

## **The Subjective Dimension of Work as Central to Catholic Social Thought in the 21st Century**

*In an Era of Human Capital, the Subjective Dimension of Work and its Emphasis on the Human Capacities is a Gift to Economic Analysis, and the Appropriate Locus for Both Justice and Vocation.*

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John Paul's introduction of the subjective and objective dimensions of labor brilliantly allowed a focus on both aspects, without sacrificing the importance of either. Each has critical points to be considered, and that is best done as its own category. The objective dimension retains an importance of the market forces which have to be faced and which determine pay and returns. On the other hand, the subjective dimension allows us to devote consideration of the richer role of work as vocation.

The following essay traces developments in economics and labor markets in the last century, as well as the Church's teachings. In particular, how the subjective dimension has become ever more critical, even for the objective dimension too. With increasingly competitive labor markets, the policy focus shifts from fixing imperfections in the labor market to raising productivity of individual workers. Where human capital is the dominant resource, that means raising human capital. But recent research by Nobel laureates Robert Fogel and James Heckman on human capital acquisition finds that it depends greatly on important virtues and character traits. This raises the importance of the human person as a subject in questions of economic outcomes. Thus the emphasis on the subjective dimension of work provides critical contributions for our time for questions of overall well-being, including the meaning of work, overall economic performance and outcomes, and even our frameworks for analysis. With this, the Church's social teachings move from largely moral evaluation and commentary on the system, to contributor at the theoretical level as well.

### **I. Introduction**

The Church's teachings on labor could be summarized as follows. While much progress remains to be done, there have been great gains in material compensation and working conditions in the past century in the developed countries. These will increasingly spread around the world, addressing many of the needs (pay, working conditions, rest, and labor relations) which have been the focus of social teachings throughout the millennia, and as specified in the encyclicals in the past hundred years. The

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rising importance of human capital and social capital is changing the nature of work to make it increasingly one in which people can be the subject of their work, and can see themselves in that light, as well one which is increasingly social in nature. These changes highlight the dignity of work (all productive activity, whether in the market or at home), as well as the dignity of humankind itself as the primary resource. The challenge for the future is whether people (workers, business owners, governments) comprehend the subjective dimension of work: the transcendent meaning of work and its importance to the individual worker for living out her vocation and for growth in virtue, as well as its proper place in relation to family and social obligations. Absent such understanding, people will only poorly develop the skills of heart and mind which enable them to use these newfound opportunities in the subjective dimension to give to their work “the meaning which it has in the eyes of God” (*Laborem Exercens* 24)<sup>1</sup> and businesses may make insufficient effort to emphasize such elements in their job design. What is needed, therefore, is renewed emphasis on the meaning of work, in the context of what it means to be human at all, because, as the *Compendium* states, “[i]f this awareness is lacking, or if one chooses not to recognize this truth, work loses its truest and most profound meaning” (271). The following essay reviews these elements in greater detail, and uses the work of Nobel Prize winning economists Robert Fogel and James Heckman to consider why the teachings on the subjective dimension are so important for today, for meaning, as the locus for justice and policy, and as analytical contribution.

The key to this new emphasis in the teachings on labor is understanding the economic, political, and social changes which have occurred since *Rerum Novarum*, particularly the rise of human capital. The 20<sup>th</sup> century was revolutionary, but not as Marx expected. In the name of saving workers from capitalist oppression, elites led revolutions and established totalitarian governments which killed 80-100 million and oppressed countless more (Courtois 1999:9). Instead, it was in market economies that workers gained most, just as Smith had believed. Unlike Marx, who argued that capitalism would cause increasing misery of the working class, Smith predicted “universal opulence which extends itself to the lowest ranks of the population” (1776:I,1). For the market economies, which experienced the largest poverty reductions in human history (Fogel 2000:170) as they shifted from industrial (or even agricultural) to service economies with ever greater opportunities for individual workers, the 20<sup>th</sup> century was the time in which Smith’s prophecy finally came true. The 20<sup>th</sup> century was revolutionary, especially for poor workers, but not via communist revolution.

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<sup>1</sup> All encyclical excerpts taken from the Vatican’s website, [www.vatican.va](http://www.vatican.va). Emphases in original. Documents are abbreviated as follows: RN = *Rerum Novarum*; LE= *Laborem Exercens*; CA = *Centesimus Annus*; CSD = *Compendium of the Social Doctrine of the Church*. All editions Libreria Editrice Vaticana.

In Marx's defense, Smith's prediction was long in coming true. Panglosses had predicted a future of plenty for years, but at the time of the *Communist Manifesto* in 1848, there was still little to show for the promise. While the working classes steadily improved their lot in the later 1800s, and more rapidly in the 20<sup>th</sup> century, gains for them had been meager and slow in coming any sooner. This was in contrast to the capitalists, whose fortunes had risen early and rapidly, contributing to increasing inequality and social tension. Workers and companies fought over basic rules on working conditions, unions, and just pay, while various communist, socialist, and pro-labor parties contended politically. The jury was still out on progress.

And it remained out into the 20<sup>th</sup> century. Despite progress looking back from today, it wasn't so clear even up through early decades of the century as humanity contended with world wars, the rise of totalitarianism, the Holocaust, the Great Depression, and the advent of communism. In those circumstances, the Church continued to defend the rights of the least well off politically and economically. The social teachings also sought to balance economic policies to promote efficiency and industriousness with guidelines fostering the capacity to see work as a vocation. For the half century after *Rerum Novarum*, this balance most needed a defense of basic conditions for living. Thus the teachings focused more on pay, working conditions, the role of unions, etc., which depend greatly on the efficiency or technical nature of the system and the distribution of physical resources, i.e. the objective nature of work.<sup>2</sup>

As the 20<sup>th</sup> century progressed, however, the oppression of communist governments and their failure to deliver politically or economically became clear. In addition, both capitalism and communism shared a common problem, even if it manifested itself differently under both systems: an increasingly materialist mindset that undermined the capacity to find meaning in life, and especially in work. For this reason the Church added ever deeper reflections on the spiritual and subjective dimension of work, i.e. what work means for the worker (CSD 270-1). This began with Vatican II's emphasis on authentic

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<sup>2</sup> This shift in emphasis from material/economic injustices to more spiritual considerations about the nature of work wasn't confined only to the social teachings of the Catholic church; secular market critics shifted their approach as well. As Paul Hollander writes, "In the 1960s it was no longer possible to mount the type of broad frontal attack on capitalism which in the 1930s had focused on poverty and unemployment. Insofar as and in part because it was less feasible to attack capitalism on such predominantly economic grounds, in a striking switch its economic successes became the new basis for its rejection. Now it was the baleful results of the high standards of living and the associated empty material values and competitive individualism that became the grounds for social criticism. The rejection of society could no longer be based predominantly upon the decline of material conditions which were so evident in the 1930s. A similar trend could be observed with respect to work. While in the 1930s unemployment was a major focus of social criticism, in the 1960s the emphasis shifted to the quality of work since unemployment was no longer a major problem. Now critics directed their fire at the routinized, meaningless, demeaning or dead-end jobs. While undoubtedly there were many such forms of work, this was neither a new development nor peculiar to the United States or Western Europe. Again such criticisms reflected the rising expectations of an increasing number of people"(1981:204-5).

## Larrivee: *The Subjective Dimension of Work*

human progress in *Gaudium et Spes*, and extended further with the introduction of the subjective dimension and spiritual theology of work in *Laborem Exercens*, and examination of the nature of work in a free economy in *Centesimus Annus*. These teachings are intended to help people understand their vocation to transform the world, to see that by their work they emulate God the creator, and Christ who himself was a worker, to learn how to live out their work as a primary way in which they relate to God, and to make of their work a spiritual activity which has value in God's eyes and by which they grow closer to him.

*Laborem Exercens* states that in order for work to achieve its full meaning as an act of the person, people must develop the capacity to intend that in the first place. This requires both the philosophical framework to understand such an option even exists as well as the formation of habits of mind and will which make that possible. Just as education empowers people with human capital to make them more productive in the objective sense by assisting them in seeing better how to produce for others, teachings on the subjective value of work help people develop the spiritual capital by which they can be productive in ways valuable for themselves and for God, i.e. growing in virtue and love of God and others. As John Paul II says

An inner effort on the part of the human spirit, guided by faith, hope and charity, is needed in order that through these points the *work* of the individual human being *may be given the meaning which it has in the eyes of God* and by means of which work enters into the salvation process on a par with the other ordinary yet particularly important components of its texture... The church...sees it as her particular duty to form a spirituality of work which will help all people to come closer, through work, to God, the creator and redeemer...(LE 24).

This turn in the social teachings can be related to economic changes over the period. In fact, an interesting parallel to the turn is found in the works of Nobel Prize winners Robert Fogel and James Heckman. Fogel, who won the Nobel Prize in economics for his studies in economic history and who is perhaps the world's expert in measuring well-being of people across time, argues that the focus of the past battles of justice and equality (just wages, safe conditions, fair distribution of income, etc.) were appropriate for their time. However, in the developed countries (and in the developing countries in the coming century), human capital has become the most important resource. In this setting, human capital acquisition and its distribution now dominate questions of economic performance and well-being. With competitive labor markets paying workers something closer to marginal revenue product, we must shift to explore how to raise worker productivity, rather than simply press firms to pay more (a policy which was appropriate when labor markets were less competitive and labor not mobile). That means

understanding the human capital acquisition process: how do people acquire the human capital that is highly valued in the market?

Heckman has focused on the human capital acquisition process for the last two decades. Perhaps his central contribution has been the emphasis on students, and the non-cognitive skills, a set of personality traits, character dispositions and perhaps ideas, that shape their willingness to learn. This isn't simply IQ, but capacities that are/can be learned. Often they are learned in early years of life, and typically best in families, though perhaps they can also be cultivated with appropriate general programs in schools. The key is how much these virtues matter.

Fogel takes Heckman's work even further. First, he adds ideas such as sense of purpose, and understanding of life to the character skills Heckman cites, challenging a materialist conception of the human person. Second, he goes beyond market earnings. So much progress has happened in those areas that in the future, the more important and substantial gains in well-being will come from the capacity to find meaning in life, i.e. in the subjective dimension. Material consumption has been broadly distributed, paid work hours have plummeted, and time to engage in what one wants has skyrocketed. For the first time in history, these gains allow the vast majority of the population the opportunity to engage in self-realization.

But what will enable them to do so? How will they avoid the fate Huxley predicted to be productive in that newfound time and live for more than consumption? For that, Fogel argues people will need *spiritual resources*, or spiritual capital. By this, he means a combination of virtues and worldview: such basic virtues as discipline, motivation, and the capacity to resist the lure of hedonism, as well as a framework for viewing life that provides a sense of meaning and purpose to one's activity. Interestingly, it is these resources that increasingly shape people's capacity to be productive in both the objective and subjective sense. Not only do they affect how strongly people work to invest in their own human capital, making them capable of more material output, they shape the ability to be productive in searching out, understanding, and living for meaning. Thus it is the capacity in this realm that will matter most in the century to come. He begins his 2000 book on this topic, *The Fourth Great Awakening and the Future of Egalitarianism*, with the statement "...the future of egalitarianism...turns on the...ability to combine continued economic growth with an entirely new set of egalitarian reforms that address the urgent spiritual needs of our age, secular as well as sacred" (2). He also writes, "[t]he most serious threats to egalitarian progress – the most intractable forms of poverty – are related to the unequal distribution of spiritual...resources" (1999:13), and "of all the maldistributed spiritual resources, sense of purpose may be the most important" (2000:205). This sounds surprisingly like John Paul himself.

Both authors, especially Fogel, have strong implications for how we analyze labor economics. Both place a substantial new focus on the human subject. To understand the objective dimension of the market, we need a clearer understanding of the human subject as an active being capable of virtue and contemplating ideas upon which to act. If so, then the ideas which people have upon which to act matter. I contend this strongly supports the Church's anthropological vision.

The following essay uses the provocative writings of one of the world's premier economic historians to explain why the teachings on the subjective dimension of work are appropriately the most important development in the Church's teaching on labor and in the *Compendium*, rather than, for example, those on living wages or unions. They are needed in themselves to explain the importance of work. But they are also necessary for contemporary reflections on justice in the marketplace, and the importance of the human subject implies the Church's focus on the human person is appropriate. In this, the Church goes from providing moral guidance to economic arrangement, to supporting a vision of man critical to analyze the world.

This is not necessarily a clear case to make or accept given the events and intellectual battles of the past two centuries. For all the good of *Rerum Novarum*, it was too long in coming. The Church was too slow to respond to the upheaval of the Industrial Revolution. Today, in the face of millions around the world whose work remains toil and whose lives of uninterrupted extreme poverty differ little from those of workers a century ago, it is easy to think of an emphasis on the subjective dimension of work as a return to the pre-*Rerum Novarum* inadequacy; a regression, not a development. To anyone hostile to markets, and dubious of progress in them, such an emphasis is frivolous—a teaching for the fortunate few with the luxury to live in pursuit of meaning—or pernicious—a return to a religious opiate of the masses which placates them so as to prevent their demand for systemic reform. In light of such understandable suspicions, Fogel is perhaps the best economist for explaining adequately and credibly to Catholics and non-Catholics alike why the teachings on the subjective dimension of labor are in fact so relevant for today and for the coming century.

For this reason, I follow both his general argument and his approach. This begins with understanding the extent of the progress in the market economies since *Rerum Novarum*. This is not to boast about the market, but rather to emphasize the tremendous gains, what they mean for well-being, and the possibility for all countries to experience this development as well. This helps explain how a secular economist, and Fogel in particular, arrives at the conclusion that an emphasis on the non-material is needed for today. It then provides a parallel analysis of the development of the social teachings in the most important encyclicals over the same period to chart their development of similar points. The

following section explicitly considers the teachings included in the *Compendium*, with examinations of particular elements. I then turn to two important topics for further examination: human capital and labor market policies. The focus on the increasing role of human capital helps explain why the emphasis on developing personal ability, rather than reforming an exploitive system, must be the central focus today. This is particularly true in light of the substantial evidence that labor market policies to improve employment prospects without raising productivity are limited in what they can accomplish.

I do not claim that this focus on human capital and its implications implies everything in the labor market is working perfectly, that competitive markets guarantee optimal or just outcomes. Instead, I want to demonstrate how the contributions on the subjective dimension have now become the central contributions of the Church's teachings, and how they extend beyond the justice framework (always important) to demonstrate how the Church's broader message of the nature of humanity matters for analysis and policy. To have appropriate policies, we need an accurate understanding of man. The materialist world adopted a reductionist view in the last two centuries. The Church retained its emphasis on the human subject, and it is being validated, and is needed today, more than ever.

As with Fogel, I believe other countries will come to share in these gains and that their progress will be faster than our own. In time, far more people will enjoy the "luxury" of an era in which the main concerns are meaning in work and responding to the question "What is the good life?" For those fortunate enough to face that now, and for those who will experience it in the century to come, the teachings on work may serve the purpose whose need Fogel highlights: finding meaning in one's life and living for it. This time the Church is not too late, but very much in time.<sup>3</sup>

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<sup>3</sup> Of course, the idea that work might be beneficial for the worker is not new. The Benedictines had honored hard work since their inception despite near universal perception of work as undignified. Even communists and Nazis acknowledged the concept, even if cynically, by their description of concentration camps as places for reform through labor. As Paul Hollander (2006:lxix) writes, "In the early days of the various Communist states it was an article of the official faith that work was therapeutic and the best device for rehabilitation and redemption. All Communist political systems, and in particular the first among them, the Soviet Union, initially proposed ambitious schemes aimed at the rehabilitation of all criminals, including sometimes even political wrongdoers. Felix Dzerzhinsky (the first head of the Soviet political police) called the forced labor camps 'schools of labor.' It was supposed to be possible even for hardened criminals (especially those not guilty of political offenses) to gain readmittance to the community of good citizens if they proved themselves through hard work. Posted at the entrance of numerous Soviet labor camps was the slogan 'Honest labor: the road home,' reminiscent of the better-known signs at the gates of Nazi concentration camps which promised that 'work will set you free.'" As one textbook of the USSR put it, "In socialist society labour ceases to be a strictly personal affair, a source of existence; it becomes a social act which moulds and educates man himself (*Fundamentals of Political Science: Textbook for Primary Political Education*, 270. Yakovlev was lead editor of the text.).

## Larrivee: *The Subjective Dimension of Work*

The following sections review the economic changes, including the gains in material well-being in the 20<sup>th</sup> century and the communist alternative, how the Church's teachings changed from *Rerum Novarum* to the *Compendium*, then how human capital changes that history and brings back in the importance of the human subject.

### A Brief Overview...

The interplay between economic reality, theory, policy, and social moral views such as the Church's is complex, each connected with the others, each with its own workings over history, each affecting the others with lags. The following table provides a quick overview of that story.

	Pre 1900	Early 1900s	Late 1900s
<b>Economic Conditions</b>	Pre 1800: Broad Poverty; Economic divisions more by guilds/industry/occupation than class; 1800-1900: Industrial revolution	Working Class developed (not yet diverse?) Labor immobile; flooding in from rural areas --> market failures; unequal power Workers generally equal in productive power (HK not a huge requirement for jobs, and not very different across people; or differences in worker skill not as important as differences in power between workers and firms)	0a. Vast, broad gains in material well-being. 0b. Communist project failed. 1. Mobile Labor <u>2. Competitive labor, product, factor markets</u> <u>--&gt; 3. People paid wage much closer to MRP</u> <u>4. Explosion in importance of Human Capital</u>
<b>Economic Theory</b>	1700s: Economic growth; 1800-1870: Distribution (English classical)  Labor Theory of Value erroneously linked product value, labor value, & pay	<u><b>JB Clark: A Solution Ahead of its Time</b></u> Increasing focus on modeling action of individuals, indiv firms, <u>Clark: MRP defines theoretical framework for what workers will get paid under competitive conditions.</u> <u>Finally provides mechanism to solve labor pay question</u> <u>But.....market conditions not yet ready for it!!!</u> Market conditions: consolidation of industries --> focus on market imperfections, market power,	Development of micro analysis Probing the limits of MRP: i.e. market forces generally press toward this, but...explore when results deviate & by how much Human Capital and Education Theory 2000+Heckman: human capital acquisition is complex
<b>Economic Policies</b>		<b>Firm Based Policies: Restrain firms; Redistribute</b> The issue is NOT low productivity of workers, but of workers (possibly) not getting paid what they earned. Raise power of Workers relative to firms (market did not result in workers getting paid what they earned, so govt can force); Why raise productivity if firms already not paying what produced	<b>Individual Based Policies: Raise Productivity of Individuals</b> Opportunities for redistribution more limited; labor market policies less effective. --> need to focus on raising productivity of workers. --> Education But then...not so simple
<b>Church Teaching</b>	Guilds; Just Prices -->Just Wages; Waking up to implications of Industrial revolution for development of classes as new focal point of moral theory. Etc	<b>Development of CST: [(Largely Objective Dimension of Work)]</b> Battle of Economic Systems starting <b>Economic circumstances dominate --&gt;</b> 1. moral commentary focuses on JUSTICE, which is about fixing the EXTERNAL conditions; re-balance power. 2. minimizes importance of individual, ideas, civil society, etc. The story is that the nature of the economic conditions shaped the moral commentary; but so much that it is hard to think differently when the economic conditions do not matter so exclusively. This is Fogel's point about the different awakenings and their moral commentary/social action.  Note: Firms hated for abusing 1. Workers; 2. Consumers; 3. soc.	<b>Shifting to Subjective Dimension of Work for</b> <b>a. material and non-material outcomes</b> <b>b. Appropriate analysis of human capital</b> <b>[[this changes it from simply Catholic moral analysis of the market, to an analytical contribution of faith: the person matters]]</b> a. Post 20th Century Economic Experiments b. Era of competitive labor markets, c. And dominance of human capital -----> 1. Opportunity for vocational thinking about work w/ less pressure of economic imperative: justice is less of a concern both due to erosion of business power and gains in well-being 2. Human Factor --> Human capital is dominant resource, but acquisition is complex

I believe the events of the past two hundred years have a general trend: the shift away from stuff/material as the key source of value to people themselves, the rising importance of the human subject in reality, and from there in economic theory, and policy. But the Church is the original promoter of the dignity of the human person, and the events in the world of work vindicate that contribution.



## II. Economic Gains in the 20<sup>th</sup> Century

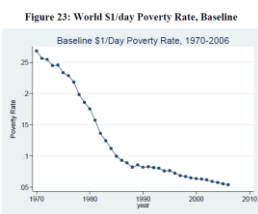
A fundamental dimension of the teachings on labor was their origin in the deplorable economic circumstances at the time, and the ideological battles over which system would better provide for workers. Thus understanding the economic gains in well-being and work since then is important for interpreting the social teachings over the period. The century which followed the issuance of *Rerum Novarum* was revolutionary in the developed countries, one of unparalleled material progress across the income scale as increased efficiency allowed people to have ever more goods and services with ever less work (Cox and Alm 1997; Lebergott 1993; Berger 1986). Biomedical measures such as longevity, height, body mass, morbidity (which are better indicators of overall well-being than income since they reflect cumulative physical influences, both positive and negative) demonstrate the impact of these gains in well-being over the period yet more strongly. Life expectancy rose by about 30 years. Stature increased substantially, with, for example, average height of Dutch males rising by a phenomenal 8 inches between 1850 and today (Fogel 2000:144).

From a Judeo-Christian heritage which places great emphasis on the least well-off, however, the most important aspect of this growth is that these changes were especially beneficial for the poor. As Fogel writes, “[t]he record of the 20th century contrasts sharply with that of the two preceding centuries. In every measure that we have bearing on the standard of living, such as real income, homelessness, life expectancy, and height, the gains of the lower classes have been far greater than those experienced by the population as a whole, whose overall standard of living has also improved” (Fogel 2000:143). Two thirds of the fall in the Gini ratio (from about 0.6-0.7 for U.S. and European countries in 1700 to about 0.3-0.4 today) occurred in the 20<sup>th</sup> century (Fogel 2000:143). Since income at all levels was increasing, this means that the income of the poor was rising faster than income for the rest of the population. In the United States, the real income of the bottom 20% rose nineteen times between 1890 and 1990, and the income of the average family *below* the poverty line today would put them in the top 10% of the income bracket 100 years ago (Fogel 2000:170). Again, biomedical measures confirm how the poor have gained. Life expectancy of the poor has risen absolutely from 41 to 75 today. This 34 year gain, in one century, exceeds all cumulative gains in life expectancy in human history (Fogel 2004:40; Fogel 2000:143). Moreover, they have even gained relative to other classes. In Britain, for example, the gap in lifespan between rich and poor has dropped from 17 years in 1875 to 2-4 years today (Fogel 2004:40; Fogel 2000:143), while the gap in stature has fallen from 5 inches in the early 1800s to one inch today (Fogel 2000:144). Today, only a small percentage of the population in the developed countries lives in conditions suffered by the vast majority a century ago.

The 20<sup>th</sup> century provided stunning gains in leisure as well. People are not only working less per day and per week, they also are working fewer days and weeks per year due to increased vacation and holiday time and the combination has substantially reduced annual hours. For example, for France, Germany, Italy, the United Kingdom, and the United States, paid work hours per person employed fell from nearly 3000 hours per year in 1870 to 2800 in 1890 to 1500-1600 today, while for Japan and Latin America these have fallen from about 3000 to about 2000 (Ausubel and Grubler 1995; Fogel 2004:68; 2000:184; Maddison 1995:248).

Perhaps most startling from this are trends in lifetime hours of work and the fraction of life spent working. Historically, the average worker started young (in Britain, often about 10 years old) and worked till he died (Ausubel and Grubler 1995). Retirement was available to few (Fogel 2004:66). Today, people start work later and ever longer retirement is the norm for all workers. The combination of decreased work hours during one's working period and at its ends substantially raises non-work hours. Fogel estimates earning a living<sup>4</sup> for people during working years will have decreased from 80% of discretionary time in 1880, to 41% today, to 25% in 2040; and people will then face yet greater free-time in longer retirement (2004:70).

In fact, these changes between the era of *Rerum Novarum* and today are so revolutionary that Fogel claims we even need to introduce new terminology to describe work. He labels "earnwork" that work which one does primarily to earn a living and "volwork" the time available to do what one enjoys (a combination of leisure time and work people enjoy, whether paid or not). For most of human history, most work was earnwork. Today and in the years to come, however, opportunities for volwork dwarf earnwork time. Fogel estimates that for American males, lifetime earnwork hours have dropped from 182,100 hours in 1880, to 122,400 today, and will further drop to 75,600 by 2040 (2004:71). On the other hand, lifetime volwork has grown and will grow tremendously over the period: from 43,800 in 1880, to 176,100 today, to 246,000 in 2040.



Source: Pinkovskiy & Martin 2009

Though Fogel focuses on the developed nations, he believes these trends will occur across the world as well. Interestingly, the decrease in absolute poverty around the world in recent decades is certainly a positive sign. While many countries have yet to catch up, and many injustices must be eradicated, the gains should be celebrated, and the gaps should not blind us to the importance of

Fogel's insights.

<sup>4</sup> Including household work. For more on home production and informal work, see Schneider and Enste (2000); Robinson and Godbey (1997); Feige (1989); Goldschmidt-Clermont (1985); Juster and Stafford (1985).

This has significant implications for the social teachings on justice, equality, and meaning. Traditional concepts of justice have generally focused on outcomes largely determined by the objective dimension of work: the distribution and adequacy of the wages, income, wealth, etc. However, the massive shifts in the relative importance of volwork versus earnwork time mean that these traditional measures increasingly apply to what is a smaller and smaller portion of what people actually value and are thus increasingly inaccurate measures of well-being. Failure to account for this shift vastly underestimates gains at all income levels in the past, produces an erroneous picture of well-being in the present, and, if continued, will give an inaccurate sense of how to address problems of the future. As he states, “[s]ome proponents of egalitarianism insist on characterizing the *material* level of the lives of the poor today as being as harsh as it was a century ago. Failure to recognize the enormous *material* gains over the last century, even for the poor, impedes, rather than advances the struggle against chronic poverty in rich nations, the principle characteristic of which is *spiritual estrangement* from the mainstream society” (Fogel 2004:202-3).

Thus a second challenge is one of meaning. As work time becomes an ever smaller portion of what people do, it becomes ever easier to think that life is for consumption, rather than to find meaning, that we are made for work, and that it is the primary means by which we live out our vocations and grow in virtue. Ausubel and Grubler (1995) argue that the former is more likely, while Fogel more optimistically concludes that people, now freed from material effort, will spend their increasing time searching out meaning. As he writes, “I believe that the desire to understand ourselves and our environment is one of the fundamental driving forces of humanity, on a par with the most basic human material needs” (2004:79; 2000:204).<sup>5</sup>

What will help in this? While not intending to limit the possibilities, he suggests what he terms spiritual resources which enable people to live for self-realization. This includes virtues such as “sense of purpose,” “vision of opportunity,” “sense of the mainstream of work and life,” “strong family ethic,” “sense of community,” “capacity to engage with diverse groups,” “ethic of benevolence,” “a sense of discipline,” “a capacity to focus and concentrate one’s efforts,” “capacity to resist the lure of hedonism,”

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<sup>5</sup> This is not an argument that the state should seek to provide meaning. Fogel intends to offer a formula for cooperation between those on the left and right for a new direction in egalitarian concern, perhaps aware of the Left’s Politics of Meaning” as well as that of the religious right.

etc. (Fogel 2000:178).<sup>6</sup> It is true that he does not mean “spiritual” in a sacred sense and his approach is perhaps too subjective for Christians. Nonetheless this emphasis on the drive to find meaning in life and self-realization as the “fullest development of the *virtuous* aspects of one’s nature” (2000:204) corresponds with the Christian idea of self-realization as development in virtues (Gregg 87) and Fogel acknowledges the important role that religion provides in this. More important is his general approach: the huge gains in material welfare and non formal-work time are leaving people with more freedom to engage in greater self-realization, an opportunity that in the past would have been limited to only a small portion of the population. Just as health and leisure gains were among the most important in recent centuries “[i]n the era that is unfolding, fair access to spiritual resources will be as much a touchstone of egalitarianism as access to material resources was in the past” (Fogel 2000:178). Fogel extends Amartya Sen’s (1996) argument that well-being be measured by access to basic goods, services and opportunities which provide capacity for freedom, to include spiritual resources needed by individuals to live out that freedom.

Fogel’s argument has received widespread verification from research at the intersection of economics and psychology in a field often referred to as “happiness research” which attempts to assess life satisfaction (see, e.g. Brooks (2008); Easterbrook (2003); Frey and Stutzer (2002); Easterlin (2001); Scitovski (1992)). The overwhelming conclusion from these studies are that that beyond basic material needs, further material consumption provides little additional gain, and that the factors most strongly associated with life satisfaction are non-economic factors such as marriage, charitable work and religious involvement. Nobel laureate Daniel Kahneman and others (Kahneman et al. 2004) have even proposed national well-being accounts as alternatives or supplements to traditional GDP measures of economic output. When even secular economists are emphasizing the spiritual side of life, one shouldn’t be surprised to find this shift in the Church’s teachings as well.

### III. Historical Development of the Teachings on Labor in the 20<sup>th</sup> Century

It’s interesting to contemplate what Marx in 1880 would have thought of the world’s expert in material well-being in 2000 writing of “fair access to spiritual resources” as being a more pressing problem than material want or how Leo XIII in 1890 would have felt discovering that, of all people, it was a secular economist who wrote it. At the time, many capitalists appeared little interested in the needs of workers, and communists cared little for spiritual meaning offered by the Church. Thus, Leo, in *Rerum*

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<sup>6</sup> Roback-Morse (2001) explores the importance of these for society. Schumpeter argues that the disintegration of the bourgeois family will result in decreasing investment in these skills by families, ultimately contributing to the demise of capitalism (1950/1942; XIV:156-63). Heckman (below) examines these for human capital.

## Larrivee: *The Subjective Dimension of Work*

*Novarum* (i.e. “New Things”: 1891), strongly criticized both liberal capitalism and socialism, while appealing for organically ordered relations of productive actors, and emphasizing basic worker rights.

The encyclical set the stage for the coming century of social teachings which seek to “link industriousness as a virtue with *the social order of work*,” to explore how man may become, in work, “more a human being” (LE 9), i.e. balancing the need for efficiency in the system with opportunities in work which enable people to more fully perceive and live out their vocation to work. This started with addressing the basic needs and rights of workers and working conditions materially in *Rerum Novarum* and *Quadragesimo Anno* (1931) and ended with examination of human progress and the meaning of work in *Gaudium et Spes* (1965) in Vatican II, *Laborem Exercens* (1981) and *Centesimus Annus* (1991). Vatican II emphasized the true nature of man and taught that authentic human progress consisted in the development of man toward God and in virtue. *Laborem Exercens* stated that work was not just key to the social question, but key to man’s existence, developed the objective and subjective dimensions of work and a spiritual theology of work. Finally, *Centesimus Annus* examined why free markets were preferable for economic organization relative to socialist alternatives, partly due to efficiency, but also due to the scope left for human creativity and independence. In particular, it gave the most developed exploration of human capital for productivity and how this highlighted the importance of man as the fundamental resource. The combination of these last two encyclicals in particular provides the best exploration of how to link “industriousness as a virtue with the social order of work.”

### *Rerum Novarum*

Faced with rapid industrialization and industry concentration which raised efficiency but gave far greater power to businesses, *Rerum Novarum* sought to balance efficiency and working conditions by defending private property but urging worker rights. Leo argued that any solution to the worker question must involve private property (8,30,35) because property is a right from nature so that people may provide for themselves. Further, he rejected collective ownership inherent in socialism since this would violate the rights of those who worked for their property, and (as he correctly foresaw) would cause greater turmoil, not less, as people lost the incentive to work and became envious of others, resulting in less for workers overall (11,12).<sup>7</sup> The encyclical even argued that greater division of ownership would be beneficial to all: reducing social tension and encouraging people to work (35). On the other hand, it balanced this right with a duty. Because the world was given for the benefit of all, private property was to

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<sup>7</sup> On the importance of property rights, see e.g. Nobel laureate Douglass North (North and Thomas 1970) and Hernando deSoto (2000).

## Larrivee: *The Subjective Dimension of Work*

be used freely, in the service of others, as demanded by both charity and justice (18, 19). It rejected the necessity of tension between classes (15), emphasizing cooperation based upon the need that capital and labor have for one another. It argued for justice and charity to shape relations between owners and workers (15-17), the role of the Church to guide (22-23) and the need for the state to make laws to support general welfare, just treatment of workers and distributive justice overall (25-29). It then focused on the rights of workers: their spiritual and mental needs, including time to worship on Sunday (32); that work hours not be excessive (33); limitations on child labor (33); and the role of unions (36-43), including their right to organize and strike, but that they not take the anti-religious path of some labor organizations at the time (43). It also called for just wages (34), stating that "...remuneration must be enough to support the wage earner in reasonable and frugal comfort." While arguing that wages ought to be set by free bargaining between worker and employer, it warned that this free consent is not sufficient to insure the wage is just. The resulting wage may be unconnected to the needs of the worker, and workers desperate to obtain a job may agree to wages which are unjustly low. i.e. they are not free, and thus a contract cannot be spoken of as just merely because it was based upon free consent. Overall, while it accepted the basic premise of market systems (private property, free exchange, free enterprise), these were to be interpreted toward the end that people needed to be free to live out their vocation to work in the world (whether workers or owners), that these relations were subject to limitations of charity and justice, and that since work is man's vocation, labor cannot be treated as merely a commodity like any other (44).

### *Quadragesimo Anno*

Forty years later, in some ways conditions were hardly improved. World War I had ripped Europe apart, leaving the continent in shambles throughout the 1920s and shaking the former confidence in human progress. The shock of the Great Depression added the fear of economic instability to other doubts about the future of capitalism. On the other hand, the rise of communism in Russia (where Stalin had already killed millions via repression, forced starvation in Ukraine, and exile to death in Siberia) and fascism in Italy demonstrated the oppression of regimes in which the state controlled politics, the economy and cultural and social institutions. Into these circumstances, Pius XI spoke to the need for freedom, human rights, and social justice.

In *Quadragesimo Anno*, he reaffirmed the right to private property tempered by the need to be attentive to the needs of others (45-52). He reiterated the mutual need of capital and labor for one

another and for class cooperation not conflict<sup>8</sup> (53) and critiqued both liberal capitalism (for displaying little theoretical concern for workers: 54), and communism for its labor theory of value (which encouraged the unjust claim by labor to all the returns of production, an idea which had become an “alluring poison:” 55). Acknowledging that market economies had brought real gains to many workers in some countries, Pius pointed out the distributional problem in which some had gained tremendously, while others still had little (56-59), and encouraged establishing a just wage by which a worker could support his family (63-68, 71), but within the means of the particular business (72). He acknowledged that wages should neither be too low (that workers would be unable to support themselves), nor be too high (that they cause unemployment), i.e. sustainable, not merely minimum, wages. Finally, he closed with greater criticism of all three economic systems at the time.

In the market economies, it appeared that economic power had become so concentrated in so many industries that domination had replaced competition (105-110). As he wrote, “free competition has committed suicide; economic dictatorship has replaced a free market” (109).<sup>9</sup> Due consideration was not given to the individual and social nature of labor and capital. It also critiqued the class warfare approach of the communists, the tendency for communist parties to engage in bloodshed, the oppression that had occurred in communist countries, as well as communism’s hostility to religion and the attacks communists had made upon God and the Church. Finally, Pius stated that socialism “conceive[d] human society in a way utterly alien to Christian truth” because it ignored the importance of work to the workers as fulfilling their vocation, and would have to compel workers to engage in production desired by the state, thus sacrificing human freedom for efficiency of temporal output.<sup>10</sup> It ended by declaring “No one can be at the same time a sincere Catholic and a true socialist” (69).

#### Vatican II: *Gaudium et Spes*

The rise of Nazism, World War II, and the Cold War, provided yet more evidence on the fate of the various types of economic systems. This included advances in the market systems, the rise of more communist governments, the cold war struggles between these systems in countries across all continents,

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<sup>8</sup> Schumpeter acknowledges the conflict, but criticizes Marx for overemphasizing it and insufficiently appreciating that often mutual need of labor and capital would overcome conflict (1942/1950:18-19)

<sup>9</sup> This belief was common at the time. It was later countered by Schumpeter’s demonstration that gains from economies of scale are substantial and that creative destruction limits the capacity for any one firm to maintain dominance over time (Schumpeter 1942/1950:63-110), by findings that regulation is plagued with its own failures (Skousen 2001:446-7; Stigler 1975) and that competition is quite heavy even in concentrated industries. Moreover, the scale of business has actually declined since the 1950s as countries have shifted away from industry and toward service economies (Fogel 2000:183; Maddison 1995:39).

<sup>10</sup> At the time, years into the Great Depression, many believed that state planning under socialism was necessary to be efficient.

## Larrivee: *The Subjective Dimension of Work*

the threat of nuclear war, and decolonization. From this experience, the Church in the Second Vatican Council more directly took up the question of the meaning of human action in the modern world. *Gaudium et Spes*, for example, explored what constitutes authentic human progress both individually and collectively, in view of what it means to be human (11-22), particularly as modeled by Christ who was God incarnate (22). As it stated, “the norm of human activity is this: that in accord with the divine plan and will, it harmonize with the genuine good of the human race, and that it allow men as individuals and as members of society to pursue their total vocation and fulfill it” (35). The goal of economic activity “is not the mere increase of products nor profit or control but rather the service of man, and indeed of the whole man with regard for the full range of his material needs and the demands of his intellectual, moral, spiritual, and religious life” (64). It then used that lens to critique the vast social, technological, political, and economic changes which had occurred in all countries (4-10), capitalist and communist, noting especially their tendency toward an atheistic and materialistic conception of human existence (19-21; 63)

### *Laborem Exercens*

Having attended the Council himself, John Paul II's eagerness to see its implementation is evidenced in his extensive writings drawing from and expanding upon the Council documents. In *Laborem Exercens*, his first encyclical on the social teachings, he presented the most comprehensive examination of work in them thus far. The encyclical reiterated traditional elements of pay, hours, conditions, worker participation, relations between labor and capital, and private property. But it did so following the themes of authentic human progress laid out in Vatican II, argued that work was the key to the social question, and gave greater development of the purpose of work within a personalist framework: the meaning of work in light of the nature of the human person.

Work is good. By it workers live, support their families, and serve others. Work is the only way to build anything of value. Transforming the world, as co-creators with God, can only be done by activity (Benestad 2002). Thus, even if it is difficult, work is good for man. Since God calls us to be active, and we follow his will in working, work must be a way we grow in virtue, and spiritually draw closer to God. To explore this, John Paul develops the concepts of the objective and subjective dimensions of work as well as a spiritual theology of work. The objective dimension (5) is based upon the technological and institutional conditions that shape production and the market value of what the worker produces. It concerns the transformation of the external world according to physical or natural principles. On the other hand, the subjective dimension (6) concerns the transformation of the worker herself and thus the



importance of the work to her.<sup>11</sup> In the objective dimension, man subdues the earth. In the subjective dimension, he subdues and exercises dominion over and masters himself (Gregg 84-90).

That one can grow through work was hardly a new idea for the time: it was and had been common across social systems, and perhaps nowhere as explicitly as in communist countries. The effect of work on workers and the meaning of work to workers was inherent to such Marxist concepts as alienation.<sup>12</sup> Communist countries prided themselves on being worker paradises. Even the work/reeducation camps were (at first) supposed to be places in which prisoners were reformed and integrated back into society through work. Over time, however, the façade increasingly fell from this charade as criminals were not reformed, millions of non-criminals were punished by work, and governments of these worker paradises caused vastly worse exploitation of workers than occurred in capitalist countries. Inevitably, the lip service paid by communist authorities to the dignity of work sounded increasingly hypocritical: a tension obvious from the question of whether to allow the labor union Solidarity in Poland.

Throughout the decades, John Paul had sharpened his arguments against defenders of the communist system and thus was ready for his first encyclical. Marxism may have claimed concern for the worker, and sprung from concern for the development of the person engaged in work. But to make an argument about how a person develops through work requires an understanding of the human person and the role of work in that. The Marxist materialist vision, complete with people as the *product* of social forces determined by the nature of the production was too thin, and the Pope leaped in to expose the weakness at the heart of the philosophy. Instead, John Paul turned to faith, and the perspective of personalism.

As John Paul states from his personalist perspective (explored in his many writings before he became pope, e.g. *The Acting Person*), human action has value because it is an act of the person (*actus personae*): its value stems from the reasons and motivation for the action (LE 24). Each act is a choice which requires moral effort. Since people are the subjects of work, and the choices involved with it, the actions they take transform them, just as other acts of virtue do. Work therefore provides the occasion by which people can grow in virtue (Gregg 2003:84-90; Savage 1999). Thus *Laborem Exercens* highlights work (human action paid and unpaid) as a primary means by which people live out their spiritual lives of growth as persons (in self realization) i.e. the development of virtue (Gregg 2003: 84-90). People are called to be workers (not consumers), and in fulfilling that vocation, they are fulfilled. As it states, “Work

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<sup>11</sup> This reverses the labor theory of value in which the amount of labor used determines the value of output to society.

<sup>12</sup> For extensive treatment of the many variations of philosophy of work within Marxism, see Kolakowski (2006).

## Larrivee: *The Subjective Dimension of Work*

is a good thing for man—a good thing for his humanity—because through work man *not only transforms nature*, adapting it to his own needs, but he also *achieves fulfillment* as a human being and indeed, in a sense, becomes ‘more a human being’” (LE 9; GS 35). People are transformed in work actively as they (as subjects) form themselves via their actions in work, not simply passively (as the object of the transformation).

But people cannot fully make of their work an occasion of growth in virtue without an intellectual framework which helps them understand the meaning of work and its necessity to them in growing as persons. As John Paul writes “An inner effort on the part of the human spirit, guided by faith, hope and charity, is needed in order that through these points the *work* of the individual human being may *be given the meaning which it has in the eyes of God*” (LE 24).<sup>13</sup> For this reason, the encyclical concluded with a more extensive development of a spiritual theology of work, using the three fundamental categories of creation, incarnation, and suffering and redemption. This emphasized the role, duty, and invitation to be co-creators with God as made in the image and likeness of God (25), following the example of Christ who worked and lived out his vocation (26), with the Christian understanding that it may involve suffering and toil just as Christ himself suffered in his role in redeeming the world (27).

These ideas are not new, with each having a long history in Catholic spiritual writings. What is new is the emphasis on the framework, the ideas themselves, for helping people to think about the work they do.

### *Centesimus Annus*

Written after the collapse of the communist experiment by one who had experienced it first hand for over four decades, *Centesimus Annus* went past the questions of which system would provide best for the workers materially. The market economies had unquestionably done that, and (with appropriate cultural and legal restraints) were the system for developing countries to follow (CA 41). Moreover, the killing, oppression, and totalitarian nature of the communist regimes across the globe made clear that the

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<sup>13</sup> Of course, if people do not have this understanding of work, it will be hard to make of work a spiritual exercise and occasion of transformation. And it certainly requires effort to consistently apply this approach to one’s work in every moment. That is the challenge of developing a vocational approach to one’s work. An interesting parallel to this occurs in the writings of Mihaly Csikszentmihalyi, a psychologist who has specialized in work and has written on work as “flow.” Csikszentmihalyi argues that work can be enjoyable if one makes the effort to approach it with the mentality of turning every moment into a game in which feedback is clear and the individual challenges are well tailored to one’s skills. John Paul offers similar perspective, turning every moment into an opportunity for spiritual growth in love and virtue, rather than into a game for fun.

problems weren't just in the economics, but in communism's flawed vision of the human person and the connection to economic activity.

This extended to work. In market systems, businesses freely sought out what people wanted and the rise of the importance of human elements—human capital, social capital, and entrepreneurial ability—combined with this to provide a more efficient, sustainable system with ever greater scope for workers to be the free subject of their work: i.e. in which they both had capacity and responsibility to act on their own. In many ways, markets encouraged virtues (McCloskey 2006). Private property allowed scope for creativity and responsibility. The profit mechanism forced producers to consider others and what they want, with the implication that work in profit driven firms generally had to be oriented toward something people valued.

On the other hand, workers in communist countries were still not free politically, economically, or personally. Slave labor used in the gulags and laogai demonstrated the capacity for *states* to treat and view workers themselves as commodities. Moreover, the attempt to shield workers from market forces and guarantee employment perversely resulted in much individual work being unimportant or unnecessary, the system undermining virtue rather than rewarding it, and fostering materialism rather than providing meaning. These problems arose from central elements of communism, not policies of particular countries: the elimination of private property, state ownership of the means of production and therefore organization of it, as well as state decision to displace such mediating institutions as churches and families in the formation of people.

Despite the claims that work in capitalist countries would leave workers alienated and purposeless, this problem was never solved by merely eliminating private property and rearranging ownership of the means of production and was likely worse in the communist countries. For example, Tatyana Zaslavskaya, perhaps the leading sociologist in the USSR, wrote in 1983

The primary reasons for the need for perestroika [are] not the sluggish economy and the rate of technical development but an underlying mass alienation of working people from significant social goals and values. This social alienation is rooted in the economic system formed in the 1930s, which made state property, run by a vast bureaucratic apparatus, the dominant form of ownership....For 50 years it was said that this was public property and belonged to everyone, but no way was ever found to make workers feel they were the co-owners and masters of the factories, farms, and enterprises. They felt themselves to be cogs in a gigantic machine (cited in Conquest 189).

In addition, central planning itself proved to hinder personal development. Managed from the top, the system did little to foster the capacity for people to see themselves as the subject of their work or

to search out what others want. While Adam Smith and Marx had argued that industrial workers would become increasingly stunted as they became little more than extensions of the machines, neither expected the extent to which central planning would itself become a form of “soft despotism” in which the energy for initiative and involvement would be drained from society’s members.<sup>14</sup>

Even the supposed aim of insuring work eventually ran hollow. Capitalism’s failure to guarantee employment had been a key criticism of markets, including that in the social teachings. This rose to great importance during the Great Depression, when the presence of massive unemployment seemed to vindicate Marxist criticisms, and as the start of the Soviet Union seemed to prove that a country could insure that everyone had a job (see, e.g. Hollander 1981:74-101). Even after the Depression, many assumed that specific policies by government to increase and improve employment were preferable to a seemingly callous laissez-faire approach.

But this unfulfillable promise of security in employment and pay ultimately undermined the value of work itself. Divorcing pay from effort or quality eroded the incentive to do good work. Forcefully “creating” jobs or work for people to insure they had something to do, rather than nothing, often cynically involved doing nothing but calling it something. It was hard to see one’s work as important to personal development when it was unimportant to society.

The negative results for workers of these attempts to maintain the façade of security, pay and full employment is documented in *The Turning Point: Revitalizing the Soviet Economy*, by Nikolai Shmelev and Vladimir Popov, two Soviet economists who detailed the workings of the Soviet economic system. As they write,

The guarantee of employment, to be sure, is the most important principle of socialism, but to achieve a goal (including full employment) at any price will ultimately and unavoidably emasculate the very essence of the principle. It causes waste that cannot be justified by any results... Full employment has been achieved by creating economically senseless, unnecessary job vacancies... The situation with regard to a fair reward for work is truly wretched, since the principle of compensating workers commensurate with the quality and quantity of the work they do has not been realized (181-183).

In the end, the combination of atheist philosophy, domineering government and state planning, and loss of private property undermined society itself. Perhaps few people captured this sense more than Alexander Yakovlev. As a high official in the office of propaganda of the communist party in the Soviet

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<sup>14</sup> This term arises in Tocqueville’s *Democracy in America*. Further verification of this point is made by Arthur Brooks’ (2006) studies of charitable contributions and volunteer work. Far from making people self-centered and individualistic, it is in market economies that people do the most volunteer work: voluntary participation in the United States (especially by religiously active, market friendly/government skeptical conservatives) is far larger than in the more socialist countries of Europe, and dwarfs that in Russia (minimal to the point of not even recorded or studied). It also speaks to John Paul’s frequent assertion of the importance of philosophy and values over specific economic arrangement.

Union, Yakovlev had tried to justify communism as necessary to avoid theoretical assumptions about how capitalism would corrode people and social relations. Instead, he came to see that in fact Marxist communism itself had done this far more. Disillusioned with Marxism, he served Gorbachev as intellectual visionary, detailing extensively not merely the economic and political failures of communism, but of how it had destroyed the moral and philosophical foundations of society. As he writes in *The Fate of Marxism in Russia* (1993):

But how did we live? Irresponsibility, lack of discipline and elementary order, and unrestrained drunkenness litter the landscape of both our private and our public existence. There are millions of micro- and macro-Chernobyls, from the actual tragedy of the nuclear power station, to pollution of the sea, air, and land, to the lack of nitroglycerine in our drugstores. Time bombs are constantly going off and will continue to explode until normal economic relations prevail.

For decades, cast iron, coal, steel, and petroleum had priority over food, housing, hospitals, schools, and services. The claim that “it had to be that way” is fallacious. Because of the economic re-feudalism of management, the price of industrialization has been disastrously high in both human and material terms. Disregard for the individual has known no bounds. We will not brag about the absence of unemployment under the old system. There was no unemployment under serfdom, either.

Corruption is now widespread along with massive abuse of every sort, deception, economic crimes of all types, and the pilfering away of the entire country. Can we survive for long even in our land, so rich with natural resources? The corrupt and decomposing system is rotting the people as well, pushing them toward thievery and idleness, but preventing them in every way from living by honest work...

We will not speak of the obvious; a policy of bolshevizing the country greatly advanced the lumpenization of all social strata and categories. Science has been lumpenized, social thought has been lumpenized, and the government has been lumpenized, even at the highest level.

But a lumpen is a lumpen. He alone does not define the depth of the country's spiritual depletion. That depletion is visible primarily in people's low economic productivity. There is also not much activity today in science, art, or even business. People are exhausted and have lost faith. They do not trust the government, or laws, or solutions. Decades will have to pass under the rule of law before such trust can be regained in our country (73-4).

Yakovlev's position of having to justify communism from its Marxist roots led him entirely the other way, to recognize how the social failures in the communist countries were not aberrations, but were due to the nature of Marxist philosophy itself, and thus why it was necessary to end the experiment:

The stratification of production sharply reduced the initiative of the lower links in the chain, freeing them from immediate responsibility for the results of their labor. The supercentralization characteristic of our route of development meant decisions involving economic activity were made at three or four levels higher (or more) than the place where the information necessary for decision making was to be found.

The direct socialization of the means of production did not resolve the problem of control of the spontaneous forces of the market, but it destroyed the market as such. That led to bureaucratic dictatorship both in the economy and in politics. Clearly, this very direct form of linking personal and social interests under the current conditions must be conceived differently than in the past, not necessarily in material forms, [such as] nationalization and confiscation...

By itself, the abolition of private ownership of the means of production did not lead to the individual's spiritual uplifting. What is more, when ecological and economic thinking was lost, the spiritual health of society could not be maintained. Morality is an integral part of the culture of the commodity society; they are founded on the same principle, which is freedom of choice. Attempts to reject simple morals in the name of some higher communist morality led to disastrous consequences (87).

John Paul had been right. Work was the key to the social question, and the communist answer was insufficient. But the problem wasn't simply Marxism either. In that regard, communism joined the other systems, fascism and Nazism, that had challenged classical liberalism and the western heritage in the twentieth century.<sup>15</sup> All three proposed to overcome the two moral failures of the classical economic system (economic injustice in the material dimension and individualism and moral corrosion in the spiritual) and had themselves failed miserably in the process. Neither collective ownership, nor collective identity in state or race, had ended oppression of the weak or overcome individualism or fostered virtue. In many ways, all three were the culmination of the Enlightenment project, the naïve belief that man could make people good and social life harmonious in a society without God.<sup>16</sup> All three simplistically assumed that all they had to do was find the right economic and political arrangement and everything would work out fine. But in the end, virtue is individual, and the collectivist philosophies couldn't build up real individuals by burying them in the collective will of a society founded on atheism.

John Paul used the occasion of the fall of Communism to point out that this fundamental error of all three was their weak view of the human person, and the naïve assumption that simplistic rearrangement of the economic/political order would be sufficient to generate good people and a harmonious society without a sound philosophy of what it means to be human. While offering stronger recognition of the benefits of capitalism and less negative characterization of its weaknesses than prior writings, appropriately the pope nonetheless extended the lessons to market systems too. If collective ownership or national consciousness had been insufficient to make people good without a deeper understanding of what it means to be human, he recognized that the invisible hand wasn't enough either. Thus, while making these critiques of socialism, *Centesimus Annus* didn't offer unqualified approval of markets. Markets only supply what people want. And workers can only live this freedom in their work if they understand it. Thus the Achilles heel is whether people (as workers or buyers) have a sufficiently developed sense of what it means to be human and of authentic human development to perceive what wants are indeed good, what work should be done, and in what spirit it ought to be performed.

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<sup>15</sup> It is common to label communism on the "left" due to its emphasis on common ownership and universal classes and fascism and Nazism on the "right" due to their acceptance of private property and emphasis on the particular nation or race. However, in fact they really fought for space on the left in terms of collective over individual rights, state control of the economy and use of property (even if property is privately owned) for state purposes, and opposition to classical liberal economic/political order, not to mention opposition to the western Christian heritage of faith and reason. This argument is made extensively in Friedrich Hayek's *Road to Serfdom*, Raymond Aron's *Opium of the Intellectuals* (13-15) and Francois Furet's *Passing of an Illusion*, as well as in Burleigh (2007; 2005) and Goldberg (2007).

<sup>16</sup> Furet argues that in the 1930s Georges Bataille recognized the common totalitarian nature of Communism, Fascism, and Nazism (and liberalism itself) as "presaging end of the Enlightenment world" (Furet 311).

Overall, *Centesimus Annus* captures the importance of free markets for efficiency and fostering opportunities to work and recognizes the increasing role of the human resources in them, while highlighting the need for an authentic vision of the human person to inform human action.

Sadly, this lesson went unlearned by many people of faith, lost to ideological battles over the importance of *markets* rather than the importance of *faith*. The fall of the Enlightenment project experiments should have highlighted the need for a philosophy of life as a foundation for human existence and source or support for human norms, something for which religions have a particular role. This should have provided a tremendous opportunity for people of faith to make the case for faith in society. Alas, this point was lost amid ideological fighting over whether John Paul's recognition of the failures of communism and the strengths of markets constituted a blessing of market systems over other alternatives. In the process, one of the best teaching moments of the past three centuries was squandered.

#### IV. The *Compendium*

The *Compendium* places itself in this heritage, but looking forward. Many traditional aspects remain because the needs they address remain (particularly in the developing world) but the shift is clearly toward the subjective dimension. The following reviews the *Compendium's* chapter on labor, offering brief critiques of selected points here (job design, child labor, globalization and trade, and unions). More substantive treatment of the role of human capital and the difficult tradeoff between improving conditions and pay for labor without increasing unemployment is offered in the following sections.

The *Compendium* addresses seven broad categories of work: biblical aspects (255-266), the prophetic role of *Rerum Novarum* (267-269), the dignity of work (270-286), the right to work (287-300), the rights of workers (301-4), solidarity among workers (305-9), and new things in the world of work today (310-322). Beyond the traditional focus on labor market policies, the *Compendium* helps one understand that the labor question was far broader than simply pay or economic arrangement. The means by which *Rerum Novarum* cut through the worker question of the last century leads to the deeper insight today, that work "is the 'essential key' to the whole social question and is the condition not only for economic development, but also for the cultural and moral development of persons, the family, society and the entire human race" (269).

This position flows from a sense of the dignity of work (Section III). An important first step in this is making the distinction between the objective and subjective dimensions (270-275) of work

introduced in *Laborem Exercens*. This framework allows one to consider the nature of production, technology, market value, etc. as related to but distinct from the importance of the work to the worker herself. The subjective dimension “does not depend upon what people produce or on the type of activity they undertake, but only and exclusively on their dignity as human beings” (270). Since work is our calling, for us, “the subjective dimension must always take precedence over the objective dimension” (271), regardless of its objective value (272). Section 272 makes a strong claim regarding the severity of missing the opportunities in the subjective dimension, stating: “[i]f this awareness is lacking, or if one chooses not to recognize this truth, work loses its truest and most profound meaning.”<sup>17</sup>

Alford and Naughton (2001) argue that ignorance of the spiritual aspect of work affects both workers and businesses. Workers do not live their work as a spiritual activity as fully as they could if they understood it, and businesses give insufficient attention to the spiritual dimension in designing work. In addressing this, they demonstrate the practical benefit of the objective/subjective distinction. This allows consideration of the fact that the system must be sustainable in the objective dimension, while acknowledging that is not the end in itself. They then consider changes in work design which support the subjective dimension, while meeting the requirement of sustainability economically.

While it retains the traditional emphasis on the priority of people over other inputs, and addresses labor and capital, it does this in the context of a new economy in which the most important capital, and resource overall, is in fact human capital (broadly defined). It observes that these shifts in the objective nature of work provide great opportunities to develop and live out the subjective dimension. This increasingly fulfills John Paul II's call in *Laborem Exercens* that “the person who works desires *not only* due remuneration for his work; he also wishes that, within the production process, provision be made for him to be able to *know* that in his work, even on something that is owned in common, he is working *for himself*” (15). On the other hand, it warns that gaining from these changes hinges on the extent to which workers and owners understand the subjective dimension so that workers can more fully live out their work as vocation to God and others and an occasion for growth (280). Given the importance of these changes, they are discussed in greater detail below.

Since work is a vocation, people must have the rights *of* work and rights *to* work. This links both questions of promoting opportunity for work and how workers ought to be treated.

This includes many of the concerns which drove battles over justice in work one hundred years ago and which have been prominent in social teachings since that time. These include just compensation,

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<sup>17</sup> Sayers (1949) argues that if people understood this, they'd be clamoring to work, rather than running from it.



the right to rest, working conditions, social protections such as compensation for injury and unemployment, and some coverage for retirement, as well as the need for appropriate income redistribution.

It is not surprising that these latter ideas are here after 100 years of encyclicals and thousands of years of revelation. What may be surprising is that these have been limited to a few paragraphs. This is perhaps an indication of the extent to which market economies have been able to address the problems of scarcity which have always faced human existence, the production problems of a century ago, as well as what has been learned regarding effectiveness of policies for these ends. In particular, while explicit labor market policies can be helpful and are often necessary, the efficiency of the institutional arrangements in the system is perhaps the strongest force for raising up the poor. Moreover, policies which aim to provide greater remuneration to workers without raising productivity often create unemployment which excludes the least skilled and most marginalized workers. This tradeoff—finding the right policy mix for a given country and culture which supports those in need and rights of work while not reducing opportunities to work—is explored further below.

The changes in the economy increase opportunities for workers to see themselves as the subject of their work and to develop the subjective dimension of work. Thus most needed today is understanding of the purpose for work in a way which frees people to take advantage of these developments. Without this, people will be less able to grow in their work or to offer it to God. They will be more likely to fall into extremes of seeing work as, on one hand, mainly funding consumption, or, on the other, merely a career they consume, not a vocation, and more likely to sacrifice themselves, their families, society, and their relationship with God for their work or their consumption—much like the world predicted by Huxley. Nor will space be made by firms for development of this by workers.

Emphasis on the spiritual dimension reminds us that people need more than material gain and of the humanity of others with whom they interact and across the globe (318). While this doesn't include sufficient development of the need for this to apply to all forms of work, and to seize opportunities outside of formal employment as Fogel does, the emphasis on personal understanding of the spiritual dimension to inform decisions regarding work and life in the future matches the conclusion drawn by Fogel himself. As the *Compendium* states “[t]he decisive factor and “referee” of this complex phase of change is once more the human person, who must remain the true protagonist of his work. He can and must take on in a creative and responsible fashion the present innovations and re-organizations, so that they lead to the growth of the person, the family, society and the entire human family” (CSD 317).

## V. Competing Goals? Rights to Work versus Rights of Work

An important challenge for any economy is to provide opportunity to work and adequate compensation and environment for work. These are reviewed in the *Compendium* as rights to work (287-290) and rights of work (301-4). For example, governments, as “indirect employers,” have the responsibility to ensure such opportunities exist and that structures in society do not prevent people from access to work (CSD 288). On the other hand, people must be able to support themselves via their work, so states ought to insure rights of work: i.e. a just wage; the right to adequate rest, especially on Sundays; working conditions which are not harmful physically, psychologically, or morally; appropriate unemployment compensation; pension or social insurance for old age, sickness, or accidents; proper support for mothers; and the rights associated with unions: e.g. assembly, associations, strike (CSD 304-7). The emphasis on these two elements is understandable because one cannot live out the vocation to work when unemployment makes it hard to find a job, and seeing oneself as the creative subject of work is difficult when work conditions are poor.

The problem is that experience with many different policy approaches to these goals in the past century finds that solutions to them often conflict. Policies with greater emphasis on the rights of workers (raising compensation and security while working or providing support during unemployment, e.g. higher minimum wages, unemployment compensation, public assistance, etc.) tend to raise unemployment or decrease labor force participation, thus reducing the opportunity for work and often benefiting those with jobs at the expense of those not working. In light of this tradeoff, countries must search out the combination of policies most appropriate for their economic and cultural conditions and given the nature of unemployment they face. While the past century may have resolved the question as to what system is the best for providing both employment opportunity and reasonable gains in compensation, the coming decades will increasingly resolve what types of policies are best for addressing these types of unemployment at the macroeconomic and microeconomic levels.

### Macroeconomic Policies

Macroeconomic policies toward unemployment have shifted tremendously over the last hundred years, from little attempt to guide the economy, to active management of business cycles following the Great Depression and the rise of Keynesianism, to a more general preference for creating the right environment today. In fact, the phenomenal gains to labor described above imply that sound macroeconomic policy, including appropriate institutional arrangements, is perhaps the most important labor policy.

Keynesianism dominated the middle of the century. Stung by the apparent ineffectiveness of laissez-faire policies to end the Great Depression, economists for the next few decades widely embraced the Keynesian model of using fiscal (tax and spending) policies to steer aggregate demand to achieve desired levels of output and employment. This belief was reflected in *Mater et Magistra's* assertion (during the high point of Keynesianism in 1961), that

[t]he present advance in scientific knowledge ... puts into the hands of public authority a greater means for limiting fluctuations in the economy and for providing effective measures to prevent the recurrence of mass unemployment. Hence the insistent demands on those in authority... to increase the degree and scope of their activities in the economic sphere, and to devise ways and means and set the necessary machinery in motion for the attainment of this end (54).

In recent decades, challenges to Keynesian theories and division among economists have reduced confidence in the efficacy of macroeconomic stabilization policy. Despite such divisions, economists generally agree that even if macroeconomic stabilization can boost the economy in the short-run, it cannot do so indefinitely. Eventually such policies cause only inflation without spurring on the economy to reduce unemployment.

Instead, many believe that employment and economic growth are most effectively fostered by creating the best setting in which the economy may function, rather than ad hoc stimulation measures. As Nobel winner in macroeconomics Robert Lucas writes

There remain important gains in welfare from better fiscal policies, but I argue that these are gains from providing people with better incentives to work and to save, not from better fine tuning of spending flows. Taking U.S. performance over the past 50 years as a benchmark, the potential for welfare gains from better long-run, supply side policies exceeds by far the potential from further improvements in short-run demand management (2003).

By “supply side,” Lucas means policies that seek to improve the economy by enhancing the efficiency of the system overall generally, rather than stimulating aggregate demand (consumption) occasionally. This would be achieved by improved institutional arrangements such as a competitive environment, reasonable levels of taxes and regulation, limited government production, open trade, and stable currencies, though economists disagree tremendously over what constitutes reasonable or limited. Overall, this balance is reflected in section 291 (citing CA 48), which states that: “The duty of the State does not consist so much in directly guaranteeing the right to work of every citizen, making the whole of economic life very rigid and restricting individual free initiative, as much as in the duty to ‘sustain business activities by creating conditions which will ensure job opportunities, by stimulating those

activities where they are lacking or by supporting them in moments of crisis.” This captures the shifts in thinking that occurred across the multiple dimensions presented in this essay: the failure of alternative economic systems ostensibly intended to provide material justice, meaning and full employment for workers mentioned above in the section on communism, the counter-productive effects of worker protection measures (below), and instead the importance of economic freedom.

#### Microeconomic Policies

At the microeconomic level, some policy options to improve access to employment are clear. Social or legal structures which limit free access to work of particular groups in the population, e.g. apartheid, are unjust since they prevent people from living out their vocation to work and should be eliminated. The more difficult problem concerns tradeoffs between compensation or job security and opportunities to work in the first place.

Companies (and economies) face a fundamental limitation in their compensation: they cannot pay more than they make from the sale of their goods or services. Thus overall compensation cannot deviate substantially from marginal revenue product of the individual workers. This applies to the economy overall as well: only so much can be provided (of jobs and compensation) given the resources, technology, and institutional arrangements countries have. Policies intended to help workers but which do not raise their productivity (e.g. higher minimum wages) tend to increase unemployment by both raising compensation above marginal revenue product and making labor markets less flexible to changing circumstances.

The tension in meeting these goals can be seen in the labor market experience of Europe and the United States in recent decades. In general, most E.U. members have what appear to be more pro-labor policies than the United States: more generous unemployment compensation, higher minimum wages, greater unionization and centralized wage setting, limitations on dismissals, and greater welfare benefits. On the other hand, the U.S. has generally had a lower unemployment rate and provided more jobs, and thus more opportunity to work, than Europe. For example, the U.S. unemployment rate is around 5%, while that for Europe is much higher, at 8-10%. The U.S. has also created more jobs, at all income and skill levels. Between 1970 and 2003, the number of people employed in the United States rose by 58.9 million from almost 80 million to 140 million, while employment in France, Germany, and Italy combined rose by only 17.6 million people, from about 67 million to about 84 million, with almost half of this being due to German reunification (Gersemann 2004:21). Between 1990 and 2003, U. S. employment rose by 18.9 million, while that of those three E.U. countries rose by only 2.2 million

(Gersemann 2004:21; Siebert 1997). Finally, in the United States, about one third of unemployment spells are less than one month, two thirds are less than three months, and less than 10% last more than a year. For France, Germany, and Italy, this was reversed: less than 10% were over in a month, 10-25% in three months, and 35% to almost 60% lasted longer than a year (Gersemann 2004:178). The International Monetary Fund estimates that a move to U.S. type tax and labor policies would lower unemployment by approximately 3% (Gersemann 2004:51).

Some of the employment difference is likely due to macroeconomic policies: the U.S. economy has had higher growth but lower tax rates than Europe (Prescott 2004; Rogerson 2010). However, much is due to labor market policies themselves intended to help workers but which perversely raise unemployment. These policies induce workers to spend less time and effort finding a job and firms to demand less labor and to look harder before they hire someone. Both increase time until a match is made, extending unemployment spells and raising unemployment overall. What is unknown is the relative importance of these by country.

Creative policy-making, tailored to individual circumstances, may be helpful in reducing this trade-off. This can be seen in case of the minimum wage. A just wage has long been a central feature in Christian thought (e.g. James 5:5). The *Compendium* continues this stating “Remuneration is the most important means for achieving justice in work relationships” (302), and reiterating the argument that free contractual agreement over wages is not enough to guarantee justice and that pay “must not be below the level of subsistence” (302). Thus a common expression of this requirement of justice and charity was for some form of minimum compensation. Moreover, a minimum wage may be appropriate in some cases, especially when workers have limited mobility or little choice of employment (e.g. mill-towns in the 1800s, or many rural areas around the world today, where firms face little competition and as monopsony buyers of labor can pay workers less than the value of their output).

On the other hand, labor markets in developed countries are generally sufficiently competitive that such laws will tend to cause some unemployment, and it is the least skilled, most marginal workers who are most likely to be experience it. For many such workers, low-wage jobs are the first opportunity to obtain the work experience which builds human capital which will improve their circumstances over time. Moreover, the more substantially the minimum is set above the market wage, the greater the impact.<sup>18</sup> In addition, minimum wages are often poorly targeted means of assistance. In general, only a small fraction of minimum wage recipients are sole earners in households. Higher minimum wages provide greater assistance

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<sup>18</sup> Card and Krueger’s controversial findings (1994, 1995) that employment increased following certain minimum wage increases both conflict with most studies, and apply to minimum wages far below proposed living wages.

to secondary workers (spouses, children) in non-poor households, often benefiting them while displacing sole earner heads of poor households (Arcidiacono and Ahn 2003). They even appear to be regressive because they disproportionately raise prices for low income families generally, while most of the increased wage goes to families who are not poor (MaCurdy and McIntyre 2001). As Klay and Junn (2002) argue, the combination of worker flexibility, need for training, family circumstances (including presence of other workers), life cycle effects, etc. all imply that it is perhaps more appropriate to speak of just remuneration over a lifetime rather than at any given moment. Regarding the “just remuneration” idea from *Quadragesimo Anno*, Worland (2001) observes that requiring a minimum wage places too much responsibility on firms alone and that instead Pius XI put the burden all actors in society to raise productivity of workers so that they may earn an adequate amount. Thus it is not surprising that many economists are dubious of minimum wages as an effective means for helping the working poor (Neumark and Wascher 2007; EPI 2006).<sup>19</sup>

A more promising approach is wage subsidies such as the Earned Income Tax Credit in the U.S. (EPI 2006; MaCurdy and McIntyre 2004). These provide targeted aid to people with low earnings, based upon need (e.g. family size) without the labor market distortions of other programs. The *Compendium* recognizes the need for this type of approach by stating: “Authentic economic well-being is pursued also by means...which... taking general conditions into account, look at the merit as well as at the need of each citizen” (303).

Other pro-labor policies have similar problems: raising overall compensation for labor without increasing worker productivity reduces demand for labor and raises the search time for workers and firms. Both increase unemployment (Siebert 1997). More generous unemployment compensation (greater benefits paid out for longer periods of time) lowers the opportunity cost of searching for work and thus results in workers taking longer to look for employment (Classen 1997; Meyer 1995, 1990; Atkinson and Micklewright 1991). Policies restricting dismissal induce firms to take more time before hiring workers. Centralized wage negotiations may raise compensation for low-skill workers above their productivity, but this will induce firms to hire fewer low-skill workers. In all these cases, greater worker protection inevitably results in increased unemployment to some degree.

Can the same benefits be obtained at lower cost, personal and social? This issue lies at the heart of current research on labor markets and the reform of social insurance programs generally. For example, Denmark has obtained low unemployment by a combination of flexible hiring and firing policies, in

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<sup>19</sup> Neumark and Wascher (2007) offer among the most comprehensive reviews of the new research on the minimum wage since the Card and Krueger studies, concluding the traditional finding still holds: minimum wages reduce employment of the least skilled.

conjunction with unemployment compensation which is generous but very short lived, and extensive worker retraining and relocation opportunities. While expensive, it has maintained unemployment rates closer to those of the United States. Another promising option (applicable to retirement, medical, and unemployment insurance alike) is restructuring the way in which unemployment is funded: providing workers with set amounts of funds directly to their own accounts, rather to a general insurance pool. Constructed this way, employees spend their own money rather than that of the insurance pool. They are still covered, since funds go to their own account, but remain unemployed at their own expense, thus giving greater incentive to search more effectively. Such policies may be able to achieve worker protection without the inefficiencies that have plagued current programs (Feldstein 2005). Finally, greater development of human capital early may be more effective than programs to make up for lower productivity later.

While the 20<sup>th</sup> century may have involved the question of what system to use, its answer allows the 21<sup>st</sup> century to focus more on the particular policies within the system. As *Compendium* sections 288 and 320 observe, this places great responsibility on researchers to resolve these questions. For now, it appears that creating the proper economic environment is the best policy to raise material well-being and reduce unemployment. At the micro level, the tradeoff between access to employment in the first place and labor protection policies, the exact degree of which may be uncertain or vary from country to country, demands great prudence in policy making at all levels. It also underscores the importance of human capital development of understanding the subjective dimension of work rather than explicit labor market policies.

## **VI. Implications of Human Capital for Catholic Social Teachings on Labor:**

Building Human Capital (Raising Worker Productivity) Becomes More Important than Attempting to Alter Employer Pay

Living for Meaning, the New Dimension of Consideration for Well-Being

Spiritual Resources that Promote Human Capital Valued in the Market and for Meaning

The Subjective Dimension Covers These through Emphasis on Active Subject

While Marx may have been right about a changed nature of production causing changed relations of production in his time, he was wrong about the direction it would take in the future (CA 41). The shift to technologically oriented service economies (CSD 313) has resulted in an ever greater need for human capital, a means of production the ownership of which cannot be concentrated like physical capital or land and which acquires value only in relation to its use with and for others. Moreover, the division of labor in the tasks done by human capital make each worker not an ever more easily replaceable member of the ever more homogenous proletariat, but an ever more heterogeneous owner of human capital the

firm needs for production and who needs increasingly to be invited in and encouraged to develop it and use it in conjunction with others (Yakovlev 23). This places greater emphasis on the individual worker and his contributions to the organizations in which he works as well as the social nature of work, with both highlighting the dignity and importance of man himself. Moreover acquiring human capital is an individual action, dependent upon human virtue and will. Amazingly, objective returns depend extraordinarily upon the human subject, bringing new importance and richness to the subjective dimension of labor. The human subject, the focus of the subjective dimension of labor, now matters more than ever, and in ways that celebrate human agency, and the need for people to have understanding on which to act.

This new reality is reflected in the *Compendium*. While it references (276-278) the old teaching of the relationship between labor and capital, it acknowledges that the rising importance of human and social capital is among the most significant changes in the nature of work in the last century, stating “...contrary to what happened in the former organization of labor in which the subject would end up being less important than the object, than the mechanical process, in our day the subjective dimension of work tends to be more decisive and more important than the objective dimension” (278). Thus as technological progress and improved economic policies address basic questions such as productivity, compensation, working conditions, worker rights, etc., the capacity to live out the subjective dimension of work will depend more and more upon the individual’s understanding of the nature of work and its role in human existence rather than external factors.

Though alluded to by Smith in *The Wealth of Nations*,<sup>20</sup> the concept of human capital lay largely undeveloped until the work of Theodore Schultz and Gary Becker in the 1960s and 1970s. Like physical capital such as tools, human capital is useful for producing other ends (though it may be an end in itself), and can also be developed (via study, training, and practice). Since people own their human capital, and get the greater returns when it is augmented, they have an incentive to invest in raising their own productivity (and are compensated for this). They can do so via education, practice, experience, and on the job training, as well as by such other actions as migration to greater opportunities, job search to find better job matches, and greater care of health. However, given people’s differing capacity to afford such investments, especially education, society’s obligation to improve individual well-being and enable all to “enter the circle of exchange, and to develop their skills in order to make the best use of their capacities and resources” (CA 34), requires insuring access to adequate education (CSD 289-90). Note that while

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<sup>20</sup> Book 1 Chapter X: “Of Wages and Profit in the different Employments of Labour and Stock.”



*the Church celebrates the individual, and here recognizes the need for human capital, it has not yet merged them as is occurring in Heckman's work, i.e. that education is not simply "provided" by government, but must be acquired by individuals.*

The rise of human capital (broadly defined) explains many trends in labor and earnings in the developed countries since the late 1800s era surrounding *Rerum Novarum*. First, most of the reduction in income inequality has occurred because human capital has risen to be more than twice as important as physical capital or land and is more equitably distributed than both (Haveman, Bershadker, Schwabish 2003; Fogel 2000:157; Maddison 1995:37; Sowell 1985:195).<sup>21</sup> Since most of the productive capacity is owned by workers themselves, this raises the pay to workers and creates an incentive for businesses to see workers as resources, fostering the employee ownership, cooperation and partnership which had been promoted by the encyclicals in the past century, but in an unexpected way. This has been reflected in the shift in management practices from scientific management, which focuses on control, to humanistic or human centered management which focuses on drawing out the resources of people by involving them in the process. While much remains to be done in management practice and job design (Alford and Naughton 2001), the changes since 1900 are substantial.

Although human capital is frequently used to refer to the full spectrum of factors which shape an individual's productivity aside from her general physical effort, additional insights can be gained by breaking this down further into human capital, social capital, and entrepreneurial ability. A common designation is that human capital refers to the knowledge, skills, and talents that a person can develop through study and practice. This is often in synergistic relationship with ability (itself partly innate and partly developed), which shapes the capacity to learn. Social capital refers to the moral principles, social customs, and social connectedness between people that enables them to work together (Serageldin and Dasgupta 2001). Entrepreneurial ability is the creative capacity to assess what other people want and to organize resources for providing it. The implications of these three types of human resources (human capital, social capital, and entrepreneurial ability) are recognized in *Centesimus Annus* 32 which states that "whereas at one time the decisive factor of production was the land, and later capital... today the decisive factor is increasingly man himself,<sup>22</sup> that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organization, as well as his ability to perceive the needs of others and to satisfy them."

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<sup>21</sup> Haveman, Bershadker, and Schwabish (2003) review methods for calculating the value of human capital.

<sup>22</sup> Julian Simon more explicitly argues man is *The Ultimate Resource* (1981).

Each of these elements has a particularly important role today. First, most production no longer relies on the kind of division-of-labor to the point of intellectual stunting described even by Smith<sup>23</sup> and assumed by many to be the future of work. More than ever, firms must consider how to encourage workers to think for themselves and to build up and use the knowledge they have, not oppress them. Since they hold knowledge specific for their role, workers are increasingly valued due to this embodied human capital (often invested in them by the firm at great cost) and given responsibility for making decisions. Second, large scale production which can draw out the use of this information requires extensive coordination of people throughout the organization and places a high value on the capacity to work together, i.e. social capital. Finally, as Smith taught with the Invisible Hand principle, in free market economies people have an incentive to search out what is wanted by others and to produce it efficiently. This places great value not on physical capital, but on what can only be a human trait: entrepreneurial ability, which Schumpeter emphasized as key to economic growth. Moreover, entrepreneurship develops the virtue of creativity as we act (Gregg 2003:162-5).

These changes improve opportunities for people to see themselves as the subject of their work, and their work in relation to others, both in the production process and in output for others. In addition, they “throw[] practical light on a truth about the person which Christianity has constantly affirmed [and] should be viewed carefully and favourably. Indeed, besides the earth, man's principal resource is man himself” CA32. These resources correspond to particular facets of our human nature as made in the image and

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<sup>23</sup> Book 5, Chapter 3, article 2. This idea is worth considering in its entirety given Smith's prominence and this essay's focus on human development.

“In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging, and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilised society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.

“It is otherwise in the barbarous societies, as they are commonly called, of hunters, of shepherds, and even of husbandmen in that rude state of husbandry which precedes the improvement of manufactures and the extension of foreign commerce. In such societies the varied occupations of every man oblige every man to exert his capacity and to invent expedients for removing difficulties which are continually occurring. Invention is kept alive, and the mind is not suffered to fall into that drowsy stupidity which, in a civilised society, seems to benumb the understanding of almost all the inferior ranks of people.”

likeness of God: reason, community, creativity, and virtue. Human capital highlights our capacity for reason. Social capital depends upon our communal nature. Entrepreneurial ability, both to new ventures and inside old organizations, underscores our creativity. Finally, these require virtues such as diligence and perseverance to be applied. Thus practical reflection on the sources of wealth and productivity today lead to greater appreciation of the dignity and importance of the human person.

#### Reliance on Human Capital Is Insufficient to End Alienation – CSD 280

Positive as these trends have been, the *Compendium* warns that: “One must not fall into the error of thinking that the process of overcoming the dependence of work on material is of itself capable of overcoming alienation in the workplace or the alienation of labor” (CSD 280). This extends the argument made for economic systems such as the communist and fascist experiments—that merely tinkering with the right political and economic arrangements is sufficient to provide social harmony and meaning—to specific technical changes: even if good, the changes themselves cannot provide justice or purpose. Whatever the technical change, society still needs a philosophy of the human person. For example, the human capital people acquire may not be effectively used for genuine human needs. More importantly, this new reliance in itself cannot result in greater understanding of how to give work “the meaning which it has in the eyes of God” (*LE 24*). It doesn’t solve the general problem of alienation today in which people sacrifice opportunities for personal growth in virtue, love of God and others, to live for consumption or work, rather than seeing how consumption and work may assist in authentic growth. Finally, even materially, many will not benefit from these human capital developments due to differences in circumstances, economies, cultures, and human capital itself.

In addition, greater emphasis on the non-material resources of the economy today do not end alienation even in a *material* sense. First, in some places or industries work is still land or physical capital intensive (e.g. agriculture). Second, illegal workers and those in informal work in developing countries are often exploited because they remain outside the legal system. Third, for many people, especially the old or disabled, skills, and thus productivity, are still limited, so income is low. Even if markets pay workers according to their skill levels more accurately than a century ago, this may be insufficient to meet their needs. Fourth, rapid changes due to increased competition may render one’s skills less valuable and make it difficult to maintain work in relation to other areas of one’s life. These imply greater development of human capital itself as possible. For this reason the *Compendium* (290) highlights the importance of equal access to education and training to enable all people to benefit from these advances in work.

Moreover, the rise in income inequality in recent decades in all the developed countries, reversing the trends reviewed earlier, raises questions even regarding the new developments in the role of human capital. Is the economy shifting in ways which disproportionately reward holders of human capital? Will those with greater access to education be able to advance while others remain behind? Might those with greater income be able to confer advantages onto their children, perpetuating income inequality not via land or title (as would have occurred in earlier eras), but via human capital development at home?

To answer these questions it must be understood that many factors driving the rise of income inequality are not explicitly related to human capital differences. These include personal choices regarding work and changes in the distribution of work hours (Lee 2000; Cox and Alm 1995), steepening in the life-cycle distribution of earnings as people earn more when middle aged to prepare for retirement (Corcoran 2001; Cox and Alm 1995) and social changes such as the rise of single parent and dual-income families (Wang and Wilcox 2017; Lerman and Wilcox 2014; Sawhill 2003; Cancian and Reed 2001). In addition, immigration and international competition may both place pressure on wages for low-skill workers (Borjas 2003; Camarota 1999; Borjas, Freeman, and Katz 1997). Also, studies of actual consumption, not income or wages, find much smaller increases in inequality. These appear to indicate that these increases in inequality are not as substantial as believed: people are spreading consumption across periods with temporarily low income, and over their lives (Meyer and Sullivan 2003; Lee 2000; Cox and Alm 1995). In fact, in the United states, while the percentage of the population below poverty at any time is approximately 12%, the percentage in long term poverty is only about 4 – 5% (Fogel 2000:220; Corcoran 2001).

Nonetheless, the increasing returns to human capital are a particularly important factor in wage and income inequality as production becomes more technologically oriented (e.g. Acemoglu 2002; Autor and Katz 1999). Thus while human capital resulted in greater income equality for most of the 20<sup>th</sup> century, the situation has reversed, and it is now differences in human capital which are *contributing greater income inequality today* (Goldin 2001; Katz and Goldin 1996). *To the extent this occurs, human capital policies must be developed to address differences in access to education and training opportunities.*

Interestingly, recent work on such policies sheds light on the human element in human capital development itself. Reviewing decades of such research, Nobel Prize winner James Heckman (Heckman and Masterov, 2005; Heckman, 2006; Heckman, Stixrud, and Urzua, 2006; Heckman, 2011; Heckman, Pinto, and Savelyev, 2013; Heckman and Kautz, 2014; Heckman and Masterov 2005; Heckman and Carneiro 2003; Heckman and Krueger 2003; Heckman and Rubinstein 2001) draws attention to a few major conclusions from it. First, input based policies (spending, class size reduction,

teacher education, etc.) and education reform policies have little consistent effect (Hanushek 2003). Second, credit constraints in college access in the United States affect only a small portion (8%) of the population, the bigger problem is ability (Heckman and Carneiro). Finally, government job training for adults is often a poor investment because those with more ability take most advantage of the training, while those with little ability gain little (Heckman and Carneiro; Heckman, Lalonde, and Smith 1999).

To explain these observations, Heckman claims that education and training opportunities matter, but at high levels of spending (as occurs in the developed countries), inequalities in these are not the most important problem. Instead, the greater issue is the capacity for people to use the opportunities provided to them. He argues that non-cognitive skills such as discipline, motivation, perseverance, and purpose (i.e. many of what Fogel calls “spiritual resources”), are the greatest factors in affecting human capital development. These are formed early in life from one’s family environment (both income and family structure, but the exact processes are yet uncertain) and shape the degree to which people can use educational opportunities they receive. Those with greater discipline and motivation can benefit more at each stage. Since the skills are determined early and human capital is acquired cumulatively, delay in addressing non-cognitive skill differences is extremely costly. Moreover, additional education and training without addressing the underlying non-cognitive skill differential doesn’t reduce differences in earnings potential, it adds to them. Consequently, Heckman argues that in order to address human capital differences behind income inequality, human capital policy must deal with the formation of these non-cognitive skills. To be most effective, these must begin early (before children enter school), though mentoring programs may have some effect for older children.

In the face of increasing importance of human capital we generally accept a social obligation to provide equal opportunities for education and training to enable all to “make the best use of their capacities and resources” (CA34, CSD 289-90). Heckman’s research implies this isn’t enough. Instead, it must be broadened to include development of the virtues necessary to use that education. Of course these skills are best taught not by programs but by families. Thus these studies highlight the important role that families have in developing the human capital so necessary for living out vocation in work today, and reinforce the *Compendium’s* emphasis on the importance of the family.

This is important for realizing that (section 280’s warning to the contrary) the *Compendium’s* overall positive assessment of the role of human capital is not undermined by these recent trends in inequality. These findings emphasize the nature of authentic human development required. A strong family environment early, oriented toward whole development of the person, including the virtues, is crucial for shaping the human capital which will enable people to work freely and more fully take

advantage of the opportunities they will have to live out their vocation (in work of every kind). Reflecting points similar to those in the *Compendium*, Fogel himself states that most of the rise of income inequality in recent years is due to personal response to broader range of opportunities, not to “structural changes that threaten to reproduce the deplorable distributional conditions” at the time of *Rerum Novarum* (2000:220). Since shifts in the economy leave people more responsible for their outcome than a century ago, the goal must be to give them skills to take advantage of that opportunity. As he writes,

at very high average incomes for ordinary people, self-realization becomes the critical issue. Equal opportunity turns less on the command of physical capital now than it did at the close of the nineteenth century. Today, and for the foreseeable future, *spiritual capital*, especially commanding those facets of knowledge that are both heavily rewarded in the marketplace and the key to opportunities of volwork, is the crux of the quest for self-realization (2000: 236).

For Fogel, these circumstances imply that the goal is less reforming or chaining an inherently exploitive system, but giving people skills which are “heavily rewarded in the marketplace and the key to volwork.” For this reason, the emphasis on human capital, the purpose of work, and the subjective dimension of work are particularly important today both for building up the human capital to enable all to benefit from the economic changes, and for providing the understanding of the work (of all types) that people do.

## **VI. Conclusion: The New Things of Work Today**

In the past century, the social teachings have tried to “link industriousness as a virtue with *the social order of work*, which will enable man to become, in work, ‘more a human being’” (LE9), i.e. to balance the creation of a humane work environment and adequate pay with a system which operates efficiently enough to provide the opportunity for work and improve compensation. These teachings have sought to combine the eternal wisdom regarding the role of human activity and the requirements of justice and love, with the concrete circumstances and economic and political knowledge of the time. This was a difficult balance when even those disciplines were unsettled as to what systems, never mind policies, would work best.

In 1891 and through the early 20<sup>th</sup> century, the social teachings responded to a century of industrialization, increasing firm concentration, and worker/business tensions by calling for provisions to protect workers—just compensation, improved working conditions, better treatment of workers including their participation in ownership and decision-making—while retaining scope for economic freedom to trade, and for private property rather than collective ownership. As the century concluded, workers in market economies experienced great improvements in working conditions, compensation, and material welfare. The shift from industrial to service economies, and the rising importance of human capital,

improved worker power and relationships between companies and employees, giving workers greater scope for personal initiative, i.e. to see themselves as the subject of their work. This was especially true relative to workers in communist countries. As time progressed, this experience was repeated for developing countries as those with greater economic freedom and openness to trade also grew faster. On the other hand, understanding of the meaning of work gradually eroded with the rise of materialist and secular ideas in both communist and capitalist countries.

The material success of those who have taken the market path, implies that economic efficiency and improved lives of workers are not incompatible, but are positively linked. However, that is only in the material, objective dimension. This misses the most important part of work: not earnings to fund consumption, but development of the person in the subjective dimension of work. Economic policy and technological change have addressed the objective dimensions and expanded opportunity for the subjective dimension, but they cannot provide meaning or virtue in themselves. The greater problem today, and looking to the future, is that many people neither perceive work as vocation nor look on it as an opportunity for growth in virtue. As a result, workers do not live their work as a spiritual activity as fully as they could, and this is insufficiently considered by either workers or businesses in designing work. Fogel writes that the greatest need today is the spiritual capital by which people can not only earn greater income, but which will assist them in finding meaning in what they do (2000:236). What is needed is renewed emphasis on the meaning of work, in the context of what it means to be human at all, because “[i]f this awareness is lacking, or if one chooses not to recognize this truth, work loses its truest and most profound meaning” (271). John Paul II’s emphasis on the subjective dimension helped demonstrate the poverty of the communist vision of the work of the human person decades ago. Perhaps the Church’s emphasis in that may do the same for capitalism today.

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