

## CHESTERTON AND CAPITALISM

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Just as the other article “Chesterton's Mind and Method” was directed to defending Chesterton's general philosophy and method against the intellectual culture of his and our day so this is intended as a defence of his social philosophy, which he called Distributism. His social philosophy seems to have been inspired by the Church's social doctrine and in particular by Leo XIII's famous encyclical *Rerum Novarum*. As is the case with this doctrine, Chesterton's social thought, which owing to the particular condition of modern society focuses upon the politico-economic aspects of social life, is looked upon with disdain by the academic social scientists, and especially by professional economists.

The first thing to be noted about this is that such a focus is already a sign of possible abnormality in the consideration of the subject matter, which the Church has adverted to in more recent times. That is to say the object of investigation, namely social life and behaviour, needs to be looked at as a whole. A consideration of a partial aspect of society, such as the economic, though a legitimate abstraction, cannot be isolated from the consideration of the whole (which is ultimately a moral one, i.e. the consideration of individuals within society as persons). The very attempt to resolve social issues or address social injustices at the economic level alone is in a way to fall into a distorted vision of society. There is more to society than economics and politics, especially as studied in the modern scientific way.

It may be said, then, that the nature of the social problem that had arisen in early modern times gave rise to the kind of ideologies that came to dominate the field of social thinking, namely, individualistic liberalism followed by collectivist socialism. The most visible social effects that ensued after the Reformation, centred in the wholesale expropriation of the Church and people by the already rich and powerful, were and are in regard to the possession and control of the lands and wealth within society, i.e. of a material kind. The modern ideologies which attempted to give an explanation of the new economic order, whether to justify and laud it or to condemn and curse it, are by their basic materialism and utilitarianism locked into such a distorted vision.

It became necessary, however, in order to counter them, to focus on the economic ills of modern times. “Social justice” came to be particularly associated with the question of property and the injustice of systematic oppression of the propertyless, which in moral terms is specially a matter of theft upon a grand scale. But there are of course other and indeed more serious kinds of social injustice, which have come to the fore in our own times, as for instance the slaughter of innocent human life in the ever-increasing practice of abortion, the most heinous of social injustices, worthy to be classified in modern terminology as crimes against humanity.

Even divorce is a more serious social evil in principle than theft, not just because it attacks the more important natural social institution of marriage, but also because it involves a system of serious injustice against the abandoned spouses. Because the principal promoters of these injustices (consciously or in ignorance) are those in power,

or if not directly in government at least in effective control (for the main part by virtue of previous acts of economic injustice) the cries of the victims of these crimes go unheard or unheeded.

All these modern social evils are interrelated forms of immorality and injustice. For the widespread breach of one commandment, when legally condoned, inevitably leads to disrespect for all morality. If this occurred first by reason of the greed of the rich and powerful elements of society, who were able to obtain political control by virtue of their excessive wealth and power (thus constituting the regimes oligarchies, if in more recent times they masquerade under the name of democracies), this disrespect and even contempt has, in the course of time, had a significant effect upon the culture and moral sensibilities of the society as a whole.

In Chesterton's time these flow-on effects of the first modern-style social injustice were just beginning to become overt. But the immediate peril in his day was from the extremity of the economic perversity that divided society into two opposed classes. Not that such a divide is not to some extent inevitable. As Pope Leo pointed out the possession of wealth within society is not meant to be equal. There are all sorts of reasons for such inequality (not necessarily indicative of injustice), including individual differences in intelligence and talents, that mean that some will have more and others less, and that only a few can have much more, whilst a great many will have the least. This disparity of wealth, if well used by its possessors, works to the overall good of all. As St. Thomas puts it, in words adopted by the popes, it is good and natural that the possession of goods (i.e. property) remain private or in the individual, but their use should in some way be made common.

None should forget that his or her superior talents, and consequent greater wealth, are God-given. So they should be used in the way intended by God – that is for the common good. It is of course in the interests of those possessing inordinate wealth to argue for the right of private property as if it justified their absolute claim to the free and exclusive use of what they have (unjustly) obtained. Chesterton tried valiantly to bring home the necessary distinction between the right of private property always supposing a right distribution within society and the spurious right to property ignoring that question of due proportion. The socialist's mistake is to accept the same spurious definition of property as the capitalist and then argue for an egalitarianism and against the right of property itself. This confusion has been the bane of the whole discussion.

Moreover, by reason of original sin there has been, and will continue to be, those of inordinate great wealth, “the rich”, and those undeservedly of little, the “poor” (the poor will always be with us), But what characterised the time which spanned the lives of Leo XIII and G.K. Chesterton was the enormity of the extent to which one relatively small section of society had, and had been allowed by law (since they had usurped the legal power in the process), to dispossess the rest. These dispossessed then became obliged to obtain their living by their labour alone. Hence the divide that was traditionally recognised as that between the rich and poor, came to be identified with that between those who possessed practically all wealth or capital (the propertied or “capitalists”) and those who possessed virtually no wealth (the propertyless or “workers”). This rendered the great mass of citizens virtual slaves (under “a yoke little better than slavery” Leo XIII), a condition that in some ways was much worse than the ancient (pagan) slavery

(cf. Chesterton's essay entitled "Sex and Property").

So we can come to the precise question that Chesterton faced in his day. It is fundamentally the same today but there are many features of it that are different, the most significant being the moderation of the poverty of the poor or the improvement in working conditions because of State intervention (prompted in large part by the Church's speaking out). This intervention brought its own problems. At present we are witnessing a worrying push to return to the earlier conditions of pure liberalism or "unbridled capitalism". A further complication is the extension of this flawed economic system to the whole world ("globalisation") making the divide of extreme riches and desperate poverty a feature to be found not only within nations but between nations.

This too it seems has allowed the poor of the more developed nations to enjoy to some extent a higher standard of living at the expense of the poor of the underdeveloped, leading to a general problem of "consumerism" within those "developed" nations. Hence, the sense of injustice in the "rich" nations is not so acute as it otherwise might be. The language employed in this regard is significant. The poorer nations are referred to as "underdeveloped". No one thinks of referring to the richer nations as "overdeveloped". For that would identify a defect in them (but in such eyes no one can be too rich).

More poignantly, within nations, the poor are referred to as "underprivileged" as if the normal condition is to be "privileged". Part of the reason for this may be that Capitalism and the modern economic science that is designed to defend it promote a concept of wealth as money where it is considered normal to desire to be wealthy without limit. This will be examined further below – as it is a distinctive feature of modern capitalism that is not brought out fully even in Chesterton and the social encyclicals (though it is hinted at in both) despite being to the forefront in both Aristotle's and St. Thomas's analysis of commerce.

However, as noted above, this economic form of social injustice has been overtaken by much more serious social issues. Nonetheless, that is not to say that the question of economic injustice belongs only to the past. It is very much a live question today. When we turn to examine the question of social justice (or injustice) in the sense of economic justice we will find that Chesterton's insights are as valid as ever.

But, the understanding of the issues depends greatly upon keeping in mind Chesterton's definition of Capitalism. It is a good definition and enables what is wrong with Capitalism to be easily identified. But it has the disadvantage of defining what is a condition of something (and a bad condition at that) rather than the thing itself. We might compare it to a medical definition of abnormally high blood pressure. This can only be understood in relation to what is normal blood pressure. So it supposes some knowledge of the norm. For Chesterton, "distributism" is simply the name for this normal social economy, expressed in terms of the distribution of property.

Confusingly, the word "Capitalism" is used both for an economic system that has an abnormal condition in regard to the distribution of wealth or property, and one where the distribution of wealth is not an issue. Both are systems that are based upon the institution of private property, in the one case in a condition that is normal, in the other abnormal.

The distinction between the two meanings of Capitalism is in fact made in the social encyclical (1991) *Centesimus Annus* (para. 42). And the difference made there comes down to that between the normal and the abnormal. The encyclical is considering whether we can say that Capitalism is good or bad. "If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy," "market economy" or simply "free economy."

But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality and sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative."

The former sense plainly refers to the notion of an economy based upon private property and free exchange of goods and is concerned to oppose these characteristics to their socialist denial. It is thus defending Capitalism in so far as it is opposed to Socialism. But it is to be noted that the word Capitalism is not perhaps the most appropriate name for this economic system. What is evidently intended is simply a social exchange system that is functioning normally which ultimately means justly or morally.

The encyclical itself suggests that the second usage of the word "Capitalism", which clearly refers to an abnormal condition from the point of view of justice is the one more appropriate. It is in fact the one used in earlier encyclicals where Capitalism is severely criticised. This is also clearly brought out in other parts of the 1991 encyclical. "In this sense, it is right to speak of a struggle against an economic system, if the latter is understood as a method of upholding the absolute predominance of capital, the possession of the means of production and of the land, in contrast to the free and personal nature of human work. In the struggle against such a system, what is being proposed as an alternative is not the socialist system, which in fact turns out to be state capitalism, but rather a society of free work of enterprise and of participation. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the State, so as to guarantee that the basic needs of the whole of society are satisfied." (CA 35)

And speaking of the conflict between Capital and Labour in another place the encyclical refers to "a conflict which sets man against man, almost as if they were "wolves," a conflict between the extremes of mere physical survival on the one side [subsistence-wage labour] and opulence on the other [concentration of capital], the Pope [Leo XIII] did not hesitate to intervene by virtue of his "apostolic office." (CA 5 Insertions in square brackets mine)

Chesterton's Distributism comes within the description used by Pope John Paul II: "what is being proposed as an alternative is not the socialist system, which in fact turns out to be state capitalism, but rather a society of free work of enterprise and of participation". And the Church speaking of socialism and capitalism in the same terms (socialism as "state capitalism") is fully in line with Chesterton's point that Socialism is simply the monopoly system of Capitalism adopted by the State itself. Both are regimes

based upon a monopoly over the processes of the production and exchange and an effective denial of property rights to the majority of the population. Their basic affinity can be seen, moreover, in the fact that the advocates of both hypocritically present such a monopolistic take-over of the economy as being the best way of ensuring the prosperity and freedom of all. Both claim to be ardent supporters of “democracy”.

Chesterton was aware of the ambiguity in the use of the word “Capitalism”. So he says "The word... is used by other people to mean quite other things. Some people seem to mean merely private property. Others suppose that capitalism must mean anything involving the use of capital." These other uses generally denote the exchange economy operating in a just way without the huge disparity in wealth which puts one of the parties at the mercy of the other not just in regard to employment but also in regard to all types of exchange.

Chesterton's definition of Capitalism then falls fair and square within the second meaning given in the encyclical. “When I say 'Capitalism,' I commonly mean something that may be stated thus: 'That economic condition in which there is a class of capitalists roughly recognizable and relatively small, in whose possession so much of the capital is concentrated as to necessitate a very large majority of the citizens serving those capitalists for a wage.'" (from “Outline of Sanity”)

This in fact is an accurate description of the economic system existing in the nineteenth century (“early capitalism” from the perspective of the late twentieth century) and has application even today despite the alleviation of the extremity of the condition of workers for various reasons, including initially by the united action of the workers themselves, then by legislative regulations imposed to restrain the more blatant exploitations within capitalism and by a general social welfare program to supplement the income of the poor and “disadvantaged” or “underprivileged”. It is only in the social encyclicals that such re-distribution of wealth is described openly in terms of distributive justice, or treated as a matter of right.

There are many aspects to a normally functioning social economy but the widespread distribution of property is the most fundamental requirement. For it operates at the most basic level of justice, distributive justice, and it is here that social injustice in regard to property begins. For the lands and other common goods (natural resources) of any society belong to no one in particular in the beginning (or as they are discovered) and have to be allocated by the community through its leaders. It is not hard to imagine the temptation of those with the responsibility of dispensing the common goods to favour themselves and their friends in this regard.

It is noteworthy that Leo XIII was prepared to speak of distributive justice in the context of this question of social justice. He even applied it to the question of the just wage, which ordinarily is a matter for commutative justice. But what he noted is that the demands of justice are not to be confined to a contractual or mutual relationship between individuals. They presuppose, as do all relationships of exchange within society, a freedom and equality which it is the society's duty to ensure for all, to which every individual has a natural right.

In his time the disparity between the bargaining power of employers (capitalists) and employees (workers) had reached such a level that not only did the workers have no

property to fall back on (having missed out altogether generally) but their parlous position enabled their employers to drive such a hard “bargain” that the wages they were virtually forced to accept were less than enough to support themselves and their families. The unnatural injustice of this, whether from the point of commutative or distributive justice, was plainly criminal. But not only the direct employer had a responsibility in this regard; it was a matter of social responsibility, of “social justice”.

Part of freedom and equality depends upon each individual having his or her just share or proportion of the social wealth or common goods of a particular society. Any disproportion in this regard must affect the equality and freedom of the individual members of such a society in their dealings with one another. It is the duty of those who have the care of the community to ensure that there is no original disproportion and that the necessary laws and institutions are in place to prevent such a disproportion occurring as a society develops. Sadly, these responsibilities have been more honoured in breach than in performance.

As for how this distributive justice or proportionate equality is to be achieved, it is not a matter of mathematics but of practical measures. Such a spirit of distribution is not opposed to the institution of property but in fact is a matter of converting common “property”, or common goods, into private property. The land for instance of any society originally belongs to no one in particular. But it can only be properly utilised by individuals. It is necessary, therefore, even before any form of production from the land, that there be some kind of institution of “property” in land. But all should be able somehow to share in this common property. There should be no favoritism or system of privilege in the distribution, as is sadly too often the case historically (with the blessing of “law”). The object of distributive justice is to ensure that no one misses out in the distribution of such social benefits. It does not mean that everyone gets an equal amount. It is a question of proportion considering the common good of all.

A just distribution of common goods, however, is not to be thought of only in material terms, as is the case with land and natural resources. As pointed out in *Centesimus Annus*, there is now much social “capital” in things of the mind (such as “know-how”) enjoyed by the members of the community that can be considered community generated, through improved education, systems of communication and so on. These kinds of common goods can also be monopolised by the already “advantaged”, whether within nations or between nations. They should not be able to be appropriated by the few at the expense of the many.

The proponents of Capitalism, as defined by Chesterton, see nothing wrong with such (mis)appropriation provided the mechanisms of the market are left “free”, in an open exchange process. This is what is called “free competition” and “free trade”. That is to say, in their eyes there should be no control over the prices of things - apart that is from that control which already belongs to the (long) established monopolistic structures.

A significant social good is the society's recognition of an individual's contribution to society (honouring its citizens). This should not be thought of simply as something going to a privileged few. But it gives a good idea of the notion of proportion in distributive justice. Some may be given more on account of their greater ability to use things (such as land) or on account of some other special civic quality. The distributor,

however, should be always looking towards the common good and not to the private enrichment of the individuals. And with the distribution comes the obligation to apply it to common use as much as possible (this does not exclude one's own use within reason)

As noted above the notion of distributive justice can be applied in the case of wages. Ordinarily it is a matter only of commutative justice, but a worker reduced to a condition of extreme poverty *and* consequent economic impotence (lack of bargaining power) may be deprived not only of what he is entitled to according to commutative justice (a fair return to his labour) but even according to distributive justice (when what the underpayment takes from him is his natural right to a livelihood). This latter does not so much apply to the employer as an employer but as a member of the exploiting part of society (as a capitalist).

So it was that, in the extreme conditions applying in his time to the “workers”, Pope Leo XIII used the language of distributive justice in the very context of the just wage. If necessary, as a matter of distributive justice, the State must set a minimum wage which the employer is obliged to pay. “The Pope attributed to the “public authority” the “strict duty” of providing properly for the welfare of the workers, because a failure to do so violates justice; indeed, he did not hesitate to speak of “distributive justice.” “ (CA 8) Because this goes beyond contractual or commutative justice, this aspect of justice came to be given the name simply of “social justice”.

This necessity for fair distribution of common goods extends into the sphere of exchange. Indeed, generally speaking, the market should not be the property of any one (not even of the State – as public property). There may be occasion, however, in exceptional circumstances, for the setting up of a monopoly (state or otherwise) if required for the common good, but only to the extent that it is necessary for the common good (in the case where a certain kind of necessity would otherwise not be effectively provided for). Apart from this exception free entry of all to a line of production or market is a common good and no one should be given property in such by way of privilege or legal protection.

Any control over the market or the prices of things is in effect a form of privileged property (hence it has a monetary value, and an inordinately high one at that). One cannot exchange goods according to commutative justice if the other party has such a monopoly of the means and materials of production that he is able to dictate the terms. The test of a free exchange or free market is that both parties have no control over the price: they have to take it; they cannot make it. But the very definition of a monopolist is one who is able to make the price.

The capitalist wishes to define monopoly only in terms of state monopoly (socialism); price fixing is seen only in terms of the state regulation of prices. But that is taking the meaning of monopoly at its extreme (sole seller). There need not be total control by one. There need not even be collusion between a few so as to act as one. The very advantage that attaches to being one of a few where there ought to be many (especially in regard to necessities, in which work itself may be included) gives those few a power over the “market” (meaning the consumers).

The very difficulty of obtaining otherwise the goods desired expresses itself in a price elevated above the norm (the true market price). Indeed, up to a point the

(oligopolistic) supplier can withhold its goods until it gets the price it wants. For it has control over such a large part of the supply that other suppliers cannot fully meet the “demand”. Other oligopolistic suppliers (its major “competitors”), having a common interest in keeping up prices, will be inclined to keep close to the highest price possible given the overall “demand” even without express agreement or collusion. That is to say they will watch the “competition” and keep prices generally at an artificially elevated level, all the time devising all sorts of ploys (including a temporary drop in “their” prices) to steal some part of the “market” from the “competition”. One may perhaps appreciate how the very language of exchange is perverted.

Without any concept of distributive justice the ownership of goods and their exchange is discussed entirely in the context of contract and an artificially abstract notion of commutative justice, as if all exchanges were necessarily between equals. In such a mind set there is little or no acknowledgement of anything systematically wrong in the social economy. But the encyclicals make no bones about this. “The crisis of Marxism does not rid the world of the situations of injustice and oppression which Marxism itself exploited and on which it fed.” (*Centesimus Annus* 26)

Moreover, the encyclicals explicitly speak of injustice in the distribution of wealth (cf. *Centesimus Annus* 12: “To remedy these wrongs [the unjust distribution of wealth and the poverty of the workers] ...”) and the remedy must include a restoration of justice in the distribution of wealth. This is precisely where Chesterton's Distributism is rightly to be regarded as a major part of the answer to “the social question”.

This working for the restoration of distributive justice is an obligation resting on all, i.e. the community as a whole, and primarily upon the government. It is not so much a matter of passing new legislation as dismantling old legal privileges and bad institutions so that they do not continue to support social injustice. “The State, however, has the task of determining the juridical framework within which economic affairs are to be conducted, and thus of safeguarding the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience.” (*CA* 15)

Chesterton's social philosophy, therefore, correctly identifies what is basically wrong with the modern economy, and with modern economics. Outside the encyclicals this social philosophy is practically the only one which gives a proper definition of Capitalism. This in itself is a major achievement, for wrongdoers depend greatly upon ambiguity and euphemism, using names which belong to what is normal for what is abnormal, such as “free exchange”, “competition”, “private property” etc.

The very name which he gives to the social remedy, “distributism”, is felt to be quaint or strange only because of our complete lack of familiarity with the notion of distributive justice in this context. This is not to be wondered at given that the reality has been missing from almost every society and especially in modern times. Not even the moral theologians have paid much attention to this dimension of justice, practically the whole of the moral theology of justice being focused upon commutative justice. In discussing the notion St. Thomas himself confines himself to the example of the dispensation of honours. Yet it obviously applies to all common goods, material or

rational, that can be distributed from the whole (community) to the parts (individuals).

Chesterton's insight in this regard is, as in most things modern, genial. He saw clearly that the root of the modern social problem of poverty was man made, that the condition of impoverishment of the worker was not something necessary or natural, but a radical failure of justice, not because of a deficiency in the institution of property but because of a deficiency in the institution of government, which had failed and was failing in its obligations in distributive justice.

The word “Capitalism” as applied to the actual economy is another evil euphemism, for it suggests an economy characterised by people who have capital or property. But in fact in such an economic system the great majority have little or no capital, but depend for their livelihood on the wages of labour. We should be honest enough to call things by their proper names. "The truth is that what we call Capitalism ought to be called Proletarianism." (from “Outline of Sanity”)

It is reasonably clear, then, that Distributism, as championed by Chesterton, is the social philosophy that best articulates the alternative explanation of the social economy that is necessary for us to have in answer to the false ideologies of Liberal Capitalism and Radical Socialism. It is also the social philosophy that most closely accords with the teachings of the social encyclicals and Catholic moral theology, especially with regard to the right of property and the rights of those dispossessed of property. For the key to these is an understanding of justice, and particularly distributive justice.

## **A NECESSARY ADDENDUM**

But we have yet to understand why academic intellectuals specialising in the study of the social economy (the economists) regard Distributism with such disdain. Part of it can be put down to the anti-catholic culture discussed in the previous article “Chesterton's Mind and Method” with its underlying materialist and/or atheist philosophy. This would account for the academic intellectuals' preference for Liberal Capitalism or Radical Socialism as socio-economic philosophies. But the professional economists seem generally to regard both Distributism and the teachings of the Church on economic matters as altogether unrelated to the real world.

In order to explain this and defend the reality of Chesterton's social philosophy (and the Church's moral theology) in relation to the subject matter of Economics it is necessary to examine further the condition of the modern economy.

There is another disorder of the exchange economy which if not properly understood inhibits the full understanding of the social problem and of how Capitalism works its injustice. Chesterton seems to have intuited it without clearly making the distinctions necessary. It is a disorder that exists within the sphere of exchange or commerce itself. It has to do with the notions of trade and profit. Its understanding requires a careful distinction of money from wealth and of the twofold meanings of trade and profit.

The errors of modern economic science, whether in the older rationalist mode (Political Economy) or according to the newer mathematico-empiricist methodology

(Economics), which take capitalism as the “natural” or real order of things economic, are founded in the confusion of the notions of wealth and money.

St. Thomas, following Aristotle, distinguished between natural and artificial wealth, of which latter money is the prime example (cf. *I-II, q. 2, q. 1.*) Shoes, for instance, are natural wealth. It is to be carefully noted that “natural” here is not taken in a physical but in a moral sense. For what makes things such as shoes natural wealth is their natural utility for satisfying a human need, in this case the protection of one's feet. Natural wealth is characterised by the fact that there is a natural limit to our need for them. We do not desire them without limit.

Money, on the other hand, is artificial wealth. Again the term “artificial” does not have its primary meaning (for shoes are works of art) but is also taken in a moral sense, being defined relative to its end (which is the facilitation of the exchange of natural wealth – a purely rational end). It signifies something conventional, whose utility is not something natural in things so used but arises purely from social convention or agreement. The important difference for our purposes here is that there is no natural limit to the desire for money itself.

According to a rational view of things and goods, our natural wealth is sufficient for the satisfaction of our needs. This is subject to a condition: “Seek you first the kingdom of God and his justice”; that is to say even our material welfare depends not only upon our productiveness, but also and more so upon our observation of the social moral order. Our desires for material goods are however not infinite.

However, the desire for money does not have in itself any reason to say “enough”. For it has no character at all of an end. It is a pure (rational) means. One can see the importance of the distinction in this regard when one looks at modern economics. For it imputes to the desire for wealth of any kind an infinite character. Our wants are unlimited. The “economic problem” in fact is seen as one of “choice”, of selecting which of our numberless wants to satisfy in a world of limited resources. Our natural wealth can never be sufficient to satisfy our desires for material goods. The economic condition is inevitably one of “scarcity”. Such a viewpoint makes no distinction between wealth and money; indeed, the concept of wealth is equated with money, and the desire for wealth with the desire for money.

This changes our whole perspective on matters economic. It shifts our attention onto trade or commerce, and most importantly to the use of trade or exchange in which money becomes an end instead of a means. Such an economic world becomes entirely focused upon its commercial (and financial) aspects. But, in order to follow this, we need to employ a distinction from Aristotle with regard to the notion of trade, or exchange, or commerce (they all here mean the same thing – except in English “trade” is also used in another sense, not relevant here, of a productive occupation).

Aristotle distinguished exchange into two kinds or modes, which he called “natural” and “unnatural” (cf. *Politics, 1, 8 1236b 27-39*). Following St. Thomas's commentary it would be better to call them “natural” and “artificial”, which distinction is related to the one above to do with wealth. As we shall see there is a place for using the term “unnatural”. But, the essential distinction between the two kinds of exchange is determined by reference to their ends. The appropriate exchange being considered is one

involving the use of money. A natural exchange is simply one in which money is the medium of the exchange of two goods between two parties to the exchange. It is called natural because the end or purpose of the exchange on both sides is natural wealth. Money fulfils its purpose as the rational and conventional instrument or medium of the exchange.

An artificial exchange, on the other hand, is one in which money (artificial wealth) is the immediate end or purpose of the whole process of exchange (selling and buying). We can symbolise each process by CMC in the first case and MCM in the second (using C to signify natural wealth or goods and M to signify money or artificial wealth). As St. Thomas notes, this second kind of exchange (MCM) can again be divided into two, for though it has no natural end it can voluntarily be and ought to be ordered to the natural end of exchange which is the same as that of the first kind of exchange (CMC), namely, the obtaining of a sufficiency of material goods. However, if it is not so ordered, and money is sought for its own sake (i.e. without end or limit) it becomes an irrational activity or unnatural exchange.

Thus, in any exchange involving money (or trade or commerce) we have to be careful to identify if it is natural in the first sense (CMC), or artificial (MCM) but not unnatural and hence natural in a secondary sense, or if it is artificial and unnatural. It is only this last kind which is morally blameworthy and can be (if extensively engaged in) socially harmful. The theory of Capitalism and modern economics do not know any such distinctions and, if anything, conceive trade and commerce in terms of the last kind. For money is thought to be the principal end of economic activity, and the desire for wealth in the sense of money (since they are treated as the same) the supreme motive of *homo oeconomicus*. Indeed, modern economics inevitably treats the unnatural form of exchange as the paradigm of all trade and commerce.

Moreover, the modern mind is locked into thinking of social matters in materialist terms, and thus conceives money as the driving force or motor of all economic behaviour, which it is metaphorically only in the case of the second kind of exchange (MCM). On top of the perversion of language, therefore, in talking of private property where it has been almost totally misappropriated and of free competition in a situation of virtual monopoly, we have to contend with trade and commerce being practically identified with its unnatural mode.

This has had significant implications for the way people conduct their economic affairs. What in the past was looked upon as an unworthy way to engage in trade, namely, seeking to amass one's stock of money without limit by the simple process of buying and selling the same things and so making a profit, consumed as it were by the love of money (*philargyria*), came first to be regarded as a legitimate way to do business and then when fortunes were made by such businessmen or “entrepreneurs” even came to be looked upon as the very way business is done. The modern mind cannot understand why St. Thomas and the theologians and moralists of his time should have condemned this kind of business. For, in modern economics, this pursuit of profit (without any reason to be limited) is made the very thing that drives the economy. Such successful enterprise should be commended not condemned.

It is in this context that the notion of “profit” must be discussed. St. Thomas uses

the notion (*lucrum*) specially in the discussion of the secondary kind of exchange (MCM), as he does also with the notion of business (*negotiatio*) (cf. II-II, q. 77). Their modern use, however, for reasons that will be clear, has a more general sense, being extended to include the first kind of exchange (CMC). They are used in reference to any kind of commercial activity, naturally enough, since the modern mind, as noted above, makes no distinction between the kinds of exchange. The first kind of exchange according to St. Thomas, however, does not properly pertain to business people (*negotiatores*) but to ordinary households or public offices which have to provide for the necessities of life for the home or the city. “*talīs commutatio non proprie pertinet ad negotiatores sed magis ad oeconomicos vel politicos, qui habent providere vel domui vel civitati de rebus necessariis vitae.*” (II-II, 77, 4 c)

This notion of *oeconomicos* in St. Thomas ought not to be taken in too restricted a sense. It is meant to bring out the fact that the first kind of exchange (CMC) is directly aimed at satisfying the ordinary needs of life. It would include therefore the multifarious trades (such as shoemaking) and activities productive of all kinds of goods and services, whereby people are able to obtain a reasonable living; it would include all activities ordered to exchange except those “business” activities directly aimed at increasing one's stock of money by buying and then re-selling the same things (MCM).

All economic activity, however, is seen in modern eyes as directed to the making of a profit in the sense of making money – indeed it is all seen to be motivated in the same way as the person who engages in what Aristotle and St. Thomas call unnatural exchange (MCM in its second sense), needing to start with money (capital – already possessed because one is a capitalist, or has borrowed from same), and engaging in business (whether productive or not) for the purpose of increasing their stock of money (or its equivalent), called economic “growth”, without limit. All kinds of occupations are therefore conceived as if they were all modes of the same kind of “business”.

All businesses, therefore, are the same from the modern economic standpoint, their *raison d'etre* being to make a profit. Does anyone suggest that they aim at making a loss? It is no wonder that there is great difficulty in applying Aristotle's and St. Thomas's economic analysis in this regard to modern conditions. One has to say that hardly anyone gets it quite right, even among Catholic theologians and moral philosophers. It is also not surprising when modern economists look with disdain on their efforts to criticise profit-making.

The discussion is inevitably at cross purposes. The economists cannot understand what the theologians are talking about; it all seems quite naïve and simplistic. The theologians cannot quite match their ideas with the workings of the modern economy; it all seems impossibly complicated and difficult to understand, as it must be if its object is something unnatural.

What the encyclical *Centesimus Annus* has to say on the matter is: “Profit is a regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business”. This is all very true. But it does not make use of the important distinctions with regard to the notion of profit made by St. Thomas.

Just as some exchanges are naturally good (CMC), so their profits are naturally

good. For their profits are not money as such but the things produced or provided from the activities engaged in. That does not mean that such profit cannot be badly used from another perspective; whiskey may be used to get drunk; nor that a business making a legitimate profit cannot be behaving badly in another respect, e.g. in relation to its treatment of employees and its customers. But these are all moral considerations or regulators outside the matter being discussed here.

The intent of the argument about the legitimacy of profit or the profit-motive concerns the nature of such themselves. St. Thomas does not use the word “profit” in the case of exchanges that are naturally good (ironically, there the concept of gain is used to indicate a proof of inequality or injustice in such exchanges). He reserves it for the money profit (*lucrum*) made from the secondary exchange activity (MCM). For it is only here that the question of its legitimacy or otherwise is raised. The goodness of “profit” in relation to the first kind of exchange is self-evident. It simply means the equivalent received of the product offered in exchange, expressed in terms of its monetary value.

In St. Thomas's analysis not all money profit obtained by buying and selling the same things is illegitimate. Like money itself it is good or bad depending on whether it is ordered to natural and rational purposes which in this context is the satisfaction of one's natural needs or reasonable wants, taking into account one's family and community needs and wants. If it is not so ordered but sought without any such limit, then it is not good.

There is then a sense in which the word “profit” is to be taken as bad or illegitimate. It does not immediately impinge upon anyone except the one who engages in it (for it is a form of the vice of avarice). But it can become socially significant if many engage in it or are encouraged to indulge their desire for money without limit. When the encyclical says that “profit is a regulator of the life of a business”, it is necessarily taking profit in the good sense. So far as the “business” (e.g. shoemaking) is concerned it is the fundamental regulator – not much point in carrying it on at a loss.

It is true that there are other “regulators” (moral factors) involved even if one's motive for this kind of profit is a good thing. But that does not address the precise question of whether the motive for the other kind of profit (money increase - *lucrum*) is to be considered good or bad. As indicated, the encyclical is taking profit as something good in itself and it is true that other considerations or circumstances can make the profitable transactions not good.

But without taking into account the distinctions brought out by St. Thomas the argument about the legitimacy or otherwise of profit and the profit motive can still remain at cross purposes. Indeed, St. Thomas begins his analysis by adopting Aristotle's strictures against this kind of profit (*lucrum*). All such kind of “business” (*negotatio*), i.e. buying in order to sell again at a profit, because their immediate object is the possession of (more) money, considered in itself (*secundum se consideratum*), has a certain turpitude (*quamdam turpitudinem*) (II-II, q. 77, art. 4. c). But that is because such a way of operating in the exchange system (the market), considered in itself lacks a due end; it is not natural, for a natural end bespeaks a limit. It can, however, be made good by the business person subordinating it voluntarily to natural needs or reasonable ends in relation to our need for material things.

Now it is clear that the modern economists, taking their lead from the practice of

modern commerce, see no difference between the two kinds of trade (CMC and MCM), and correspondingly between the two kinds of “profit”, the former of which is morally unquestionable, but the latter questionable. Indeed, as indicated above the modern economists have opted to defend a notion of profit and the profit motive that is morally illegitimate. It cannot possibly be a regulator of a business in any morally acceptable sense. For, it signifies the absence of any rational regulation or moderation in the business of “making money”.

Catholics, then, have a problem here of joining issue on this matter with the modern mind. It is a perfect example of equivocation leading to sophistical reasoning. The two kinds of exchange or trade or commerce and, correspondingly, the two meanings of profit in the discussion are confused as one. Since the notion of profit has become associated with ordinary or natural exchange (CMC) it must be seen as good. When no distinction is made between this and the other more sophisticated exchange process (MCM) it becomes impossible to assert that profit in any sense, and the corresponding profit motive, is not good. The strictures of the “mediaevals” against profit (lucrative profits) is then made to look ridiculous and out of touch with real economic life in the 21<sup>st</sup> century.

To a certain extent Catholic intellectuals writing in this area have been taken in by this sophism. There are some who are uncomfortable with the Church's critical attitude to Capitalism and read the last encyclical as softening its stance. Indeed, without the necessary distinctions being brought into play it can be seen how it is possible to so (mis)read the encyclical.

Chesterton, however, as mentioned above, had a kind of intuition into what was wrong (see his discussion on “trade”, and its perverse nature as a modern phenomenon). But without the necessary distinctions outlined above it was not possible for even him to speak clearly and definitively about modern business and profits.

To summarise (I have discussed this question at length in other articles which can be found on the website [www.cts.org.au](http://www.cts.org.au), and also on the forum site of the Chesterton website of *Second Spring*), some profits are naturally good obviously, as when applied to what the shoemaker makes over and above his expenses; in this material sense it means simply the shoes (expressed in terms of money value) he can offer for sale. But he is not interested in the shoes for his own use. That is where the social system of exchange or trade comes in. What he is interested in is not even the money he can obtain for them, but what useful things (for himself and his family) he can buy with the money. That is the real end of his “business” of shoemaking, and something eminently natural and rational. His engagement in exchange is the model for all natural exchange (CMC).

Other profits are not from these kinds of business. There is a way of doing business that operates in quite an opposite way. What is this kind of business? One does not produce any new material good or service, but first buys something, not to use it but to sell it on “at a profit” (MCM). As noted above, St. Thomas applies the word “business” (*negotiatio*) in this context only to this kind of business, not the other. It is a special kind of economic activity (like money itself *sui generis*), something “artificial” (in a moral sense), non-natural (but not for that necessarily unnatural). But it is unnatural if the profit is something sought for its own sake or without a (natural) limit; if it is

reduced to the desire for money as such.

What is this kind of “profit”? Note here again, that in this context this is the only thing that St. Thomas calls “profit” (*lucrum*), intending something artificially (or accidentally) produced in the exchange process. It is not something like the equivalent of shoes that one had made and for which in exchange one obtains other things of equal value. The “profits” of the shoemaker's “business” is not what St. Thomas is referring to. There is no question of its being anything but good, considered in itself.

The kind of exchange with which St. Thomas is concerned is not based upon equivalence of value of two things in the process of selling one's own products (or services) and buying others, but on the differences in value in the process of buying and selling the same thing. The whole object of this second (and socially secondary) kind of activity is not quite “to buy cheap and sell dear”, but certainly to buy cheaper than one sells, or sell dearer than one has bought. If one focuses exclusively on this kind of exchange (as modern minds, especially economists, tend to do), out the window goes the idea of equivalence of value or natural justice in exchanges (a just price). Some economic theorists then stupidly believe that all exchanges are based upon inequality of values.

The idea of profit here, then, is that of “making money” in the sense of the difference in monetary values resulting from the transactions, the “creation” of wealth (conceived as money). It is a pure money profit. Nothing more in terms of material utilities (such as shoes) has come into existence, but the trader is richer. How can that occur? It can only come about because of the potential for differences in the values, or fluctuations in the prices of things. Prices fluctuate (accidentally) for all sorts of reasons, objective and subjective. From the very nature of how prices are set there is scope for differences in value. For they are practical and based upon a common estimate of the uses of things that are not exactly determined (*non punctualiter* as St. Thomas says).

A just price rather expresses a range than an exact ratio, even though it must be set at an exact ratio where money is concerned. Hence, there is always scope for “negotiation” about the price. A shrewd negotiator can easily profit from this inherent quality of the pricing process. We might call this the subjective factor. There are all sorts of objective factors too that cause a variation in price over time and place without any suggestion of injustice

However, whatever the reason, the business of one who engages in this special kind of exchange (well known to Aristotle and St. Thomas) had a name and a nature which distinguished it from ordinary exchange or trade. Moreover, St. Thomas is primarily concerned with the uses of the terms *negotatio* and *lucrum* in the moral context of this special form of business being used badly, and the profit therefrom, i.e. where one seeks profit without limit. The closest we have to it today is “dealing”. but even this does not distinguish between the good and the bad. It is most confusing and misleading then when in modern translations of their works the word “trader”, in its sense of an ordinary exchanger, is used.

St. Thomas is not saying that this second kind of exchange cannot be engaged in without blame. The profit therefrom can be legitimate if limited to one's natural needs for material things or by one's reasonable desires for things measurable in monetary terms. This makes the moral judgment difficult in regard to any individual person. One would

have to know a lot about his or her circumstances.

But St. Thomas and we are concerned with principles not with cases. The activity can be judged in general terms. When the leaders of society, led by the “intelligence” of their advisers, do not see the distinctions, or confuse all trading as of one kind only, all sorts of social and economic problems go unaddressed.

Chesterton was focused upon the more fundamental structural defects in the modern economy, as have been the social encyclicals. The modern economists, however, are concentrating more on the economy's functional aspects, taking their ideas mainly from commerce (and finance – which we do not deal with here as it is material for the treatment of a separate question, that of usury). By virtue of their perspective the economists do not see any moral dimension in economics – it disappears altogether with the disappearance of the notion of the just price. Everything other than the activity of money-making is simply a given, no questions asked, and money has no “colour”.

That is what is meant by saying the modern economists and the theologians and moral philosophers, with whom Chesterton may be classified, are at cross purposes. They might as well be studying two different worlds. The moderns tend to think of Capitalism as a sophisticated money-driven system “creating” wealth and even driving progress in technology and production. The fact that the benefits of such wealth-creation and technical progress seem to be disproportionately enjoyed by a relatively small part of the population is something that does not enter into their considerations. It is just the way things are.

Their world is the world of money, commerce and finance. These are the realities that dominate the economic order. Might it not be that the world that the modern economists believe they are investigating is in fact the unnatural exchange economy known to Aristotle and St. Thomas but “realised” in modern times to an extent that they could not have imagined? Might it not be that the real economy is the natural one that struggles to function under the incubus of such a disordered scramble for wealth (money)?

This would explain why there is such a disconnect between the thought of Chesterton and that of serious students of the modern economy. They are studying two different worlds. It happens that what Chesterton is examining is the fundamental part of the real economic world. The economists are basically studying an aspect of the real economy which has the reality only of a disorder or evil in the exchange system of the body economic; it is a subject matter or economic study only as the study of a disease is a necessary part of the study of health.

These two studies need to be corrected and then re-connected, the first by including once more Aristotle and St. Thomas's fine analysis of commerce in its twofold nature. We need to know about that part of the economy that the economists study; which today is “where the action is”. But it cannot be studied simply as a socio-economic pathology which is not recognised as such.

Therefore the philosophy of Distributism needs to be supplemented by an explanation of the modern exchange system and a critique of its disordered state. We need to cure modern economic science of its virtue-blindness, and hence vice-blindness,

the relevant virtue being the social one of justice. As indicated at the start, this abstraction in the name of science, or stance of neutrality, in social studies of itself engenders a distorted perspective – which allows many injustices to pass unacknowledged. There is not much prospect of a rapprochement between the Catholic social moralists and the “scientific” economists whilst ever this warped vision persists.

On the other hand, the Catholic moral critique of modern economic life and thought will continue to be hampered without a clearer vision of St. Thomas's distinctions regarding trade and profit. Without such an addendum to his critique Chesterton's valuable insights in his social philosophy will continue to go unacknowledged and unappreciated, not just in the academic world, but also among most Catholic intellectuals many of whom are working earnestly in this field of socio-economic studies

## **ADVERTISEMENT**

Just to show that Chesterton is not alone in his view of the perversity of the conditions of much of modern social and economic life, when most of us seem to have succumbed to the conditioning influence of advertising and the media, we set out below a few more quotes attributed to well known citizens of the New World, with a final quote from Chesterton.

### **Abraham Lincoln**

“I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country ... Corporations have been enthroned and an era of corruption in high places will follow, and the money power will endeavour to prolong its reign by working on the prejudices of the people until wealth is aggregated in a few hands and the Republic is destroyed.”

### **Stephen Leacock**

“Advertising may be described as the science of arresting human intelligence long enough to get money from it.”

### **Ogden Nash**

“I think that I shall never see a billboard lovely as a tree. Perhaps, unless the billboards fall I'll never see a tree at all.”

### **G.K. Chesterton**

“[In the pre-capitalist era] a fairly clear line separated advertisement from art... I should say the first effect of the triumph of the capitalist (if we allow him to triumph) will be that that line of demarcation will entirely disappear. There will be no art that might not just as well be advertisement. I do not necessarily mean that there will be no good art; much of it might be, much of it already is, very good art. You may put it, if you please, in the form that there has been a vast improvement in advertisements ... But the improvement of advertisements is the degradation of artists. It is their degradation for this clear and vital reason: that the artist will work, not only to please the rich, but only to increase their riches; which is a considerable step lower ... And no one who knows the small-minded cynicism of our plutocracy, its secrecy, its gambling spirit, its contempt of conscience, can doubt that the artist-advertiser will often be assisting enterprises over which he will have no moral control, and of which he could feel no moral approval. He will be working to spread quack medicines, queer investments ... And to this base ingenuity he will have to bend the proudest and purest of the virtues of the intellect, the power to attract his brethren, and the noble duty of praise.” (*Utopia of Usurers c. I. Art and Advertisement*)