

Centesimus Annus and the Political Economy
of the Third Way

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"The third way (a mixed socialist-capitalist economy) is the fastest way to the Third WorldWe are not interested in the market socialism dreams of the leftist liberal economists on the East Coast of the United States. Right now, the main obstacle to our development is ideological infiltration from the West." Vaclav Klaus, Finance Minister of Czechoslovakia quoted in National Review, December 16, 1991.

"The Church's social doctrine is not a 'third way' between liberal capitalism and Marxist collectivism, nor even a possible alternative to other solutions less radically opposed to one another: rather, it constitutes a category of its own. Nor is it an ideology, but rather the accurate formulation of the results of a careful reflection on the complex realities of human existence, in society and international order, in the light of faith and of the Church's tradition." John Paul II, Sollicitudo Rei Socialis, Para. 42.

"The real issue now is whether it may be possible to preserve (or to restore) a society of Free Men by developing, in the West, a working type of the market economy which is acceptable and politically possible because it gives a fairly satisfactory answer to the challenging problem of the fate of man in our proletarianized, urbanized, industrialized and highly centralized society. It is this vast programme which my friends and I mean when we speak of the 'Third Way.' It is a desperate task which summons all intelligence, human understanding, goodwill and energy which is available in the present world. If we fail in this, I see no escape from collectivism and tyranny." Wilhelm Roepke, The Problem of Economic Order (Lectures delivered for the National Bank of Egypt's Fiftieth Anniversary Commemoration Lectures, Cairo, 1951), 38.

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I. Introduction

Centesimus Annus has elicited a flurry of responses with parties attempting to draw support from the encyclical for their own view of a just political-economic order. What is most interesting, however, is that in the midst of competing claims there is some agreement from both sides of the ideological fence that the encyclical endorses the idea of a social market economy. While even this agreement is clouded by differences over which "social market" concept the encyclical implicitly comes closest to endorsing, it is Jeffrey Tucker's position that the social market view stemming from the *ordo liberal* movement (related to but still distinct from the neo-liberal movement) in post-war Germany is nearest the mark.

Following a Washington forum held one week after the release of Centesimus Annus, Tucker questioned Fr. David Hollenbach about his social market reading of the encyclical. Was this the social market of Ludwig Erhard, a student of von Mises and of Wilhelm Roepke, or the current social democratic welfare state. Hollenbach's response was that the social market policies of the Erhard era and the subsequent social democratic regime are continuous. Questioned further as to whether the encyclical "indicates an endorsement of Erhard's actions in particular, Hollenbach said 'the kind of thing Erhard's actions represent, in creating something like a social market, could approximate some of the description of policies that the pope is affirming.'" Tucker demurs. He concludes that the pope's criticisms of welfarism, a section of the encyclical which Hollenbach finds perplexing, renders Hollenbach's reading of the encyclical unconvincing. Tucker says, "It does not make one a social democrat to support free-market capitalism and also unemployment insurance (as does Charles Murray), a minimum wage (which in free economies is often made irrelevant by economic growth), and government-paid job training (wasteful, perhaps, but hardly injurious to the free market)." Indeed, it may not make one a social democrat, but it may make one an *Ordo Liberal*.¹

The perceived similarity between positions taken by advocates of the *Ordo Liberal* concept of the social market and by the author of Centesimus Annus is not merely coincidental. The influence of Catholic social teaching on *Ordo Liberalism* is well known and has been noted by Alfred Mueller-Armack, who coined the term "social market", and by later commentators on the social market.² More importantly, Wilhelm Roepke (1899-1966), the German economist and advocate of "The Third Way", explicitly recognized the connection between social market economics and the social encyclicals in his critique of the Mater et Magistra in 1962. Indeed, some insight into the relationship between social market ideas and Centesimus Annus may be gained by examining Roepke's critique of that earlier encyclical.

These reflections on Roepke and the encyclicals are offered up in response to the duty of Christians who are economists to assist in the development of systems of political economy which reflect the content of their faith. Schumpeter's definition of political economy as "an exposition of a comprehensive set of economic policies that the author advocates on the strength of certain unifying normative principles" is accepted as a guide for this response. Attention will be directed first to the origin and nature of *Ordo Liberalism* and social market economics. Then Roepke's critique of Mater et Magistra will be discussed. This will be followed in turn by a consideration of Centesimus Annus as a response to Roepke's critique. The paper concludes with a detailed look at Roepke's Third Way political economy and its relation to Centesimus Annus.

II. *Ordo Liberalism* and Wilhelm Roepke

Ordo ("Ordered") Liberalism took shape between the two world wars. It was a response a century or more of German history including the destruction of German liberalism, the disintegration of political and economic order under the massive and unstable interventionist policy of the Weimar Republic, and finally the

National Socialist experience of a centrally administered economy. These experiences were followed by the post-war breakdown of central authority and the dissolution of internal and external trade. Hans Willgerodt and Alan Peacock have recently described the social market response to the German experience:

"...German liberals were no longer ready to react passively to events no matter how they came about. There was a strong conviction that some events would never be allowed to recur and that 'spontaneous' processes could not be completely relied upon, however indispensable they might be in a complex economic and political system. Over-optimistic political laissez-faire could no longer be accepted; nor was deterministic fatalism an acceptable alternative. It may be necessary to intervene actively in the economic process in an attempt to maintain some control; the problem would therefore be how to avoid 'constructivism' and the emergence of dictators."⁴

Wilhelm Roepke had experienced first hand the repression of "constructivism" and dictatorship. Roepke had spoken out publicly against National Socialism since 1930, and in 1933 lost his professorship at Marburg University. On the same day as the Reichstag fire, Roepke had delivered a eulogy at his teacher's graveside where he denounced the forces which were "on the verge of destroying the garden of culture and reconverting it to the primitive jungle."⁵ This necessitated his self-exile in Turkey and then Switzerland where he worked for more than twenty years.

Roepke and the other Ordo Liberals believed that the lesson of history was that a free society would not be preserved in the long run by the laissez-faire policies of the "night-watchman state" or the state capitalism which it engendered. As Peacock and Willgerodt put it

In contrast to laissez-faire-liberals, Ordo-liberals are also confirmed end-state liberals for they do not admit the self-destruction of the freedom of the individual, for instance through voluntary slaveryThose who rely on rules for liberal decisions, irrespective of the result of these decisions, must answer the question: how can it be guaranteed that these decisions will not destroy the liberal rules.⁶

It is this concern with the character of men and the consequent purposes to which they will put their freedom that goes to the heart of the Ordo Liberals' distrust of laissez-faire policies as sufficient means to maintain even basic political and economic freedoms in the long run. In place of the nineteenth century version of classical liberalism, Ordo Liberals proposed a political-economic order in which the state would play a positive though limited role in maintaining the social framework of the free market -- those social, political, and economic arrangements which work in tandem with competition to preserve a "free, happy, prosperous, just, and well-ordered society."⁷ It was a position not unlike that taken by Henry Simons, William Orton, and even the British and American decentralist writers of the 1930s known as distributists and the Southern Agrarians.⁸

The purpose of the social framework was not simply to maintain competition. Free competition was "a necessary precondition for a decent society," but it was not an end in itself.

Man did not live by bread alone. His happiness would depend on his social organization, his spiritual values and his prospects of a satisfying life at his work-place or with his family. The free market could not itself be expected to meet these requirements ...a mere return to the laissez-faire policies of the nineteenth century would only have disastrous consequences.⁹

In the common tradition of Ordo Liberalism and of the social encyclicals, economics is treated as a moral science.¹⁰ Within such a tradition, it is possible to speak of a common or social good which extends beyond identifying a "political process and the 'calculus of consent'." ¹¹ The belief that this common good would not be achieved by an exclusive reliance on "liberal rules" led the Ordo Liberals to consider the use of "social

stabilizers". Consequently, they favored not only decentralized government but also decentralization of private sources of power through widespread property ownership, anti-monopoly policy, and the correction of income distribution and significant market failures.¹² The guiding principle for these policies is that ends be achieved with as little intrusion in market processes as possible. But the ends must be pursued nevertheless and intervention used when necessary. Such were the arguments concerning the foundations of a good society and the policies necessary for reconstruction and economic reform which influenced a number of European leaders -- including Chancellors Adenauer and Erhard -- and the course of German economic policy in the post-war period.¹³

There were differences of opinion among the advocates of the social market, but at the heart of their common position was the understanding that "the rule of law together with the legal and social framework must circumscribe both spontaneous processes and the activities of the state."¹⁴ It is an understanding shared by the author of Centesimus Annus.¹⁵ Of the Ordo Liberals, Wilhelm Roepke's work is perhaps especially revealing because he emphasizes the idea that freedom and human dignity belong to man because of man's relationship to God, and that these gifts have practical consequences for the political-economic system.¹⁶ Roepke's emphasis on the freedom and dignity of each person places his work squarely within the tradition of the social encyclicals. In fact, Roepke's analysis of Mater et Magistra explicitly identifies his own views, and those of other Ordo Liberals, with the views expressed in the social encyclicals.

III. Roepke on Mater et Magistra

After presenting a carefully worded mixture of generous praise and criticism for previous social encyclicals, Roepke identifies their common foundation with social market economics.

Today as yesterday, the question of prime concern is: how can the worth and dignity of the human being, the inviolability of his person (in the important sense of Christian social doctrine) and, inseparable from these, the primordial society of the family, freedom and justice be preserved? Specifically, how can these values be preserved within the conditions set by modern industrial society without diminishing or even sacrificing the material progress which [Mater et Magistra]... recognizes as desirable not only in itself but as a prerequisite for the realizing of the above-mentioned ideals?

There is no need to conceal the fact, indeed it is one which is deserving of particular emphasis, that this is, by and large, the same question which is asked by a group of economists, usually described as neo-liberal, whose ideas as applied in Germany under the rubric of the social market economy have had important, even dramatic consequences. It is interesting to note, moreover, that the answers given to this question by the papal encyclicals on the one hand and by the neo-liberals on the other show substantially little difference. To the author of Mater et Magistra no less than to the neo-liberals, the correct answer to the great question is seen to be twofold in nature, requiring 1. the decisive rejection of socialism.; 2. an open mind with respect to the possibilities of reforming the market economy. ¹⁷ [first emphasis added]

Roepke uses the more popular term "neo-liberal" rather than "Ordo Liberal", but it is clear from Roepke's other works that his comments apply primarily to the Ordo school.

Roepke then specifies the common ground for pursuing the reform of the market economy within the tradition of Ordo Liberalism and the social encyclicals. It is decentrism, or subsidiarity, and the concomitant themes of personhood -- "man in his concrete existence as person as the central core, the fundamental mover of all economic processes", private initiative, families, solidarist and spontaneous societies, material wellbeing, and the indispensability of private property as the foundation of liberty and a "proper order of society."¹⁸

Roepke also lists the ideas presented in Mater et Magistra to which he takes exception. They are the failure to make an otherwise compelling case for the market unambiguously clear; criticizing the principle of competition rather than "considering the limitations and conditions which must surround this central ingredient of the market mechanism"; failing to recognize the need to protect the market against monopoly and cutthroat competition; ignoring the injustice of creeping inflation; and assuming that labor unions are still self-help organizations without also recognizing their capacity for monopolistic behavior.¹⁹

A cursory view of Centesimus Annus confirms that many of these common reform themes have been further developed in that encyclical, and that the key points in Mater et Magistra with which Roepke differed have been addressed. Certainly there are a number of points in Centesimus Annus to which Roepke would take exception, e.g. the idea that popular living standards fell during the early stages of industrialization, that the poverty of some countries is at least a side-effect of capitalist affluence, and the condemnation of "purely speculative" activities. Yet these items typically fall within the areas in which the dissent of experts is invited, and papal opinion remains subject to change. Perhaps the most important criticism of Mater et Magistra made by Roepke is its failure to make an otherwise compelling case for the market unambiguously clear. This goes to the heart of the answer to all the other criticisms and is at the heart of what is being discussed today, i.e. is the Catholic church whole-heartedly accepting markets as the best and chief means for organizing economic activity? Or to borrow the title of an article from the August issue of The American Spectator, "Is the Pope Capitalist?" To answer the question directly, no, he is not: but he may be an Ordo Liberal. And despite many protestations to the contrary in the popular press and in paragraph 41 of Sollicitudo Rei Socialis, the Pope may indeed be in one sense an advocate of a "Third Way" which is neither capitalism nor socialism.²⁰ This is not the so-called "third way" of the democratic socialist experience of Sweden and other countries -- a way first described more accurately as "The Middle Way" -- but the Third Way of Wilhelm Roepke.

IV. Centesimus Annus as a Response to Wilhelm Roepke

Chapter one of Centesimus Annus reviews the characteristics of Rerum Novarum on the occasion of its 100th anniversary. There one finds a reaffirmation of the themes which Roepke described as common to Ordo Liberalism and the social encyclicals: the essential dignity and unique value of each person; the expression and fulfillment of each person through work; wages which sustain family life; the importance of private property rights; the importance of individual and family initiative in solving problems and the subservient role of the State in such matters; and the value of solidarist societies, especially families and trade unions. The particular form which these themes take in the first chapter of Centesimus Annus is of course due to the immediate concern of Rerum Novarum for the condition the working class.²¹ However, these themes are renewed and updated in the chapters which follow.

The second chapter, entitled "Towards the 'New Things' of Today", criticizes socialism precisely for its denial and destruction of the values, relationships, and institutions which are common to Ordo Liberalism and the encyclicals. In chapter three, "The Year 1989", one finds additional statements concerning the denial of human dignity, and human rights to private initiative, private property, and economic freedom in Marxist societies (para. 23-24). It is chapters four and five, however, which contain the most detailed statements concerning the themes of subsidiarity, personhood, private initiative, families, solidarist and spontaneous societies, material wellbeing, and the indispensability of private property as the foundation of a just society. Here are just a few examples:

It would appear that, on the level of individual nations and of international relations, the free market is the most efficient instrument for utilizing resources and effectively responding to needsBut there are many human needs which find no place on the market. It is a strict duty of justice and truth not to allow fundamental human needs to remain unsatisfied, and not to allow those burdened by such needs to perishEven prior to the logic of a fair exchange of goods and the forms of justice appropriate to it, there exists something which is due to man because he is man, by reason of his lofty dignity. (para. 39)

[T]he earth does not yield its fruits without a particular human response to God's gift, that is to say, without work. It is through work that man, using his intelligence and exercising his freedom, succeeds in dominating the earth and making it a fitting home. In this way, he makes part of the earth his own, precisely the part which he has acquired through work; this is the origin of individual property More than ever, work is work with others and work for others: it is a matter of doing work for others. (para. 31)

Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking necessary risks -- all this too is a source of wealth in today's society. In this way, the role of disciplined and creative human work and, as an essential part of that work, initiative and entrepreneurial ability becomes increasingly evident and decisive. (para. 32)

Here we find a wide range of opportunities for commitment and effort in the name of justice on the part of trade unions and other workers' organizations. These defend workers' rights and protect their interests as personsThe Church acknowledges the legitimate role of profit as an indication that a business is functioning well....But profitability is not the only indicator of a firm's condition. It is possible for financial accounts to be in order, and yet for the people ...to be humiliated and their dignity offendedIn fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society. (para. 35)

There are also the references to the family life as a human right and as the fundamental structure for "human ecology".

Among the most important of these [human] rights [is] ... the right to live in a united family and in a moral environment conducive to the growth of the child's personality; the right to develop one's intelligence and freedom in seeking and knowing the truth; the right to share in the work which makes wise use of the earth's material resources, and to derive from that work the means to support oneself and one's dependents; and the right to freely establish a family, to have and to rear children ...(para. 47)

Finally, there is this statement regarding the role of the state

Another task of the State is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the State but to individuals and to the various groups and associations which make up society. (para 48)

These statements are necessarily incomplete representations of the encyclical because they are abbreviated and are taken out of context. However, they suffice to demonstrate the continuation and development of themes which Roepke deemed to be essential to the *Ordo Liberalism* and to what he called "The Third Way".

Perhaps more important are the items in Mater et Magistra to which Roepke took exception. These included the absence of an unambiguously clear defense of the market; criticism of the principle of competition; failure to recognize the need to protect against monopoly and cutthroat competition; ignoring inflation; and assuming that labor unions have no capacity for monopolistic behavior. The desire for an unambiguous defense of the market is answered by the quotation given above which states that "the free market is the most efficient instrument for utilizing resources and effectively responding to needs." There are of course many other such affirmations of the free market in Centesimus Annus. The qualifying statement that there are "many human needs which find no place on the market" and which the "strict duty of justice and truth" require to be satisfied would not be objectionable to Roepke. He commonly made such statements. For example, Roepke wrote in his Humane Economy (also entitled Beyond Supply and Demand), published in 1960,

the market economy is not everything. It must find its place in a higher order of things which is not ruled by supply and demand, free prices, and competition. It must be firmly contained in an all-embracing order of society in which the imperfections and harshness of economic freedom are corrected by law and in which man is not denied conditions of life appropriate to his nature.²²

In response to Roepke's other concerns, the following references are offered as evidence of a substantial if not entirely complete amendment of the views expressed in Mater et Magistra. To the criticism of the principle of competition, rather than "considering the limitations and conditions which must surround this central ingredient of the market mechanism", Centesimus Annus adds

Where society is so organized as to reduce arbitrarily or even suppress the sphere in which freedom is legitimately exercised, the result is that the life of society becomes progressively disorganized and goes into declineMan tends toward good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it. The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony. In fact, where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity.(para. 25)

The implied endorsement of competition can hardly be missed in this stark contrast drawn between the harmonization of self-interest with the common good, and the initiative and creativity engendered by freedom of action on the one hand, and the deadening effects of bureaucracy on the other. The traditional condemnation of "free competition" found in Quadragesimo Anno and in other encyclicals does not thwart this endorsement because social market ideas regarding competition acknowledge that it is subordinate to "a higher order of things."²³

To Roepke's desire for recognition of the need to protect the market against monopoly and cutthroat competition, one finds

It is necessary to break down the barriers and monopolies which leave so many countries on the margins of development, and to provide all individuals and nations with the basic conditions which will enable them to share in development. (para. 35)

The State has the further right to intervene when particular monopolies create delays or obstacles to development. (para. 48)

With regard to the "injustice of creeping inflation" there is this statement

Following the destruction caused by the [Second World] war, we see in some countries and under certain aspects a positive effort to rebuild a democratic society inspired by social justice In general, such attempts endeavor to preserve free market mechanisms, ensuring, by means of a stable currency and the harmony of social relations, the conditions for steady and healthy economic growth in which people through their own work can build a better future for themselves and their families. [emphasis added] (para. 19)

As to Roepke's concern that labor unions' capacity for monopolistic behavior be recognized and dealt with, very little may be drawn from Centesimus Annus other than the call for free bargaining (para. 32) and the general market orientation of the document. However, one may draw on earlier statements by John Paul II in Laborem Exercens to clarify this point.

Just efforts to secure the rights of workers who are united by the same profession should always take into account the limitations imposed by the general economic situation of the country. one method used by unions in pursuing the just rights of their members is the strike or work stoppage, as a kind of ultimatum to the competent bodies, especially the employers. This method is recognized by Catholic social teaching as legitimate in the proper conditions and within just limitsIn this connection workers should be assured the right to strike, without being subjected to personal penal sanctions for taking part in a strike. While admitting that it is a legitimate means, we must at the same time emphasize that a strike remains, in a sense, an extreme means. It must not be abused; it must not be abused especially for "political" purposesFurthermore, it must never be forgotten that, when essential community services are in question, they must in every case be insured, if necessary by means of appropriate legislation. Abuse of the strike weapon can lead to the paralysis of the whole of socioeconomic life, and this is contrary to the requirements of the common good of society, which also corresponds to the properly understood nature of work itself.²⁴

It would seem that many if not all of Roepke's "exceptions" to ideas expressed in Mater et Magistra have been addressed in subsequent works. Indeed, an examination of Roepke's "Third Way" and the ideas expressed in Centesimus Annus suggests that Roepke's work may be useful as a guide to the formulation of a system of political economy which fulfills the expectations inherent in the social doctrine of the Catholic church, and possibly in other Christian communions as well.

V. Centesimus Annus and "The Third Way"

Let us begin by examining the statements in Sollicitudo Rei Socialis and Centesimus Annus which comment on the Church's social doctrine and on the use of terms such as "capitalism" and "third way". In Sollicitudo Socialis, issued in 1987, John Paul II states that

The Church does not have technical solutions to offerFor the Church does not propose economic or political systems or programmes, nor does she show preference for one or the other, provided that human dignity is properly respected and promoted, and provided she herself is allowed the room she needs to exercise her ministry in the worldThe Church's social doctrine is not a "third way" between liberal capitalism and Marxist collectivism, nor even a possible alternative to other solutions less radically opposed to one another: rather, it constitutes a category of its own. Nor is it an ideology, but rather the accurate formulation of the results of careful reflection on the complex realities of human existence, in society and in the international order, in light of faith and of the Church's tradition. Its main aim is to interpret these realities, determining their conformity with or divergence from the lines of the Gospel teaching on man and his vocation, a vocation which is at once earthly and transcendent; its aim is

thus to guide Christian behaviour. It therefore belongs to the field, not of ideology, but of theology and particularly of moral theology. (para. 41)

In 1991, after a whirlwind of change has swept across Europe, John Paul II reiterates this position (para. 43). However, he adds the following reflection.

[C]an it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society?...The answer is obviously complex. If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy". But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative. (para. 42)

This statement substantially clarifies the earlier statement that "the Church does not propose economic or political systems or programmes, nor does she show preference for one or the other." Indeed, the Church does not propose a particular system of political economy. She does pronounce, however, on a political economic system's "conformity with or divergence from the lines of the Gospel teaching on man and his vocation." And to that extent the Church may be described as an advocate of one or many systems of political economy which respect and promote human dignity and allow the Church the freedom to exercise her ministry in the world. Furthermore, to argue that the Church's social doctrine is not a "third way" between capitalism and collectivism is simply to say that the social doctrine does not consist of one particular comprehensive set of economic policies, but instead a perspective based on an objective set of standards which may be used to judge such policies. Thus, the Church says that to the extent that a system of political economy, or comprehensive set of policies advocated on the basis of certain normative principles, "recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector," and circumscribes "freedom in the economic sectorwithin a strong juridical framework which places it at the service of human freedom in its totality," that system "should be the goal of the countries now making efforts to rebuild their economy and society." Such a system is exactly what Wilhelm Roepke chose to describe as "The Third Way" in his famous trilogy on the social market published from 1942 to 1959, and supplemented in 1960 by his book The Humane Economy: the Social Framework of the Free Market.²⁵

As to the terminological problem, the word "capitalism" as it is has traditionally been used in the European context is tainted by historically rooted antagonisms. Capitalism is identified with rationalizations of the selfish pursuit of power and wealth on the part of governments, socioeconomic classes, and individuals unbridled by a strong juridical framework.²⁶ Regardless of the degree to which one accepts these characterizations of historical capitalism, one may still consider the terms "free market" or "market economy" to be acceptable substitutes. Perhaps we demur at this substitution because we do not see that it makes any real difference. Then consider Roepke's choice of the term "Third Way". Roepke also variously used the terms "economic humanism", "humane economy", and "third road". His rejection of the use of the term "capitalism" was not based on a rejection of the free market. Indeed, he considered the only two choices to the "problem of [economic] order" to be freedom and command. Of course Roepke opted for freedom, i.e. the market economy. However, working in the same tradition as the social encyclicals, Roepke outlined not one but "four cardinal

problems" in our economic and social system, and he chose the term "Third Way" to describe the juridical framework which was required to deal with all of them.

Aside from the problem of economic order, Roepke recognized "the social problem," "the political problem of the distribution of power," and "the moral-vital problem."²⁷ The social problem refers to the need "to provide security and protection to the weak by a certain correction of the distribution obtaining under the market economy." The political problem of distributing or dividing power within a society is addressed by the market but may require further action. The moral-vital problem consists of the effect of the political-economic system on

the moral and spiritual condition of man -- on those intangibles which constitute the real meaning of his existence and the foundation of his happiness. How does this system affect man in his capacity as a person called to revere the Most High, as neighbor and citizen impelled toward community with his fellowmen, as member of a family and as worker?"²⁸

These four problems have been addressed in previous encyclicals, and they receive varying degrees of attention in Centesimus Annus.²⁹ Certainly these are what John Paul II had in mind when he like Roepke acknowledged the market's advantages in responding to the problem of order and then proceeded to name its limitations in providing for the common good.

Here we find a new limit on the market: there are collective and qualitative needs which cannot be satisfied by market mechanisms. There are important human needs which escape its logic. There are goods which by their very nature cannot and must not be bought or sold. Certainly the mechanisms of the market offer secure advantages: they help to utilize resources better; they promote the exchange of products; above all they give central place to the person's desires and preferences, which in a contract, meet the desires and preferences of another person. Nevertheless, these mechanisms carry the risk of an "idolatry" of the market, an idolatry which ignores the existence of goods which by their nature are not and cannot be mere commodities. (para. 40)

It would seem, then, that in the European experience there is an expressly spiritual dimension or some other quality not signified by term "capitalism". It may be related to the "endstate" orientation of the social market tradition contrasted with the "rules" orientation of liberal capitalism. In any case, if the term "Third Way" has been rendered ineffective at expressing this idea, then certainly Roepke would have no qualms about opting for the "system of economic humanism" as an alternative.

Centesimus Annus and Roepke's "Third Way" are grounded in the same normative concepts of human nature and a spiritually sound social order. The next section of this paper gives a detailed description of the "Third Way" program which meets the standards of Catholic social doctrine as they are set out in Centesimus Annus. It cannot be claimed that this "Third Way" program provides a shortcut to public policy. The gathering and assessing of empirical evidence must proceed in the usual technically proficient ways. But Roepke's Third Way does provide the framework for an integrated approach to public policy which is true to the complex nature of human beings and does not treat men simply as selfish "atoms" but as persons who live in communities and require a culture to sustain them. Granted, Third Way political economy does borrow heavily from the positive aspects of liberal capitalism, i.e. the idea that the market promotes mutual gains from trade, that private property is essential, that competition ought to be promoted. Also, there are the many negative criticisms of collectivism which liberal capitalism provides, e.g. that the welfare state and government intervention often do not accomplish any reasonable end and are counterproductive. Yet the Third Way political economy makes it clear that the choice is not simply between an abstract individualism and a bloated

collectivism. It provides a framework for a unified assault against the forces which continue to assail the garden of culture.

VI. The Third Way Program

Roepke, along with Alexander Ruestow and Luigi Einaudi, is distinguished by his advocacy of a "Third Way" which stresses the importance of restoring small property ownership in the form of peasant agriculture (yeoman farmers and herdsman), independent craftsmen, and local merchants. In fact, Roepke happily pointed out the particular attention paid to small farmers in Mater et Magistra.³⁰ Roepke believed in political and economic decentralization based on widely distributed property, the binding of communities through religion and education, and the modicum of permanence in social arrangements encouraged by both small and large family properties.³¹ Roepke fondly refers to the concept of the "aerated society" stressed by French philosopher and farmer Gustav Thibon, and argues that the centralization and concentration of power which took place under Bismark destroyed the roots of German culture. The result was a moral and intellectual vacuum which he called the "German dust bowl."³²

Roepke's Third Way program was intended to promote social decongestion and deproletarianization; anything to increase rootedness would be given a fair hearing by Roepke. Of particular interest is Wilhelm Roepke's explicit formulation of the Third Way in The Social Crisis of Our Time, published in 1942, and the subsequent volumes of this trilogy, Civitas Humana: A Humane Order of Society, and International Order and Economic Integration.

It is important to remember that Roepke's arguments are based on explicit moral and theological positions and on a concern for human character. Contrary to rights oriented, preference oriented, or efficiency oriented concerns of modern welfare economics, the moral concerns for proper character formation are paramount. Roepke's most immediate concern was the preservation of human freedom, but he believed that a "rules" oriented approach was not sufficient to the purpose. Human freedom was too complex to be captured by aphorisms such as "laissez-faire, laissez-passer" on the one hand or "freedom from want" on the other. True freedom comes only when man limits his appetites and that he must do for himself. No one else can do that for him or to him. Thus individuality -- which necessitates a broad range of freedom for expression of one's beliefs in words and deeds -- must be preserved. The question is: are there public policies capable of contributing to the development of self-restraint and personal responsibility which conduce to the preservation of freedom? Roepke's response was in the affirmative. He proceeded to develop arguments regarding economic arrangements, both private and public, with due regard for the nature of man and of the world in which he lives.

The primacy of Wilhelm Roepke is a consequence of his ability to keep head and heart together. Ignorant moralizing and abstract rationalizing were equally foreign to his vision of an intelligent political economy. Roepke recognized that man is both body and soul, and that he must have political economic arrangements which encourage the good health of both. Man cannot be reduced to one or the other. Positivism and Scientism, which are the groundwork for modern abstract economics, reduce man to matter while the idealism and romanticism of the fascist reaction make man spirit only. In Third-Way political economy the ultimate criterion for judging economic and political arrangements is the character of the citizenry: the control of the appetites through reason and the honor-loving part of the soul is necessary if freedom is to endure. Thus a decentralized society and small property are not cherished for reasons of self-sufficiency or autonomy, freedom in the sense of the absence of coercion, but because they encourage the development of those qualities in men which in the long run are the only assurance that freedom will be maintained. Small property and the family are the nursery of those qualities of mutual responsibility, devotion, charity, and hospitality. The pursuit of self-interest within the bounds which men set for themselves through the development of these qualities is

wholly desirable. Without these bounds, self-interest soon degenerates into greed and thereby provides fertile ground for the seeds of collectivism.³³

As with the social encyclicals, Third Way political economy approaches policy questions with the understanding that the maintenance of a humane social order is essentially a moral rather than a material problem. Again, one is reminded of the viewpoint expressed in Centesimus Annus.

These criticisms are directed not so much against an economic system as against an ethical and cultural system. The economy in fact is only one aspect and one dimension of the whole of human activity. If economic life is absolutized, if the production and consumption of goods become the centre of social life and society's only value, not subject to any other value, the reason is to be found not so much in the economic system itself as in the fact that the entire socio-cultural system, by ignoring the ethical and religious dimension, has been weakened, and ends by limiting itself to the production of goods and services alone.(para. 39)

The creation of a humane social order -is not dependent on continual increases in material output. Such increases are desirable, but they do not address the fundamental problem. It does not require economic levelling by means of a massive redistribution of the "pie," a consumerist/materialist metaphor for a man's work in the creation. Instead, as Richard Weaver, an American contemporary of Roepke's explained,

the moral solution is the distributive ownership of small properties. These take the form of independent farms, of local business, of homes owned by the occupants, where individual responsibility gives significance of prerogative over property. Such ownership provides a range of volition through which one can be a complete person, and it is the abridgement of this volition for which monopoly capitalism must be condemned along with communism.³⁴

Roepke was in perfect agreement with Weaver on this point. He said, "We must decentralize, put down roots again, extract men out of the mass and allow them to live in forms of life and work appropriate to them."³⁵

The policy lesson is that freedom defined as the absence of coercion does not sustain itself. A void is left which will be filled with appetite and thence tyranny. Therefore it is important to avoid the mistake of assuming that all intervention is inherently bad. Such an attitude comes from a devotion to an abstract conception of freedom which ignores historical realities and all that is known about man through religion, philosophy, and experience. Instead, one must learn to distinguish between forms of intervention which are consistent with the preservation of a free and humane society and those which are not. As an economist, Roepke understood the essential role of competition in stimulating human effort and in generating a harmonious ordering of economic activity. He also knew that private property rights were essential to the competitive process. Yet to Roepke the egregiously neglected "moral and sociological significance" of private property was of even greater importance. He argued that citizens rightly act in their own interest in the marketplace, but there is a continual danger that the competition which is essential to restraining and channeling that self-interest will degenerate. Action must therefore be taken to develop and maintain in men those ethical reserves, or good character, which conduce to self-restraint and personal responsibility. As Roepke explains,

The market, competition, and the play of supply and demand do not create these ethical reserves; they presuppose them and consume them... Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms -- all of these are things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources.³⁶

According to Roepke, an extreme laissez-faire position does not recognize the necessity of these ethical reserves or at least fails to recognize that competition and market activity consume these reserves which must then be replenished. Roepke again says,

The market remains morally and socially dangerous and can be defended only up to a point and with qualifications and modifications of all kinds ...Extreme commercialization, restlessness, and rivalry are an infallible way of destroying the free economy by morally blind exaggeration of its principle ...The curse of commercialization is that it results in the standards of the market spreading into regions which should remain beyond supply and demand. This vitiates the true purposes, dignity, and savor of life and thereby makes it unbearably ugly, undignified, and dull.³⁷

In defining the Third Way, Roepke had to address the popular misconception that laissez-faire is antipodal to collectivism. He explained in the Social Crisis of Our Time that laissez-faire policies would indeed reduce the number of monopolies.³⁸ Roepke understood just as we do that much private monopoly power is acquired with the help of government. Yet he believed that the road to collectivism and the destruction of human freedom is not paved exclusively with the displacement of competition by the growth of monopoly power, by whatever means. There are also the problems of

increasing mechanization and proletarianization, the agglomeration and centralization, the growing dominance of the bureaucratic machinery over men, monopolization, the destruction of independent livelihoods, of modes of living and working which satisfy men, disruption of the community by ruthless group interests of all kinds, and the dissolution of natural ties (the family, the neighborhood, professional solidarity, and others).³⁹

Not all of these problems could be addressed by eliminating government as a source of monopoly. Roepke objected to the destruction of these institutional arrangements and ways of living which developed and maintained the ethical reserves essential to the long term preservation of competition, private property, and ultimately, human freedom. It is for these reasons that he argued that the maintenance of a free and humane society necessitated public policies which would preserve both markets, competition, and private property, and the social framework which sustains them. To that end, Roepke formulated a three-part program which constitutes the political economy of the Third Way. It is based on normative views of man drawn from religious faith, philosophy and experience and has the added advantage of Roepke's expertise as an economist and government advisor. Thus it provides an advantageous point of departure for the construction of a contemporary political economy which is solidly grounded in the principles of Centesimus Annus.

The three components of Roepke's Third Way program were Anti-Monopoly Policy, Positive Economic Policy (anti-Laissez-faire), and Structural Policy (decentralization, balance, and "economic humanism").⁴⁰ These components constitute a unifying normative framework for the consideration of public policies ranging from anti-trust law to the regulation of public morality and the preservation of federalism. This framework reveals the essential connectedness of ideas concerning the preservation of a free society.⁴¹ In fact, an examination of Third Way policy proposals with some reference to current policy concerns also suggests that this framework is applicable to our present circumstances.

Roepke's Anti-Monopoly policy encompasses laws dealing with cartels, holding companies, and interlocking directorates, and a concern to avoid policies which create monopoly power for private interests. The latter included the monopoly effects of tariffs and protectionism.⁴² Roepke also objected to New Deal policies on similar grounds.

The New Deal no less than Socialism stands for concentration of power, concentration of property -- the fact that this time it is the state which does the 'concentrating' hardly alleviates the calamity. The burning problem of our time lies in the distribution, not in the concentration, of power and property.⁴³

On the other hand, Roepke considered technological innovation to be a boon to competition. Even in the 1940s he argued that new technology was promoting competition rather than concentration and monopoly.⁴⁴

Under the heading of "Positive Economic Policy (anti-Laissez-faire)," Roepke combined "Framework Policy" and "Market Policy." Framework policy contained positive steps to be taken by government to preserve the moral and legal framework of the free market.⁴⁵ The legal framework or essential "rules of the game" included a federalist political order to limit the abuse of government powers; the embodiment of policies in law rather than administrative decree; the maintenance of a stable money supply; and an overriding respect for private property.⁴⁶

Roepke treated both welfare policies and policies affecting public morality and character formation under the moral framework of the free market. The issues addressed here have in the United States traditionally been the object of the state police powers: health, education, and public morals. Rejecting both social Darwinism and the kind of cradle-to-grave security criticized in Centesimus Annus (para. 48), Roepke argued that a limited role for government in matters such as factory legislation, care for the indigent, sick, aged, and unemployed, and public or subsidized private education was consistent with the canons of justice and humanity in a society of free men. Under this approach, policies concerned with occupational health and safety, toxic waste, and education are as important to the long term preservation of the free market as anti-trust policy and monetary policy.⁴⁷

While the principle of "minimum compulsory public providence" was not questioned by Roepke, its "extent, organization, and spirit" were. As Roepke stated, "This is where opinions finally divide," and Roepke left no doubt as to his own.

[I]t is a matter of the personal approach versus the collectivist, freedom versus concentration of power, decentrism versus centrism, spontaneity versus organization, human judgement versus social technique, responsible husbandry versus irresponsible mass man.⁴⁸

In 1964, Roepke remarked in his "Reflections on the Welfare State", or "provider state" as he preferred to describe it, that

out of the old, soundly conservative, philanthropic principle that even the poorest should have a roof over his head, has arisen something completely different: the all-embracing socialization of income-expenditure, born of the egalitarian and state-deifying theory that every extension of State provision for the masses is a milestone of progress. But as soon as genuine, individual need, assessed in each particular case, ceases to be the yardstick of assistance, the poorest and weakest often come off worse.⁴⁹

Such views are in keeping with the criticisms of the Welfare state found in Centesimus Annus.

[E]xcesses and abuses, especially in recent years, have provoked very harsh criticisms of the Welfare State, dubbed the "Social Assistance State"Here again the principle of subsidiarity must be respectedBy intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by

an enormous increase in spending. In fact, it would appear that needs are best understood and satisfied by people who are closest to them and who act as neighbors to those in need. (para. 48)

In the areas of public morality and character formation, Roepke argued in Humane Economy that because private market gains were likely to overwhelm the moral and aesthetic reasons for resisting some activities, the market "loses its authority in the ultimately most important decisions." Advertisers' indiscriminate destruction of the beauty and harmony of the cities, and the extreme foolishness of those who wish to separate from politics the issue of trade between communist and noncommunist countries demonstrate the necessity of moral framework policy. There are, of course, many other sources of market gain which are the proper concern of such policy, e.g. prostitution, pornography, abortion, and drug abuse. No less important is the instruction of the young in the basic moral principles of personal and civic responsibility, honesty, courtesy, and respect for the "rule of law." Such are the social presuppositions of the free market without which the market will simply devour itself.⁵⁰ once again, one is reminded of Centesimus Annus.

Of itself, an economic system does not possess criteria for correctly distinguishing new and higher forms of satisfying human needs from artificial new needs which hinder the formation of a mature personality. Thus a great deal of educational and cultural work is urgently needed, including the education of consumers in the responsible use of their power of choice, the formation of a strong sense of responsibility among producers and among people in the mass media in particular, as well as the necessary intervention by public authorities. A striking example of artificial consumption contrary to the health and dignity of the human person, and certainly not easy to control, is the use of drugs. Widespread drug use is a sign of a serious malfunction in the social system; it also implies a materialistic and, in certain sense, destructive "reading" of human needsDrugs, as well as pornography and other forms of consumerism which exploit the frailty of the weak, tend to fill the resulting spiritual void. (para. 36)

In a broader sense, the moral framework included what Roepke called a bürgerliche social order. Roepke explained

...the market economy can thrive only as part of and surrounded by a bürgerliche social order. Its place is in a society where certain elementary things are not only respected but colour the whole life of the community: individual responsibility, respect for certain indisputable norms, the individual's striving, in all honesty and seriousness, for advancement and for developing his faculties, independence anchored in property, responsible planning of one's own life and that of one's family, thrift, enterprise, the assumption of well calculated risks, the sense of workmanship, the right contacts with nature and the community, the sense of continuity and tradition, the courage to brave the uncertainties of life on one's own account, the sense of the natural order of things.⁵¹

These arguments bear a striking resemblance to those found in Peter Berger's book, The Capitalist Revolution: Fifty Propositions About Prosperity, Equality, and Liberty. Berger contends that "the liberation of the individual . . . must be 'contained' within structures of community if it is not to liquidate itself . . ." These balancing structures are the "[bourgeois] family, church, private friendships, and freely formed associations . . ." Berger continues,

Progressive anarchy with each individual out 'on the make' by and for himself, undermines capitalism because it deprives it of the fabric of trust and value without which it cannot function effectively. On the other hand, the imposition of collective controls on the individual . . . finally makes capitalism impossible, because such polities cannot permit that free enterprise upon which capitalism depends.⁵²

The capitalist economy, of which individual enterprise is a sine qua non, "provides the context within which personal liberties can thrive and institutions fostering these liberties, including the bourgeois family and organized religion, can function without pervasive state controls."⁵³ Like Roepke, Berger establishes the mutually supportive character of the institutions of the market narrowly understood, and the "balancing institutions," especially the family and religion, without which the market institutions cannot survive. Although Roepke was prepared to use positive law to preserve certain aspects of this order, he understood the corner stone to be private property. This is what Roepke was referring to when he spoke of the egregiously neglected "moral and sociological significance" of private property.

The other half of Roepke's Positive Economic Policy was a "Market Policy" which allowed some discretion in the use of interventionist policies since even framework policy would not always be enough. Distinguishing between "adjusting" and "preserving" intervention, Roepke argues that there are some limited actions which government should take to aid individuals, industries, and communities that face the kind of drastic changes in market conditions (demand, technology, resource availability) which inflict serious and lasting harm.⁵⁴ Limited government assistance to communities seeking to adapt to new circumstances and to individuals seeking re-training would prevent the kind of destruction which induces men to resort to preserving intervention -- permanent subsidies and tariffs, import. quotas, exchange controls, price controls, and today's efforts at stiff plant closing regulations and domestic content legislation. Such forms of intervention are intended to eliminate the need to adjust to new conditions and lead inexorably toward greater inefficiency and still more intrusive government policies.⁵⁵

Adjustment policies are to originate at the lowest level of government possible and rely heavily on private sector initiative. Certainly contemporary ideas about "enterprise zones" and temporary subsidization of private sector re-training for certain groups of workers fall within this category of intervention. "Industrial policy" does not since it attributes to central planners a knowledge of profits and community interests which is superior to that of entrepreneurs and members of local communities. The description of "supplementary interventions" in Centesimus Annus follows this discussion of adjustment policies very closely.

[I]n exceptional circumstances the State can also exercise a substitute function, when social sectors or business systems are too weak or are just getting under way, and are not equal to the task at hand. Such supplementary interventions, which are justified by urgent reasons touching on the common good, must be as brief as possible, so as to avoid removing permanently from society and business systems the functions which are properly theirs, and so as to avoid enlarging excessively the sphere of State intervention to the detriment of both economic and civil freedom.(para. 48)

Market Policy also includes a crucial distinction between compatible and incompatible forms of intervention, i.e. between those which interfere with the functioning of the price mechanism and those which do not.⁵⁶ When adjustment intervention is warranted, care is to be taken to minimize the government's direct control of the market. Demand and supply forces and the actions of entrepreneurs are to be left as free as possible to guide production and exchange within the legal and moral framework of the market. Tariffs might be used temporarily to ease the shrinkage and restructuring of a large domestic industry faced by a crisis, but quotas and exchange controls would not. They are counterproductive (preserving) because they paralyze the price mechanism and render inefficient and unresponsive domestic producers absolute freedom from foreign competition.⁵⁷

Although it would be wrong to suggest that Roepke or John Paul II are unaware of the kinds of arguments which are currently presented in public choice theory, it should be pointed out that the analysis in texts such as Social Crisis and Civitas Humana, and Centesimus Annus give very limited attention to the institutional problems associated with implementing a market policy. Nevertheless, Roepke's response is one

which Catholic social doctrine shares. Defending his arguments for policies to encourage decentralization, Roepke states in 1959, "To some this seems a romantic and unworldly program, but I know of no alternative to it that does not threaten to aggravate fatally the disease. Because a suggested treatment is distasteful to the very lethargy induced by the illness it is intended to cure, does not mean it is impractical."⁵⁸

The third component of Roepke's Third Way program entails policies to encourage "rootedness," or political, economic, and social decentralization. This "Structural Policy" would use tax breaks, in-kind subsidies in the form of experimental stations and test plants, and policies to increase the availability of credit to small businesses in order to maintain a healthy balance between town and country life; encourage the accumulation of small and medium-sized property in the form of owner-occupied homes, small businesses, and small farms; and decentralize industrial areas.⁵⁹ Roepke believed that the ultimate safeguard of freedom and lasting happiness was the formation of good character in the citizenry through healthy family life in a self-governing community. There one could learn mutual responsibility, charity, and hospitality, as well as honesty, thrift, and a sense of workmanship.⁶⁰ Welfare policies of the kind criticized in Centesimus Annus undercut family life, destroy the roots of a civilization and leave its people fit subjects for the rule of tyrants. Thus any assistance program must be formulated to minimize negative impacts on family life. Such an approach would properly include tax policy to encourage the accumulation of small property, relief from excessive inheritance taxes which destroy family enterprises, and avoidance of licensing procedures and health and safety regulations which inordinately inhibit the formation of small businesses.

VII. Conclusion

Roepke's concept of a "Third Way" has some difficulties. Even sympathetic critics note the potential problem raised by conflicts between his technical economics and his political economics.⁶¹ Yet the overwhelming similarity between Roepke's arguments and the reasoning pursued in the encyclical Centesimus Annus makes the Political Economy of the Third Way impossible to ignore.

The particular concept of the social market which emerges from Roepke's work confirms our hope as Christians and as economists that our faith may be brought to bear more directly on our work. The possibility of developing a systematic framework for understanding and acting on the teaching contained in the social encyclicals is also greatly enhanced by Roepke's approach. This is the aspect of Roepke's work which is highlighted in this paper. With careful study and reflection, Roepke's work that of other *Ordo Liberales* may even be expected to contribute ultimately to the further development and refinement of the Church's social doctrine. At the very least, it offers economists a badly needed tool for critically evaluating the social encyclicals in ways that do justice to both the positive and normative contents of those documents.

ENDNOTES

1. Jeffrey A. Tucker, "Papal Economics 101: The Catholic Ethic and the Spirit of Capitalism," Crisis, IX (June 1991): 16-21. For a distinction between the social market viewpoint of ordo liberalism and that of post-war German neoliberalism, see Alfred Mueller-Armack, "The Meaning of the Social Market Economy," in Germany's Social Market Economy: Origins and Evolution, eds. Alan Peacock and Hans Willgerodt (New York: St. Martin's Press, 1989), pp. 82-86, and "The Social Market," German Economic Review, III (1965). For references loosely associating Centesimus Annus with social market economics of either variety, see Robert A. Sirico, CSP, "Catholicism's Developing Social Teaching," Freeman (December 1991):473; J. Bryan Hehir, "Reordering the World: John Paul II's Centesimus Annus," Commonweal, CXVIII (June 14, 1991):393-4; David Hollenbach, "The Pope and Capitalism," CLXIV (June, 1, 1991): 590-91. Also see Hans Otto Lenel, "Does Germany Still Have a Social Market Economy?" in Germany's Social Market Economy, pp.261-272 for an argument from 1971 that Germany was departing from the principles of the social market. Also see Willgerodt, "Planning in West Germany: The Social Market Economy," in The Politics of Planning (San Francisco: Institute for Contemporary Studies, 1976); and Armin Gutowski, "Obstacles to Restoring a Market Economy: A View from Germany," Ordo, XXXVI (1985):11-16.
2. Alfred Mueller-Armack, "Social Irenics," in Standard Texts on the Social Market Economy: Two Centuries of Discussion, eds. Wolfgang Stutzel, Christian Watrin, Hans Willgerodt, and Karl Hohmann (New York: Gustav Fischer, 1982), pp. 347-360. See also Graham Hallet, The Social Economy of West Germany (New York: St. Martin's Press, 1973), pp. 21-23.
3. Joseph A. Schumpeter, History of Economic Analysis, ed. Elizabeth Boody Schumpeter (New York: Oxford United Press, 1954), p. 38.
4. "German Liberalism and Economic Revival," in Germany's Social Market Economy, pp. 3-4. On constructionism see F.A. Hayek, Law, Legislation, and Liberty, v. I (Chicago: University of Chicago Press, 1973), pp. 8 ff.
5. Karl Brandt, "A Life for Freedom and Human Dignity—Wilhelm Roepke(1899-1966)," Modern Age, X (Summer, 1966): 247-8.
6. Peacock and Willgerodt, Germany's Social Market Economy, pp. 5-6.
7. Roepke quoted in Edward N. Megay, "Anti-Pluralist Liberalism: The German Neo-Liberals," Political Science Quarterly, LXXXV(September, 1970): 427. For background on Ordo Liberalism and Neoliberalism see Carl J. Friedrich, "The Political Thought of Neo-Liberalism," American Political Science Review, XLIX (1955): 509-525; Henry M. Oliver, "German Neoliberalism," Quarterly Journal of Economics, LXXIV (1960): 117-149; "Ordo and Coercion: A Logical Critique," Southern Economic Journal, XXVIII (October, 1960): 81-91. Also see the extended discussion below on the moral framework of the market.
8. See Henry M. Oliver, Jr. "German Neoliberalism," p. 118; H.C. Nixon, "A Thirty Years ' Personal View," Mississippi Quarterly, XIII (Spring 1960): 78-79. For a broader discussion see Gerrit Meijer, "The History of Neoliberalism: A General View and Developments in Several Countries," paper presented at the History of Economics Society Meeting, May 20-22, 1984, volume I.
9. Anthony Nicholls, "The Other Germany--The 'Neo-Liberals,'" in Ideas into Politics: Aspects of European History: 1880-1950, eds. R.J. Bullen, H. Pogge yon Strandmann, and A.B. Polonsky (London: Croom Helm, 1984), pp. 167-170.

10. Peacock and Willgerodt, Germany's-Social Market Economy, p.5
11. Ibid., pp. 5-6
12. Ibid., pp. 6-7
13. Roepke, along with Alexander Ruestow, published comprehensive works identifying the preconditions for economic and social reform. Peacock and Willgerodt, Germany's Social Market Economy, p. 5; Wilhelm Roepke, The Social Crisis of Our Time(Chicago: University of Chicago Press, 1950(19421); Civitas Humana: A Humane Order of Society (London: William Hodge and Co.,1948), and International Order and Economic Integration (Dodrecht, Holland: 1959). Erhard had read Roepke's work smuggled into Germany clandestinely. See Peacock and Willgerodt, Germany's Social Market Economy, p. 3.
14. Peacock and Willgerodt, p. 4.
15. Particular attention is given there to the limits of the state and of the spontaneous processes of the market while affirming the roles of both. See for example para. 35, 40, 44, and 48.
16. Wilhelm Roepke, "The Economic Necessity of Freedom," Modern Age, III (Summer 1959): 232-232.
17. See Roepke, "A Protestant View of 'Mater et Magistra', Social Order (April 1962): 164-5.
18. Ibid., pp. 166-7
19. Ibid., pp. 165
20. David Rooney, "Catholic Social Teaching in Centesimus Annus: Not Just a Third Way," Lay Witness, XIII (September 1991): 4; William McGurn, "Is the Pope Capitalist?" The American Spectator, XXIV (August 1991): 12-14; Peter Berger, "Comment," in "The Pope, Liberty, and Capitalism: Essays on Centesimus Annus," National Review: Special Supplement, XLIII (June 24, 1991): 2-3.
21. John Paul II, Centesimus Annus, (May 1, 1991), para.4-12. From this point on references to the encyclical will be made parenthetically in text.
22. Wilhelm Roepke, A Humane Economy: The Social Framework of the Free Market (Chicago: Henry Regnery, 1960), p. 91.
23. Ibid. For a discussion of the treatment of competition in Catholic social thought see Rodger Charles, S.J.,The Social Teaching of Vatican II: Its Origin and Development (San Francisco: Ignatius Press, 1982); and J. Messner, Social Ethics: Natural Law in the Modern World (London: B. Herder Book Co. 1952).
24. John Paul II, Laborem Exercens, (September 4, 1981), para. 20.
25. See endnotes 13 and 22.
26. See Roepke, Social Crisis of Our Time, pp. 176-179. Also see Charles, Social Teaching of Vatican II, pp. 263 ff. and Messner, Social Ethics, pp.670 ff., 839 ff., 927 ff.
27. Wilhelm Roepke, Economics of the Free Society (Chicago: Henry Regnery Co., 1963), pp.250-3.

28. Ibid., pp. 255-6.
29. Chapters four and five of Centesimus Annus address each of these problems. For a few examples see the problem of order is addressed in paragraph 42, the social problem in paragraph 33, the political problem of the distribution of power in paragraph 44, and the moral-vital problem in 33-4, and 39.
30. Roepke, "A Protestant View of 'Mater et Magistra'," p. 164.
31. Such views were also held by English and American Distributists such as G.K. Chesterton, Hilaire Belloc, Herbert Agar, Richard B. Ransom, and John C. Rawe as well as the European expositors of the Third Way.
32. Roepke, "The German Dust Bowl," Review of Politics (October 1946): 511-527.
33. Roepke, "The Economic Necessity of Freedom," p. 235
34. Richard M. Weaver, "The Last Metaphysical Right," in Ideas Have Consequences (Chicago: University of Chicago Press, 1948), pp. 133-134.
35. Roepke, "The Economic Necessity of Freedom," p. 235.
36. Roepke, A Humane Economy, p. 125.
37. Ibid., p. 128.
38. Roepke, Social Crisis, pp. 176, 229-233.
39. Ibid., p. 176.
40. Roepke, Civitas Humana, pp. 40, 28 ff.
41. Third Way political economy is precisely what the American poet Allen Tate -- an agrarian decentralist -- had in mind when he said in 1936, "we have been mere economists, and now we have got to be political economists as well. Economics is a study of wealth. But political economy is the study of human welfare." See Allen Tate, "Notes on Liberty and Property," in Who Owns America? A New Declaration of Independence, eds. Herbert Agar and Allen Tate (Boston: Houghton Mifflin Co., 1936), p. 91.
42. Oliver, "German Neoliberalism," pp. 122-123, 140-147; Roepke, Social Crisis, pp. 227-235.
43. New Deal legislation which some viewed as being supported by earlier encyclicals, e.g. National Industrial Recovery Act, the Agricultural Adjustment Act, and the National Labor Relations Act, was inconsistent with Roepke's Third Way and was criticised by Roepke. Quoted by Erik von Keuhnelt-Leddihn, "American Blunders in Germany: Professor Roepke Speaks," Catholic World (August, 1948): 397. Also see Sirico, "Catholicism's Developing Social Teaching."
44. Oliver, "German Neoliberalism," pp. 143-4
45. Roepke, Civitas Humana, p. 40, 28 ff.

46. Ibid.
47. Roepke, Humane Economy, pp. 152-182, esp. pp. 175-6.
48. Ibid.
49. Interview with Erik von Keuhnelt-Leddihn, fall 1984. Wilhelm Roepke, Welfare, Freedom, and Inflation (University of Alabama: University of Alabama Press, 1964), pp. 37-38.
50. Roepke, Humane Economy, pp. 125, 137-141.
51. Wilhelm Roepke, "The Social Presuppositions of the Market Economy," The Owl (January, 1954): 61.
52. Peter L. Berger, The Capitalist Revolution: Fifty Propositions About Prosperity, Equality, and Liberty (New York: Basic Books, 1986), pp. 113-4.
53. Ibid., p. 112.
54. Roepke, Social Crisis, pp. 176-197; Civitas Humana, pp. 28ff.
55. Ibid.
56. Ibid.
57. Roepke, Social Crisis, pp. 159-163.
58. Roepke, "The Economic Necessity of Freedom," p. 235.
59. Roepke, Social Crisis, pp. 198-223; Civitas Humana, pp.30-34. Also see Centesimus Annus, paragraph 38.
60. Roepke, "The Economic Necessity of Freedom," pp. 233-236.
61. Ralph Ancil, "The Third Way: Wilhelm Roepke's Vision of Social Order," The Intercollegiate Review (Fall 1986):41-42.