussion of the institution of private property. This section will consider the principles of the common good and of participation and their implications for CST theorizing about corporate governance and employee participation.

In contemporary society, the relationship between capital and labour occurs within the firm. The firm and its governance structures go a long way to determining, in practice, whether capital is at the service of labour or vice versa. As already seen, practical exigency and the inherently social dimension of human nature mean that we pursue our fulfilment in society (rather than as isolated individuals). There is a need, therefore, for norms and institutions that make this possible by, for example, helping to coordinate the activity of the members of the society so that they achieve their self-realization. One of CST's central principles—that of the common good—comes into play here. The Second Vatican Council provided the following definition of the common good: "[T]he sum of those conditions of social life which allows social groups and their individual members relatively thorough and ready access to their own fulfillment."

The Compendium of the Social Doctrine of the Church explains that the common good is connected to "respect for and the inte-

38. Id. at para. 161.
39. Id. at para. 162.
gral promotion of the person and his fundamental rights"\textsuperscript{41} and that the common good "has value only in reference to attaining the ultimate ends of the person."\textsuperscript{42} The common good of a community transcends its individual members so that it can be reasonable to expect individual members of a community to sacrifice certain personal interests for the sake of the common good, and the self-sacrificing member is capable of seeing the rationality and point of his or her actions. The elements of the common good are, however, at the service of its individual members and only have value to the extent that they help individual members to achieve the personal interests that brought them into membership of the community. The common good is the set of arrangements that the members of a community create (or inherit) that make it possible for them to achieve their goals more fully by cooperating with others. The common good provides the basis for a sense of shared purpose to emerge amongst the members of a community. This is the sense that they are "all in this together," all struggling for the same cause that is not only collective, but also personal for each responsible member of the community.

In the case of the firm, for example, corporate and workplace governance arrangements, managerial systems and practices, and relations with trade unions can all be thought of as being elements of the firm's common good. Their purpose is to facilitate the cooperation of management, shareholders, and employees as each of these groups (and the individuals forming those groups) tries to achieve the ends that brought them to the firm. The point of the firm is, surely, that cooperation through the firm offers employees, shareholders, and managers a richer way of achieving their goals than would otherwise be possible. This implies that management that truly understands its function will try to discover what employees and shareholders expect from membership of the firm and try to meet these reasonable expectations.

Alford and Naughton argue that the concept of the common good provides a realistic way of understanding the nature of the firm. They make a distinction between "foundational" or instrumental goods (profits) and "excellent" or inherent goods (such as human development and community). Excellent goods, they say, are those internal qualities which develop between human persons and within communities (such as friendship, personal cultivation, and moral self-possession). Although founda-

\textsuperscript{41} COMPENDIUM, \textit{supra} note 13, at para. 166.
\textsuperscript{42} Id. at para. 170.
tional goods are vital, the real purpose of human work is the attainment of excellent goods. This corresponds to John Paul II’s insistence, explained later in this article, on the priority of the subjective dimension of work (its ability to assist the self-realization of the employee). Thus, the organisational common good, according to Alford and Naughton, can be defined as “the promotion of all the goods necessary for integral human development in the organization, in such a way as to respect the proper ordering of those goods.”

They go on to suggest that agency theory creates the danger of undermining the ethical priority of excellent goods over foundational goods as well as being difficult to reconcile with the concept of the universal destination of property (discussed below). Employee ownership can help to create the conditions for the realization of the common good model of the firm because ownership is personalized and localized.

John Paul II made a vitally important contribution to an ethical analysis of the firm in *Centesimus Annus* when he said:

> In fact, the purpose of a business is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society.44

Abela finds three elements in this passage of *Centesimus Annus*: profit, service to society, and a community of persons satisfying their own needs. He argues that the third of these elements is the most innovative and controversial contribution of *Centesimus Annus* in this area. Since employees are ends, not means, one aspect of the firm's purpose is precisely to provide employment. The firm is a community of work, not a mere collection of individuals, and this suggests that one of the purposes of the firm is the creation of employment—investment decisions should bear this criterion in mind.45

CST, then, has a distinctive take on the nature and purpose of the firm. It acknowledges that, at one level, the purpose of the firm is to meet consumer demand and to make a profit. But that is not enough. The firm has social and moral goals that not only

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44. *Centesimus Annus*, supra note 3, at para. 35 (emphasis added).

presuppose achievement of the economic goal, they are superior to it. That is to say that the firm like any human society, must ultimately be understood in terms of the contribution that it makes to the self-realization of all of its members (owners, managers, and employees).46 The purpose of a business, according to CST, is to help people to develop.47 CST argues for employee participation on the basis that only participatory workplaces meet the demands of human dignity. CST’s push for employee participation does not rest on economic foundations, and it would be a mistake to suppose that CST’s analysis in this regard rests on the contention that employee participation promotes profitability.48 John Paul II makes the point that although profit is vital, it is not the raison d’etre of the firm. Rather, as we have seen, the firm exists to help shareholders and employees to achieve their own individual ends; in the last analysis, these ends are related to the quest of each individual shareholder and employee to achieve his or her own self-realization. Successful governance has to engage with the goals that employees and shareholders reasonably seek to pursue through their membership in the firm. Profitability is necessary for survival and a sign that customer needs are being well-served, but it is not the reason for which the firm exists.

CST’s normative criteria, the yardsticks that it uses to gauge the goodness of any given set of social arrangements, are justice and charity. Justice is “the constant and firm will to give their due to God and neighbour.”49 Subjectively, it is based on the will to recognize the other as a person; objectively, it is the decisive criterion of morality in the intersubjective and social sphere.50 Justice has several dimensions or aspects. One of these is the concept of social justice. This “concerns the social, political and economic aspects and, above all, the structural dimension of problems and their respective solutions.”51 Social justice is threatened by “the exclusive use of criteria of utility and ownership.”52 In a passage that has clear significance for the excessive use of market-driven and economic analyses, the Compendium of the Social Doctrine of the Church makes this point: “[T]he full truth

46. Centesimus Annus, supra note 3, at para. 35.
47. Jean-Yves Calvez & Michael J. Naughton, Catholic Social Teaching and the Purpose of the Business Organization: A Developing Tradition, in Rethinking the Purpose of Business: Interdisciplinary Essays from the Catholic Social Tradition, supra note 43, at 3.
48. See, e.g., Bainbridge, supra note 28, at 761.
51. Id.
52. Id. at para. 202.
about man makes it possible to move beyond a contractualistic
vision of justice, which is a reductionist vision, and to open up
also for justice the new horizon of solidarity and love. This
passage indicates the specifically Christian vision of justice that
links justice with charity. Love is “the highest and universal cri-
teron of the whole of social ethics.” It is the source of the values
of truth, freedom, and justice and provides the impetus for their
growth. Love presupposes and transcends justice: “No legisla-
tion, no system of rules or negotiation will ever succeed in per-
suading men and peoples to live in unity, brotherhood and
peace; no line of reasoning will ever be able to surpass the appeal
of love.” CST insists that love can renew structures, social
organisations, and legal systems from within as well as being the
motive force inspiring individual acts. One can even speak of
“social and political charity”: “[Social charity] ... makes us effec-
tively seek the good of all people, considered not only as individ-
uals or private persons but also in the social dimension that
unites them.”

II. CST AND CORPORATE GOVERNANCE

CST focuses “especially on man as he is involved in a com-
plex network of relationships within modern societies.” It
develops in part through the need to come to grips with the ethi-
cal issues posed by changing social circumstances. Indeed, CST
develops precisely through application to these changes. Rerum
Novarum was sparked by the miserable condition of the working
classes in the newly industrializing economies of Western Europe
in the latter part of the nineteenth century. In those circum-
stances there was an urgent need to emphasize the dignity and
rights of the worker and to make it clear that those rights cannot
be put at the mercy of market forces. Ninety years later, Laborem
Exercens continued to make the same point in changed circum-
stances. It seemed to John Paul II that, in 1981, the world was on
the brink of a new wave of changes that would work transforma-
tions every bit as profound as those of the industrial revolution.
These included greater automation, an increase in the cost of
raw materials used in production, growing ecological sensitivity,
and the emergence of developing countries as a force in interna-

53. Id. at para. 203.
54. Compendium, supra note 13, at para. 204.
55. Id. at para. 205.
56. Id. at para. 207.
57. Id. at paras. 207-08.
58. Id. at para. 207.
59. Centesimus Annus, supra note 3, at para. 54.
tional affairs. John Paul II predicted that these changes would “require a reordering and adjustment of the structures of the modern economy and of the distribution of work.”

There was also the prospect of unemployment (temporary, it was hoped) and of a need for retraining for some in the western world. If there was the prospect of a tailing off in the economic growth of developed countries, the other side of the coin was the prospect of a brighter future for many of the world’s poorest.

A careful comparison of *Rerum Novarum* with *Laborem Exercens* will reveal that they share the same central themes and the same concerns; both encyclicals are concerned to show the contribution of human work and the institution of private property to the development of the human personality and to society in general. John Paul II’s contribution in *Laborem Exercens* was to provide a sustained and explicit treatment of work as a human good and of the relationship between work and private property. In doing so, he drew out ideas that were present, but not analyzed in such detail, in *Rerum Novarum* and the social magisterium between 1891 and 1981.

Employee participation arrangements and the ethical aspects of channeling the employment relationship through a corporation were hardly touched on in *Rerum Novarum*, but were present in later magisterium. John Paul II, in both *Laborem Exercens* and *Centesimus Annus*, makes significant pronouncements on the essential purpose of the corporation and provides a framework for an ethical analysis of the relationship between capital and labor within the firm. At the theoretical level, CST has always sought to engage with laissez-faire capitalism and socialism. *Laborem Exercens* deepens this analysis and its discussion of the dangers of “economism” (of evaluating human work exclusively from economic and materialistic perspectives) is timely given the current dominance of the law and economics analysis of corporate governance institutions.

John Paul II provided a detailed ethical analysis of human work, primarily in *Laborem Exercens*, but also in some of his other encyclicals. He does not draw any new conclusions; a personalist understanding of the significance of human work is present from *Rerum Novarum* onwards. But *Laborem Exercens* gives sustained, explicit attention to the question in a way that previous encyclicals had not. Similarly, it dwells on the relationship between human work and the technological and financial instruments that it uses, and creates the new distinction between the “subjec-

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60. *Laborem Exercens*, supra note 1, at para. 4.
61. *Id.*
tive" and "objective" dimensions of work. Previous magisterium had given detailed attention to employee rights and Laborem Exercens seeks to add to our understanding of them and of the source of these rights. It makes a novel contribution to CST when it considers the location of the corresponding duties; it casts the net wider than just the traditional employer and, in the process, introduces into CST the categories of "direct employer" and "indirect employer."

A. Work

Laborem Exercens roots its understanding of work in Genesis:

When man, who had been created "in the image of God . . . male and female," hears the words: "Be fruitful and multiply, and fill the earth and subdue it," even though these words do not refer explicitly to work, beyond any doubt they indirectly indicate it as an activity for man to carry out in the world. Indeed, they show its very deepest essence. Man is the image of God partly through the mandate received from his creator to subdue, to dominate the earth. In carrying out this mandate, man, every human being, reflects the very action of the Creator of the universe.

Laborem Exercens introduces a distinction between the objective (or transitive) dimension of work and the subjective (or intransitive) dimension. The objective dimension of work refers to the work done, to the specific ways in which the worker (or communities or humankind in general) achieve dominion over the world's natural resources. The subjective dimension refers to the effect that working has on the worker; it focuses on the fact that work is a way for the human person to "realize his humanity, to fulfil the calling to be a person that is his by reason of his very humanity." The dominion referred to in Genesis refers both to the subjective and the objective dimensions of work, but especially to the subjective dimension: "[T]here 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


63. Laborem Exercens, supra note 1, at para. 15 (internal citation omitted).

64. Id. at paras. 16–21.

65. Id. at para. 23.
carries it out is a person, a conscious and free subject, that is to say a subject that decides about itself."

The Christian outlook on work is shaped by the fact that Christ himself was a worker:

This circumstance constitutes in itself the most eloquent "gospel of work" showing that the basis for determining the value of human work is not primarily the kind of work being done but the fact that the one who is doing it is a person. The sources of the dignity of work are to be sought primarily in the subjective dimension, not in the objective one.67

The primary purpose of work, then, is to allow the worker to fully realize his or her humanity. It can also have a profound spiritual significance for the worker. It is a way for the Christian worker to live out the call to be a co-creator and co-redeemer.68

In Laborem Exercens, John Paul II discerns three spheres of the subjective dimension of work. The first is that work, as already explained, is a means of self-realization. Second, work is the foundation of family life: it provides the means to support one's family, and work and industriousness should be learned in the family. Work is a way of being more human, and building up one's family is the main purpose of education: "[T]he family is simultaneously a community made possible by work and the first school of work."69

The third sphere of the subjective dimension of work is that it is at the service of society:

The third sphere of values that emerges from this point of view concerns the great society to which man belongs on the basis of particular cultural and historical links. This society—-even when it has not taken on the mature form of a nation—-is not only the great "educator" of every man, even though an indirect one (because each individual absorbs within the family the contents and values that go to make up the culture of a given nation), it is also a great historical and social incarnation of the work of all generations. All of this brings it about that man combines his deepest human identity with membership of a nation, and intends his work also to increase the common good devel-

66. Id. at para. 24.
67. Id. at para. 26.
69. LABOREM EXERCENS, supra note 1, at para. 43.
oped together with his compatriots, thus realising that in this way work serves to add to the heritage of the whole human family, of all the people living in the world.70

_Laborem Exercens_ deals with the question of employee rights; the worker has rights corresponding to his duty to work: the right of access to employment opportunities, to a fair wage, reasonable rest, and the right to join a trade union. CST, as we have seen, asserts that employee participation is highly desirable and, in some sense, is a right that states have a duty to promote. At the same time, it has never committed itself to the proposition that there is a right to any particular form of participation (such as codetermination arrangements).

**B. Private Property**

1. Private Property and Human Dignity

CST sees the right to own private property as a natural right that plays a crucial role in the development of the human personality. It is closely linked to work and to freedom. The ownership of private property allows one to play an active part in developing the communities of which one forms a part (especially one's family). The right to private property ownership is, however, conditioned by the fact that, in the last analysis, material creation is intended to meet the needs of each and every human person. Greed and the consumer mentality can lead to property ownership being a corrupting phenomenon. From its inception, CST has insisted that private property ownership is highly suitable for the human person. Theologically, one can point to the _Book of Genesis:_

In the very first pages of Scripture we read these words: "Fill the earth and subdue it." This teaches us that the whole of creation is for man, that he has been charged to give it meaning by his intelligent activity, to complete and perfect it by his own efforts and to his own advantage.71

The right to own private property can be seen as a requirement of human rationality. Unlike animals, the human being is capable of securing "stable and permanent possession" of material things.72 This stable possession allows the human person to make choices as to how property will be used in the future. Private property, by acting as a store of value, can help to secure a zone of autonomy for individuals and families that allows for a

70. _Id._ at para. 44.
71. _Populorum Progressio_, _supra_ note 26, at para. 22.
72. _Rerum Novarum_, _supra_ note 4, at para. 6.
more rational and creative exercise of their freedom. The point is obvious, but far from trivial. The person without any capital lives in a relatively precarious position. There is always the worry about how to meet immediate needs. This worry is alleviated, to a greater or lesser extent, by the ownership of private property. John XXIII, in Mater et Magistra, pointed to the link between private property and human freedom. Ownership of private property is a guarantee of freedom at the individual level and, experience suggests, at the level of society in general. A little later, the encyclical says the following about the link between the right to own property and economic and political freedom: "private ownership must be considered as a guarantee of the essential freedom of the individual, and at the same time an indispensable element in a true social order."

One can discern a number of links between private property and freedom. Property can be the object of free choices and these choices can have profound moral implications. Thus, from time to time, CST has talked of the owner impressing his personality on the property that is owned. This can occur through the care that is taken of the property and the ways in which the owner chooses to enhance it. The arguments in favor of a natural right to private property grow stronger when one considers that this right facilitates the observance of "man's social and domestic obligations." Private property allows the worker to provide for his or her family, a right that is closely associated with the development and continuance through time of the worker's personality. Providing for the family is not primarily the role of the state; accordingly, it is not for the state to interfere in private property rights.

Private property can also help to meet the needs of the owner's family and, more generally, allow the owner to make a contribution to the common good of the societies of which he forms a part. Mater et Magistra describes private property ownership as "a right which constitutes so efficacious a means of asserting one's personality and exercising responsibility in every field, and an element of solidity and security for family life and of greater peace and prosperity in the State."

74. Id. at para. 111.
75. Rerum Novarum, supra note 4, at para. 12.
76. Id. at para. 13.
77. Id. at paras. 13–14.
78. Mater et Magistra, supra note 62, at para. 112.
2. Private Property and Efficient Use of Resources

The connection between private property and the efficient use of resources is the rationale favored by economic theorists. CST, as has been seen, focuses on the more profoundly personalist implications of private property as an institution. CST does not deny the economic efficiency of private property as an institution; nor does it regard it as an irrelevance. Leo XIII mentions the economic justification for private property rights in *Rerum Novarum*. In the course of a lengthy and ardent defense of private property, he says that one of the evils that would attend its overthrow is that “the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry.” Ultimately, detailed exploration of the economic aspects of private property would take CST out of the sphere of moral theology and into the technical realms of economics, politics and law. These are not its areas of competence.

3. The Universal Destination of Goods

The right to own private property is, then, a natural right. It is consistent with human dignity, reflects the divine call to subdue the earth and make it fruitful, and plays a well-nigh indispensable role in allowing individuals to achieve their self-realization. At the same time, it generally leads to a better (more creative and less wasteful) use of resources than communist systems that seek to abolish the right to private property. But it is important to understand that, in the last analysis, the world’s resources are intended for the benefit of all mankind and the right to own private property has to be understood with this fact in mind.

Paul VI explained that the right to private property is subordinate to a more fundamental principle:

Now if the earth truly was created to provide man with the necessities of life and the tools for his own progress, it follows that every man has the right to glean what he needs from the earth. The recent Council reiterated this truth: God intended the earth and everything in it for the use of all human beings and peoples. Thus, under the leadership of justice and in the company of charity, created goods should flow fairly to all.

Pius XI, in *Quadragesimo Anno*, had already insisted on the social obligations attached to private property. The section on private property begins by noting the principle that created

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goods are intended to meet the needs of the "entire family of mankind." Pius XI does not discern a tension between the individual and social aspects of property rights; indeed, it is clear that he regards the two aspects as mutually reinforcing. Thus, it is desirable that as many people as possible own some property. The concept of the universal destination of the world's resources would ideally be met by a system that makes property owners of as many people as possible rather than by a system that does away with private property rights.  

4. The Role of the State Concerning Private Property Rights

The right to own property is a natural right and not the product of a concession by the state. At the beginning of Rerum Novarum, Leo XIII describes as unjust the contention that "individual possessions should become the common property of all to be administered by the State or by municipal bodies." At the same time, it is obvious that the state has a number of important roles to play if a system of property ownership is to emerge and develop in a way that meets the needs of society. This system will have to explain how the owner of a particular bundle of property rights is to be identified and precisely what the bundle consists of. It will have to deal with questions such as the mechanism for transferring ownership of property and for protecting one's property rights against would-be trespassers or infringers. It will have to incorporate some kind of system for resolving disputes between, for example, rival claimants to the same (or conflicting) bundles of property rights.

The state is not the source of the right to private property. But it does have an indispensable role to play in shaping the system of private property to meet the needs of a given society. It is a guarantor and enabler of an effective system of private property rights. Calvez and Perrin put it this way:

> At the level of natural law, or, more exactly, of the innate rights of the human person, there exists in man, independently of any empirical determination, a right to use the goods of this world. At a lower level, there is private property, a natural institution designed to give practical effect to this fundamental human right: the step from one to the other being made by a consideration of nature's exiguity and of the difficulties of sharing goods. At the lowest level, there is the positive law regarding property and its effective

81. Quadragesimo Anno, supra note 62, at para. 45.
82. Id. at para. 64.
83. Rerum Novarum, supra note 4, at para. 4.
administration in any given situation: there is no question as to whether or not private ownership should exist—that is settled—but only as to which person should hold which thing for his own.\textsuperscript{84}

The state is responsible for ensuring that the use of material resources, and the exercise of the right to private property, is directed towards the common good. It is true to say that individuals can legitimately look to the state to facilitate the exercise of private property rights. The system that emerges from this state intervention serves the common good since it facilitates, in the ways that have already been discussed, the integral self-realization of property owners and the efficient use of a society's resources.

The state is also responsible for ensuring that private property ownership is effectively harmonized with the concept of the universal destination of created goods. This might be done in any one of a very large variety of ways. A real property system, for example, that allows for new property rights to emerge from a long, continuous period of uncontested use is not only economically efficient, but also helps to prevent an unhelpful hoarding of assets that hinders a more widespread distribution of property ownership. Systems of taxation can be used to even out the distribution of wealth in ways that might serve social peace. The state can provide subsidies to would-be homebuyers so as to help them assume the mantle of property owner. Similarly, it could give tax breaks or other encouragement for employee share schemes. The list of possible tools that the state might use is almost endless. This is not a charter for out-and-out state intervention, tending almost to the communist; the principle of subsidiarity has to be respected in all of this. But it is to say that the right to property ownership, for all of its undoubted importance, is a means to an end and not something that has absolute significance.

C. Ethically Correct Understanding of the Relationship Between Private Property and Capital

\textit{Rerum Novarum} buttresses its arguments in favor of a right of property ownership with others that see the right of private property not as a prior condition for a satisfactory relationship between the worker and the object that he works on, but as the fruit of work. It is work that turns a raw material into something capable of meeting human needs and, in the process of effecting

\textsuperscript{84} \textit{Jean-Yves Calvez \& Jacques Perrin}, \textit{The Church and Social Justice: The Social Teaching of the Popes from Leo XIII to Pius XII, 1878–1958}, at 205–06 (1961).
this conversion, the object that is worked on is “humanized.” The worker, whose personality is, so to speak, impressed on the raw material, thereby acquires a property right over it. Laborem Exercens restates the same idea, but emphasizes on its personalist underpinnings:

When we read in the first chapter of the Bible that man is to subdue the earth, we know that these words refer to all the resources contained in the visible world and placed at man’s disposal. However, these resources can serve man only through work. From the beginning there is also linked with work the question of ownership, for the only means that man has for causing the resources hidden in nature to serve himself and others is his work. And to be able through his work to make these resources bear fruit, man takes over ownership of small parts of the various riches of nature: those beneath the ground, those in the sea, on land, or in space. He takes all these things over by making them his workbench. He takes them over through work and for work.

Quadragesimo Anno also deals with the relationship between capital and labor; it insists that they are mutually complementary and that there is no “iron law” to justify favoring the interests of capital and labor when it comes to distributing profit: “[I]t is wholly false to ascribe to property alone or to labor alone what has been attained through the combined effort of both.” The encyclical condemns the “false ideas,” “the erroneous suppositions” of those who propose that “all accumulation of capital falls by an absolutely insuperable economic law to the rich.”

The principal service that property renders to others is related to work:

They [the means of production] cannot be possessed against labor, they cannot even be possessed for possession’s sake, because the only legitimate title to their possession—whether in the form of private ownership or in the form of public or collective ownership—is that they should serve labor, and thus, by serving labor, that they should make possible the achievement of the first principle of this order, namely, the universal destination of goods and the right to common use of them.

85. Rerum Novarum, supra note 4, at paras. 9–10.
86. Laborem Exercens, supra note 1, at para. 53 (emphasis added).
87. Quadragesimo Anno, supra note 62, at para. 53.
88. Id. at para. 54.
89. Laborem Exercens, supra note 1, at para. 65 (emphasis added).
It is always the human person, and only the human person, who works. The use of advanced technology masks this fact but *Laborem Exercens* invites the reader to refocus on this truth: "[L]abour is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause." 90

The priority of labour over capital is one of the central themes of *Laborem Exercens*. The encyclical understands "capital" to refer to the means of production, to the various inputs into the labour process. Particularly as modern technology becomes more sophisticated, there is always the danger that one will come to invert the relationship between capital and labour. There is the risk, that is, of coming to believe (perhaps without even giving verbal expression to the belief) that the human person is the servant of the machine (and of the money that bought the machine). Logically, this will have consequences at the levels of law, policy and practice. *Laborem Exercens' insistence on the ethical primacy of labour over capital seeks to inoculate against this possible risk. It points out that capital is, in fact, the product of human work and provides new ways for the worker to carry out his or her work; its value and sophistication should not be allowed to mask its subordinate status. A clear-sighted and determined hold on this is of vital importance to sound social and economic policy." 91

A labour system can be right, in the sense of being in conformity with the very essence of the issue, and in the sense of being intrinsically true and also morally legitimate, if in its very basis it overcomes the opposition between labour and capital through an effort at being shaped in accordance with the principle put forward above: the principle of the substantial and real priority of labour, of the subjectivity of human labour and its effective participation in the whole production process, independently of the nature of the services provided by the worker. 92

*Laborem Exercens* calls for a "constructive revision of the concept of ownership" that would reflect the ethical analysis just presented. Proposals for joint ownership, profit-sharing, and employee participation in management all make sense in the light of CST's insistence that employers, managers, legislators (and anyone else with responsibility for the design and implementation of governance mechanisms) should engage in a

90. *Id.* at para. 52.
91. *Id.* at para. 12.
92. *Id.* at para. 58.
search for ways to recognise the “subjectivity” of the worker. These mechanisms should give the worker a sense of being “in charge” of his or her work and of overcoming the tension that exists between capital and labour by reflecting the fact that the importance of capital (the means of production) lies in its ability to capture the fruits of human work and to enhance human work. The encyclical clearly indicates ownership structures should change so as to lead the employee to believe that he or she is “a part-owner of the great workbench at which he is working with everyone else.” It suggests some ways forward:

A way towards that goal could be found by associating labour with the ownership of capital, as far as possible, and by producing a wide range of intermediate bodies with economic, social and cultural purposes; they would be bodies enjoying real autonomy with regard to the public powers, pursuing their specific aims in honest collaboration with each other and in subordination to the demands of the common good, and they would be living communities both in form and in substance, in the sense that the members of each body would be looked upon and treated as persons and encouraged to take an active part in the life of the body.

Gates points out that today’s system of free enterprise is radically defective because wealth, within and across nations, is concentrated in the hands of a few individuals. Further, as currently organised, the capitalist system makes this inequality steadily worse since corporate wealth flows to financiers, not employees, a trend that will be made more pronounced by globalisation. He argues, however, that capitalism can be reformed so as to spread wealth more widely, and he believes that the key to this is to reduce levels of concentration of share ownership. His proposed remedy is that governments should encourage employee stock option plans (ESOPs) through tax-breaks and other measures. This would benefit individuals (as they experience the financial and psychological benefits of property ownership), firms (who benefit from the increased commitment of employee-owners), and political society (inevitably harmed by grossly inequitable disparities of wealth). He believes that this sort of remedy is what John Paul II called for.

93. Id. at para. 14.
94. Id. at para. 69.
95. See Jeff Gates, Reengineering Ownership for the Common Good, in Rethinking the Purpose of Business: Interdisciplinary Essays from the Catholic Social Tradition, supra note 43, at 264.
D. Employee Participation

This lengthy explanation of CST's nature, principles, and values has been necessary for two reasons. First, it shows that John Paul II's magisterium, including his magisterium on capital-labour relations, is very much in line with previous magisterium (which, in turn, seeks to safeguard and make use of the deposit of faith). The theme of employee participation does not emerge from nowhere in the social magisterium of John Paul II. It is present in an implicit way in *Rerum Novarum* and more explicitly in *Quadragesimo Anno*. Calvez and Naughton describe the emergence of the theme of employee participation in modern CST.96 *Rerum Novarum* made no reference at all to the enterprise, but it was dealt with in later magisterium. *Gaudium et Spes*, says:

In economic enterprises it is persons who are joined together, that is, free and independent human beings created to the image of God. Therefore, with attention to the functions of each—owners or employers, management or labour—and without doing harm to the necessary unity of management, the active sharing of all in the administration and profits of these enterprises in ways to be properly determined is to be promoted.97

In one sense, then, John Paul II says nothing new: the essential themes of his encyclicals had already emerged in previous magisterium. John Paul II's magisterium does, however, bring a new depth to the analysis of certain themes, especially that of human work. This analysis led John Paul II to conclude that human work is at the heart of modern CST because of its fundamental importance for the development of the individual human person and because of its capacity to create and build up human communities.

Codetermination had been a theme of previous magisterium. Pius XI affirmed the legitimacy of the employment contract under which the employee receives a salary but does not receive a share of the profits or have a formal governance role. He nevertheless considered it “more advisable” to modify the employment contract to give a “partnership” feel to it, so that employees would participate in ownership, management or profits.98 John XXIII continued this approach in *Mater et Magistra* arguing that it would be appropriate for employees to have a share in the ownership of the firm. He suggested that this is a

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96. See Calvez & Naughton, supra note 47.
97. *Gaudium et Spes*, supra note 12, at para. 68.
demand of justice because employees' work is one of the principal causes of the increased value of the firms that employ them. Justice demands that they share in this profitability.\footnote{99} A little later, Mater et Magistra looked at the idea of participation in the sense intended by this article. John XXIII powerfully asserted that participation is an employee right. The terms in which he speaks are especially clear when one compares them with the somewhat qualified way in which he speaks of employee share ownership:

Consequently, if the whole structure and organisation of an economic system is such as to compromise human dignity, to lessen a man's sense of responsibility or to rob him of opportunity for exercising personal initiative, then such a system . . . is altogether unjust—no matter how much wealth it produces, or how justly and equitably such wealth is distributed.\footnote{100}

John Paul II's teaching on the theme of employee participation is found, most explicitly, in Laborem Exercens. The encyclical begins with a discussion of the central importance of work for the development of the human person and for social life. Then, in paragraph six, it turns to the idea that man, the human person, is the subject of work. Man is made in the image and likeness of God; he is a person, that is "a subjective being capable of acting in a planned and rational way, capable of deciding about himself, and with a tendency to self-realization."\footnote{101}

The human person realizes himself or herself through rational and planned activity. Work, as we have seen, has a very special part to play in achieving self-realization, in building up one's humanity. Through work, the human person not only meets basic needs but also develops a number of qualities that recognisably make someone a better person. These include industriousness, a capacity for sustained hard work, and, crucially, the ability to play a part in the planning of one's own work. Through work, the human person establishes a properly human relationship between himself or herself and the object worked on; the worker dominates the thing being worked on (whether material or immaterial) making it useful and, in a sense, impressing his or her personality upon it. Work also has an end product, it results in some good or service that is of use to others. Thus, work has a social element; it is one's way of serving others and making a contribution to the common good. To work, in

\footnotesize{99. Mater et Magistra, supra note 62, at paras. 75–77.}  
\footnotesize{100. Id. at para. 83.}  
\footnotesize{101. Laborem Exercens, supra note 1, at para. 23.}
the fullest sense of the word, is a distinctively human activity. It corresponds to the Creator’s call to subdue the earth. Work is not an end in itself; its importance lies in its ability to build up the humanity of the worker.

These considerations are at the heart of CST’s insistence that employee participation is highly desirable. Each worker is a person and, partly through his work, is called (there is no better word since the call is present, like it or not, and the call may go unheeded) to fulfill himself or herself in and through work. It can only do this if the effort is free and self-directed; otherwise it is alienating and may be thought of as a type of slavery. And so, the essence of the “worker question” that prompted *Rerum Novarum* was “the degradation of man as the subject of work.”

*Laborem Exercens*’ most specific pronouncement on employee participation reads as follows:

We can speak of socializing only when the subject character of society is ensured, that is to say, when on the basis of his work each person is fully entitled to consider himself a part-owner of the great workbench at which he is working with every one else. A way towards that goal could be found by associating labor with the ownership of capital, as far as possible, and by producing a wide range of intermediate bodies with economic, social and cultural purposes; they would be bodies enjoying real autonomy with regard to the public powers, pursuing their specific aims in honest collaboration with each other and in subordination to the demands of the common good, and they would be living communities both in form and in substance, in the sense that the members of each body would be looked upon and treated as persons and encouraged to take an active part in the life of the body.

Like previous CST, it insists on the need for participation but leaves open the institutional measures to be introduced to give effect to it since what is desirable and workable will vary according to circumstances of time and place.

But what does employee participation do to assist the growth of employees as persons? Some answers to this question have already been given. We can develop a number of virtues at work (a habit of working hard being the most obvious). If jobs are well-designed, they can create opportunities for workers to

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102. *Id.* at para. 83.
103. *Id.* at para. 69.
acquire managerial and entrepreneurial skills. To appreciate the ethical importance of employee participation we have to recall the central place that freedom occupies in Christian anthropology. Freedom is at the heart of the moral life, of an effective quest for self-realization. The human person achieves self-realization through the vast number of practical decisions made each day. These decisions shape our personalities for good or ill; external actions (as well as internal thoughts and desires) have a profound effect on our interior world. A consistent course of acting in ways that are good for a human person (working hard and effectively, for example) creates a tendency to repeat those good actions (a virtue). And so it enhances the personality, making one more of a person. Free actions (actions that are not performed under the force of coercion or blind impulse) have this effect. Freedom exercised with respect for the truth about the goods that fulfill a human person is an important human value because it is central to the human quest for self-realization. The work of a slave, carried out for no other reason than fear, will be very much less effective in building up the humanity of the slave than would be the same task carried out freely.

Personal freedom remains vitally important for individual moral growth or self-realization even in the case of actions that the individual performs as part of a collective effort. Work in collaboration with others will only serve the cause of individual self-realization if it is in some real sense self-directed. Naturally, when work is carried out as part of a contribution to a collective effort, the scope for personal initiative will have to be compatible with management's authority to give firm direction for the sake of the common good. It seems that one of the major causes of failure of cooperative firms has been the lack of firm and effective management. But within this obvious constraint, the scope for individual initiative needs to be maximised for the reasons already given.

CST captures this idea in its principle of participation. This is "expressed essentially in a series of activities by means of which the citizen, either as an individual or in association with others, whether directly or through representation, contributes to the cultural, economic, and social life of the community to which he

The opportunity to make a contribution to the life of one's communities, and acceptance of those opportunities, are important for human growth. This is, of course, also true of communities related to work and economic activity. Participation is linked to subsidiarity (the state's effort to foster the autonomy of intermediate bodies such as the firm) in the obvious sense that subsidiarity decentralizes decision-making precisely so as to create a rich diversity of self-governing social groups. Clearly, this increases the scope for individual participation in the decision-making processes of at least some of the groups to which one belongs. The importance of the linked principles of subsidiarity and participation for the theme of employee participation in corporate governance need hardly be emphasised. These principles, properly understood, go a very long way to providing an explanation for CST's insistence on employee participation as a human value.

Murphy and Pyke emphasize the role of the manager in determining whether or not work plays the part it should in the development of the worker as a human person. They refer to studies showing that monotonous and repetitive work causes the deterioration of the cognitive and moral capacities of workers. Managers cannot turn boring jobs into exciting jobs. They can, however, do much to help create humane work places and to add an intellectual and creative element to workers' jobs. This can be done, for example, by involving employees in team discussions to look at improvements. Employees can be given a role in hiring decisions and can be given training to become team leaders. They can be asked to visit suppliers and customers.

Chmielewski emphasises that if, as John Paul II urged, workers should be made to feel that they are working for themselves, then they must be given the opportunity to exercise not only their freedom but also their intelligence. This, in turn, implies that they should be adequately informed about the life of the corporation in general as well as about production processes. They will need to be trained so that they can cooperate effectively with management. Workplace structures (such as works councils, employee representation on the board of the corporation and so on) can play their part in helping employees to achieve the insights into the strategies and goals of their col-

105. Compendium, supra note 13, at para. 189 (emphasis omitted).
106. Id.
108. See Murphy & Pyke, supra note 104.
leagues that a participatory approach requires. Chmielewski concludes, however, that in the last analysis, participation requires that “[p]ersons invest themselves, speak and act—across the ranges of family, civil society and government—in and through their work.”

Employee participation, then, is intimately linked to a more general drive to make people the active subjects of the communities in which they live. Habits and mental attitudes formed in participatory workplaces have positive implications for society at large.

III. THE ROLE OF THE STATE IN PROMOTING EMPLOYEE PARTICIPATION

Employee participation, it will be recalled, has been defined in this article to mean governance norms, institutions and practices that give individual employees reasonable opportunities to participate in the planning of the work that they do and a measure of control over how it is to be carried out. The previous sections of this essay have explained why CST places such emphasis on the subjective dimension of human work (on the capacity of work to develop the human personality and to build communities). We have seen that one of the characteristics of the human person is a strong inner tendency to pursue self-realization in a freely self-directed way. Thus, it is important not only to do “the right thing” but to do it because it is what one has freely chosen to do (though free choice is compatible with a sense that it is one’s duty or will be fulfilling in the long term but painful or tedious in the short term). For this reason, John Paul II has pointed out the dangers inherent in bureaucratic structures where the worker is given no room for the exercise of initiative. Whether or not the workplace allows for this type of creativity is a question for the firm’s executives in the first place. This section of the article looks at the role that the state might play in the process.

Pacem in Terris sketches the moral foundations of political authority. It explains that the state’s purpose is to serve the common good which is intimately bound up with human nature. In striving for the common good, the state must take into account the hierarchy of human values by promoting the

109. Chmielewski, supra note 107, at 504.
110. POPE JOHN XXIII, PACEM IN TERRIS: ON ESTABLISHING UNIVERSAL PEACE IN TRUTH, JUSTICE, CHARITY AND LIBERTY para. 54 (1963) [hereinafter PACEM IN TERRIS].
111. Id. at para. 55.
spiritual, as well as material, prosperity of its citizens. The state’s principal contribution to the common good is to ensure that human rights “are recognized, respected, coordinated, defended, and promoted, and that each individual is enabled to perform his duties more easily.”

The state has a coordinating role to play, ensuring that one person’s exercise of his rights does not prevent others from doing the same nor prevent others from carrying out their duty. Similarly, the essence of law is to coordinate; it provides a framework within which the activity of the state is to take place and it coordinates the relations of citizens inter se as they exercise their rights and fulfill their duties. In addition to its role as coordinator-protector, the state has a second duty, that of promoting the rights of citizens. Depending on circumstances, the state might have a positive duty to try to raise the level of participation in the various aspects of human growth already outlined in the encyclical. Thus, efforts to increase the educational levels of employees, their capacity to take part in workplace governance, and their ownership of private property—possibly even shares in their employer—would all be ways in which the state could promote employee participation. John XXIII hinted at how the state might promote the rights of employees: “It must make sure that working men are paid a just and equitable wage, and are allowed a sense of responsibility in the industrial concerns for which they work.” It is clear then that CST does see a role for the state in encouraging employee participation. But this raises the fraught question of the relationship between the state and the enterprise. Is the firm simply an extension of the state? Does the state have the right and duty to intervene extensively in the firm’s management? At this point it is worth recalling CST’s principle of subsidiarity. Reference to the principle of subsidiarity has been a constant feature of the modern social encyclicals. The best-known articulation of the principle, however, is to be found in Pius XI’s Quadragesimo Anno:

Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and

112. Id. at para. 57.
113. Id. at para. 60.
114. Id. at para. 62.
115. Id. at para. 68.
116. Id. at para. 64.
subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them.\footnote{117}

The rationale for CST's principle of subsidiarity is that it helps to promote human dignity; it is not, primarily, an attempt to intrude on technical quibbles about how bureaucracies should distribute power between their various tiers: "This principle is imperative because every person, family and intermediate group has something original to offer to the community."\footnote{118} Failure to respect the principle of subsidiarity "limits and sometimes even destroys the spirit of freedom and initiative."\footnote{119} So the principle of subsidiarity seeks to allow individuals the space to play a creative part in contributing to the common good of the communities of which they form a part. It is linked to the values of freedom and charity.

The principle of subsidiarity has both positive and negative elements. In its positive sense, it requires higher level groups (such as the state) to provide help \textit{(subsidium)} to lower level groups if the latter need this help in order to function autonomously. In its negative sense, it prohibits higher level groupings from absorbing the functions of lower level groupings; the state, for example, should not crowd out families, privately-owned businesses, non-profit making organisations and so on. The principle of subsidiarity does not mean that the state never has a role in meeting needs that could, in principle, be met by individuals or by the lower level groupings that make up civil society. If important needs are not being met the state may need to step in to supply certain functions for the sake of the common good. But this intervention should be seen as something exceptional and should cease once lower level groupings emerge that are able to meet the relevant needs.\footnote{120} The principle of subsidiarity suggests that this role will never be the primary role; it is obviously highly desirable that employee participation arrangements should reflect the circumstances, concerns and desires of local management and employees, as well as be compatible with the reasonable concerns of shareholders. But employee participation arrangements might be blocked by recalcitrant shareholders or employees. So the state can play a useful role either through informal encouragement or by enacting framework legislation.

\footnote{117. \textit{Quadragesimo Anno}, supra note 62, at para. 79.}
\footnote{118. \textit{Compendium}, supra note 13, at para. 187 (emphasis omitted).}
\footnote{119. \textit{Id.} at para. 187.}
\footnote{120. \textit{Id.} at para. 188.}
John Paul II's distinction between direct and indirect employer makes it very clear that the state has an ethical responsibility for securing employee rights. *Laborem Exercens* makes a major contribution to thinking about employee rights by creating a much richer framework for thinking about the allocation of the duties corresponding to those rights. It introduces the concepts of direct and indirect employers. The direct employer is "the person or institution with whom the worker enters directly into a work contract." The indirect employer "includes both persons and institutions of various kinds, and also collective labour contracts and the principles of conduct which are laid down by those persons and institutions and which determine the whole socioeconomic system or are its result." The state is the first "indirect employer." While responsibility for respecting or promoting employee rights falls primarily on the direct employer, there is a true ethical responsibility on all those who have a role in shaping the labour contract and all of the other interlinking systems (collective bargaining, managerial arrangements, and corporate financing arrangements) that help determine whether or not the rights of employees are secured. The idea of the nation state as a complete autarky is now so obviously a fiction that the concept of indirect employer would also include regional and international organisations, such as the European Union, the United Nations, and especially the International Labour Organization. In the corporate governance context, other "indirect employers" are major shareholders, institutional investors and the bodies that promote their interests. CST acknowledges that, in a globalized world, it is highly unlikely that individual states will be capable, acting alone, of securing all employee rights. The difficulties posed by the ability of capital to relocate anywhere in the world are well-known. Regional organizations (such as the European Union) and global organizations (such as the International Labour Organization and the Organization for Economic Cooperation and Development) have potentially important roles to play. There is much to be said for involving multinational enterprises in the task of agreeing upon employee participation standards.

The direct employer is the party primarily responsible for securing employee rights. But the indirect employer is also subject to an ethical responsibility, though one that is less intense than that of the direct employer. The nature and extent of the responsibility of the indirect employer will vary according,

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121. *Laborem Exercens*, *supra* note 1, at para. 76.
122. *Id.* at para. 77 (emphasis added).
amongst other things, to its ability to influence the working conditions of the employee. The concept of the indirect employee is, at least in part, a reminder that moral obligations may go wider than strictly legal obligations. In this sense, it is an appeal to the consciences of those people and institutions that can reasonably be expected to play a part in protecting employee rights.

The role of the state (or federation of states) is to promote the common good and to do what it can to ensure that the human rights of each individual member are respected. Putting it another way, the state’s role is to establish and protect the mechanisms that will allow the individuals for which it is responsible to pursue their own self-realization in a collaborative effort with other individuals. But this does not mean that the state needs to legislate on every issue for which it is responsible. If matters can be arranged satisfactorily without state intervention then it is preferable for the state to abstain from interference. Bainbridge is right to assert that it is better in principle for employee participation arrangements to emerge through private bargaining between management, shareholders and employees than to be imposed by the state. As he points out, mandatory schemes might be infested by interest group politics and a “one size fits all” approach might leave everyone worse off. The principle of subsidiarity suggests that the state should intervene only when the market fails to deliver a humane outcome. Even then, its intervention should be as “light-touch” as possible. Participatory arrangements that are the result of bargaining between the affected actors are, in principle, to be preferred over those imposed by the state. Mandatory participation should be seen as a last resort. A fair and attentive reading of John Paul II’s magisterium will not reveal any kind of preference for “statist” approaches.

IV. Economism

A lot of contemporary theorizing about corporate governance looks at the firm as being an economic institution concerned primarily, or exclusively, with the need to maximize profit. This leads many to the conclusion that the firm exists purely to protect the interests of shareholders. As we have already seen, this is not the perspective taken by CST, which sees the firm as a common good of its shareholders, managers and employees. But this divergence concerning the understanding of

123. Bainbridge, supra note 28, at 771-73.
the nature of the firm reflects a much deeper conceptual division concerning the relationship of economic values to other human values. CST accepts that human decision-making, both individual and social, has an economic element. But it insists that economic values should not be absolutised, that other values have to be taken into account in human decision-making and that there are human values that are superior to economic values and will, if necessary, "trump" economic values in the pursuit of a "happy" or realized human life. Thus, CST insists that human decision-making has to be linked to the truth about the human person even when economic values clearly enter into the equation.

This anthropological and ethical position has implications for one's understanding of the forces that shape, or should be allowed to shape, the governance of the economy and, in general, of life in society. CST, as we have seen, points to the common good as being the central concern of the state and to justice and charity as the directing norms of social activity. So it has always opposed the arguments of those who make economic efficiency the dominant tool for understanding social institutions and for policy-making. This means that CST also opposes the idea, at least in its radical forms, that laws, norms and practices are not truly the subject of free choices but have evolved in a deterministic fashion according to the laws of economic efficiency. CST does not deny that economic efficiency is a factor. It does, however, insist that laws and so on should be guided and evaluated by a proper understanding of the common good and that where economic values run counter to the demands of human dignity, then the latter should take precedence. Taking this approach means that law-makers will have to be prepared in principle to abandon the comfort zone of purely technical, economic decision-making. In the last analysis, CST contends, this will make good economic sense as well as good moral sense. On a more positive note, CST has often spoken of a right of economic initiative and John Paul II went out of his way to speak positively of the role that markets can play in the service of human self-fulfillment.

An earlier part of this essay considered the anthropological basis of social ethics. It showed that one's understanding of the human person colors one's conception of social life and of the relationship of the individual to the societies of which he or she forms part (and especially to the state). One of the central

125. See, e.g., Daniel R. Fairchild, Economic Efficiency, Growth, and the Catholic Vision of Economic Justice, 6 LOGOS 100 (2003) (showing the scope for taking economic analysis into account in pursuit of policy goals suggested by CST).
themes of *Centesimus Annus*, is that an inadequate anthropology can lead to the destruction of societies. And one of the main temptations, today at least, is to give excessive emphasis to material and economic factors.\(^{126}\) Material and economic progress are vital aspects of human self-fulfillment, but only on the condition that they do not assume too great an importance for individuals and societies. If they are not guided by an integral vision of what makes for human self-fulfillment, then they lead to "stultified moral development."\(^{127}\) Similarly, development has to be understood in terms that are fully human and not in merely economic terms:

> It is not only a question of raising all peoples to the level currently enjoyed by the richest countries, but rather of building up a more decent life through united labor, of concretely enhancing every individual's dignity and creativity, as well as his capacity to respond to his personal vocation, and thus to God's call. The apex of development is the exercise of the right and duty to seek God, to know him and to live in accordance with that knowledge.\(^{128}\)

The developed countries are often prone to "an excessive promotion of purely utilitarian values... making it difficult to recognize and respect the hierarchy of the true values of human existence."\(^{129}\)

*Quadragesimo Anno* made the point that the economic and moral orders are not distinct from each other. *Rerum Novarum*, the foundation on which the social encyclicals are laid, addressed the moral questions raised when relations between employers and employees were based upon a purely economic understanding of human life. This resulted in wages being set at subsistence levels according to the laws of supply and demand. *Quadragesimo Anno* takes up the theme noting that those who benefited from these arrangements were happy to take comfort from the idea that their opulence, as well as the crushing poverty of the majority, were "the result of inevitable economic laws."\(^{130}\) It is easy to appreciate that this is a comfortable position for financiers who do well out of employment contracts shaped exclusively by freedom of contract. It also appeals to those of a purely technical cast of mind who would like to see the art of government reduced to the application of quantitative techniques. This

\(^{126}\) *Centesimus Annus*, supra note 3, at para. 24.

\(^{127}\) *Populorum Progressio*, supra note 26, at para. 19.

\(^{128}\) *Centesimus Annus*, supra note 3, at para. 29.

\(^{129}\) *Id.*

\(^{130}\) *Quadragesimo Anno*, supra note 62, at para. 4.
approach also rests on the idea of a radical division between the technical, economic realms and the ethical sphere. But Quadragesimo Anno made the point that this division is ill-conceived:

42. Even though economics and moral science employs each its own principles in its own sphere, it is nevertheless an error to say that the economic and moral orders are so distinct from and alien to each other that the former depends in no way on the latter. Certainly the laws of economics, as they are termed, being based on the very nature of material things and on the capacities of the human body and mind, determine the limits of what productive human effort cannot, and of what it can attain in the economic field and by what means. Yet it is reason itself that clearly shows, on the basis of the individual and social nature of things and of men, the purpose which God ordained for all economic life.

43. But it is only the moral law which, just as it commands us to seek our supreme and last end in the whole scheme of our activity, so likewise commands us to seek directly in each kind of activity those purposes which we know that nature, or rather God the Author of nature, established for that kind of action, and in orderly relationship to subordinate such immediate purposes to our supreme and last end. If we faithfully observe this law, then it will follow that the particular purposes, both individual and social, that are sought in the economic field, will fall in their proper place in the universal order of purposes, and We, in ascending through them, as it were by steps, shall attain the final end of all things, that is God, to Himself and to us, the supreme and inexhaustible Good.\textsuperscript{131}

Paul VI, spoke of concepts that had “insinuated themselves into the fabric of human society”: “These concepts present profit as the chief spur to economic progress, free competition as the guiding norm of economics, and private ownership of the means of production as an absolute right, having no limits nor concomitant social obligations.”\textsuperscript{132} But Paul VI insisted that “economics is supposed to be in the service of man.”\textsuperscript{133} Later in the same encyclical, he said, “[e]conomics and technology are meaningless if they do not benefit man for it is he they are to serve. Man is truly human only if he is the master of his own actions and the

\begin{itemize}
\item \textsuperscript{131} Id. at paras. 42–43.
\item \textsuperscript{132} Populorum Progressio, supra note 26, at para. 26.
\item \textsuperscript{133} Id.
\end{itemize}
judge of their worth, only if he is the architect of his own progress."\textsuperscript{134}

John XXIII, in \textit{Mater et Magistra}, cautioned against acceptance of economic determinism in one’s approach to social ethics:

\begin{quote}
[G]rowth in the social life of man is not a product of blind impulse. It is . . . the creation of men who are free and autonomous by nature—though they must, of course, recognize and, in a sense, obey the laws of economic development and progress, and cannot altogether escape from the pressure of environment.\textsuperscript{135}
\end{quote}

And Paul VI echoed this, saying that “[i]ndividual initiative alone and the interplay of competition will not ensure satisfactory development.”\textsuperscript{136} He saw a role for the state in co-ordinating economic activity.

CST does, however, see markets, and the self-interest that drives them as having a valuable role to play. In \textit{Centesimus Annus}, John Paul II pointed out the absolute need to allow reasonable scope for the recognition of self-interest in the organization of social life.\textsuperscript{137} CST has always been open to the idea that the market has a valuable part to play in the organization of economic life. Economic life, participation in the market, can promote virtues such as trustworthiness, truthfulness and hard work; the suppression of markets can lead to the denigration of these positive character traits.\textsuperscript{138} \textit{Centesimus Annus} returns to the same theme, that of the virtues associated with enterprise. And it makes the point that freedom is the basis of “the modern business economy.”\textsuperscript{139} But markets are not morally autonomous. That is to say that the demands of justice are as applicable to markets as they are to any other type of human relationship. Further, economic decisions are free decisions of individual human persons. In \textit{Economic Justice For All}, the United States Bishops made the point that “the economy is not a machine that operates according to its own inexorable laws.”\textsuperscript{140} Paul VI pointed out that market prices can be unfair because of inequality between the parties. And, in any event, he suggests that the fact that a

\begin{footnotesize}
\begin{enumerate}[134.]
\item \textit{Id.} at para. 34.
\item \textit{Mater et Magistra}, \textit{supra} note 62, at para. 63.
\item \textit{Populorum Progressio}, \textit{supra} note 26, at para. 33.
\item \textit{Centesimus Annus}, \textit{supra} note 3, at para. 25.
\item \textit{Id.} at para. 27.
\item \textit{Id.} at para. 32.
\item \textit{National Conference of Catholic Bishops}, \textit{supra} note 14, at para. 135.
\end{enumerate}
\end{footnotesize}
price has been freely agreed upon is only an indicator that the demands of justice have been satisfied.¹⁴¹

_Laborem Exercens_ continues CST's tradition of cautioning against what it calls "economism." By economism, it means the tendency to look at work from a purely economic perspective, to see it as a kind of merchandise that the worker sells to the employer (who controls the means of production). We have seen that ethically just systems have to give priority to the human aspects of work (the subjective aspect of work which thinks of work first and foremost from the perspective of the human dignity of the employee). Economism inverts this order by placing human work on the same level as capital (the means of production). Just as CST sees a proper evaluation of human work as the key to the social question, it sees an inadequate conception of work as lying at the heart of the conflict between capital and labour.

The pre-history of modern CST largely involved the practical efforts of Catholics to alleviate the plight of workers in the newly-industrializing societies of continental Europe in the nineteenth century. These workers felt the sharp end of "the iron law of economics" according to which they would sell their labor in return for a subsistence wage.¹⁴² John Paul II points to this practical materialism as laying the foundations for economistic thought that appraises human labour from a purely materialistic perspective. The iron law of wages, under which employers seek to pay the lowest possible wage, generates a conflict between capital and labour. Instead of being conceived of as interlocking, mutually complementary concepts, capital and labour are in conflict with each other. Economism has its roots in practical materialism and in materialistic theories. At the level of theory, economic considerations need to be placed within a sound ethical framework. Materialistic theories offer no solution; they are constrained by their own methodology and assumptions. Theoretically speaking, the solution requires new ways of thinking that re-assert the primacy of the subjective dimension of work and, thus, that acknowledge that capital exists for the sake of labour and is an expression of human work. At the same time, there is a need for practical reforms that would overcome the conflict between capital and labour. This is where employee ownership would come into its own.¹⁴³

¹⁴¹. _Populorum Progressio_, _supra_ note 26, at para. 58.
¹⁴². _See, e.g., Misner, supra_ note 10, at 27.
¹⁴³. _Laborem Exercens_, _supra_ note 1, at paras. 63–69.
The problem of economism reflects a deeper debate about the role of economic reasoning in ethics. Economics can be seen as the science concerned with the choice of least cost means to ends that are, ultimately, given to the economist from "outside" economics. Efficiency, the core value of economics, has an ethical significance for it would be perverse and wasteful, all other things being equal, to choose a more rather than less costly means to a given end or set of ends. But social ethics is not exclusively concerned with an efficient use of resources. We have seen that it is concerned with how social norms and institutions facilitate or hinder the self-directed effort of individuals to achieve their self-realization. Economism is reductionist in that it substitutes efficiency for all of the values to be taken into account in the decision-making of individuals and societies. CST does not seek to downplay the importance of economic analysis, nor to indulge in a utopian denial of the fact that projects or communities need to be economically sustainable. But it does resist attempts to reduce social ethics to economics.

There are, in fact, probably very few people who would seriously attempt to make this claim. The more serious division occurs when one thinks about the anthropological and moral foundations of CST. It will be recalled that CST builds on Christian anthropology and on Catholic moral theology's system of personal ethics. As a result, it insists on the real freedom of choice (admittedly conditioned in many respects) enjoyed by the human person. It is also committed to the view that certain values or goods, if successfully integrated into a human life plan build up one's humanity and that mistaken or wrong choices in these fundamental areas are corrosive for one's humanity. To be industrious builds up one's personality while habitual laziness, like it or not, harms one's personality. In theological terms, habitual laziness means that one will not live up to God's plan for one's happiness and growth.

Economic theory, by contrast, largely aspires to be a "value-free" discipline that is agnostic about any value other than efficiency. And many people, economists or not, feel uneasy about people who make any claim to know the truth about the values that a human person ought to pursue. It strikes them as dangerously "undemocratic." Far better, in their view, to let majority opinion from time to time be the ultimate arbiter of ethical values. Further, economics, like other social sciences, makes simplifying assumptions about human behavior that limit the scope for true freedom. Economics, for example, emphasizes the tendency to pursue a narrow form of self-interest. This challenges Christian anthropology's emphasis on freedom as a human real-
ity and on the inherently social nature of the human person. It would not be helpful to characterize these differences as "battle-lines." Acknowledging that they exist, however, might make it easier to understand both the scope for collaboration between CST and other disciplines and the difficulties likely to hinder collaboration.

CONCLUSION

An understanding of Christian anthropology is an essential pre-condition for any attempt to get to grips with CST in general and with its teaching on employee participation in particular. Equally, the root causes of major disagreements concerning ethical issues are likely to have their roots in divergent understandings of the nature of the human person. Christian anthropology sees the human person as having an inner tendency to pursue communion with other persons, to self-realization through freely made practical decisions. The path to self-realization, to building up one's humanity, involves an effort to participate successfully in the goods that are fulfilling for a human person. Work is one of these goods. Laborem Exercens emphasizes the importance of the subjective dimension of human work; it highlights the role that work plays in building up the human personality.

The work of most of us is carried on as part of a team. In the case of the larger firms, the team includes employees, management and shareholders. CST provides a framework for an ethical analysis of the firm. In Centesimus Annus, John Paul II describes the firm as a community of persons. The purpose of any human community is to create the conditions that will allow its members to achieve the reasonable goals that they sought to achieve through membership of the community. In ethical terms the purposes of an intermediate community such as the firm is linked to some subset of the goods that will promote the self-realization of its members. One of the major goals of employees is to secure work and all that goes with it; work, properly remunerated and carried on in appropriate conditions, is the legitimate expectation that employees have of the firm.

The human person has an intense desire to take charge of his or her own life and self-realization is the fruit of the responsible exercise of human freedom. This applies to the workplace too. The worker feels the need to take control of the work that he or she does, to make it his or her own. When, by contrast, the worker is given little more discretion and control than a robot, then work, far from helping to build up the humanity of the worker, can be a dehumanizing experience. John Paul II spoke,
in his philosophical writings, of the alienation that work produces in these circumstances. That is why employee participation, in its central sense, refers to governance structures and management practices that give the individual employee the greatest possible scope to take part in the planning of his or her work. Codetermination, having employee representatives in the boardroom, does not amount to employee participation in this sense but might play some part in creating the conditions for employee participation.

*Laborem Exercens* also emphasized the need to achieve a rebalancing of the relationship between labour and capital, both at the conceptual and practical levels. Currently, things are tilted in favor of capital. Corporate governance orthodoxy has it that the firm exists for the sake of the shareholders, at least in the United States and the United Kingdom and increasingly elsewhere. John Paul II calls for a revision of the concept of ownership so that it reflects the ethical primacy of labour over capital; he talks of the worker feeling that he is part-owner of the work-bench at which he toils. In practical terms, this suggests a need to explore employee share ownership, cooperative ownership structures and the like.

At the theoretical level, there is a need to overcome modes of analysis that are excessively materialistic and that look at work as a simple commodity, ignoring the profound linkages between work and the human dignity of the worker. John Paul II referred to this as the problem of economism. Progress on this front requires agreement on the relationship between ethics (especially moral theology) on the one hand and social sciences (such as economics) on the other. It would be helpful all round if a proper division of labour could be agreed upon. CST, as a system of social ethics, describes the purpose of human communities (to assist their members to achieve self-realization) and establishes a set of criteria to be observed if they are to play their part properly. It is also built on Christian anthropology. Social sciences, economics, for example, do not have the wherewithal to tackle these fundamental questions. But they make their own specific contribution at a technical level. Thus, economists err if they suggest that the fundamental purpose of the firm is to economize; as we have seen, the firm as a human community exists to allow each member to pursue their self-realization in specific ways. But if that is taken as read, the economist has a vital role to play in suggesting least cost governance structures, means to achieve specific ends and so on. Clearly, however, the economist strays beyond the confines of his discipline if he suggests that the firm exists only for the sake of shareholder wealth and not for
the sake of the self-realization of the employee. There is a need for an intense dialogue between social ethicists and economists. There is probably much more scope for agreement between them than appears to be the case. Even economists committed to the view that the firm exists primarily or solely to make a profit would acknowledge the priority to be accorded to the human dignity of employees. Thus, when they talk of “the firm,” they probably have in mind not the real firm (the community of persons) but rather some artificial construct (such as some elements of the firm’s governance mechanisms).