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# Corporatism and the Ghost of the Third Way

Randall K. Morck and Bernard Yeung

## Abstract

An economic system called corporatism arose in the late 19<sup>th</sup> century, promoted by Anti-Cartesian French intellectuals dismayed with the “disenchantment of the world” Weber attributed to capitalism, and by a Roman Catholic church equally dismayed with both liberalism and socialism. Corporatism recognizes the innate inequality of human beings and their need for secure places in a legitimate hierarchy and thus puts the police power of the state behind officially sanctioned Corporations, elite-controlled industrial group cartels empowered to set wages, prices, employment, and quotas, to regulate entry, and to limit imports. Corporatism was to end the class struggle by guaranteeing workers their accustomed jobs and incomes and by delegating traditional authority through a principle of subsidiarity. We argue that countries that adopted corporatism most fully — those with Roman Catholic majorities or French-educated elites — experienced substantial financial development reversals and retain legacy Corporatist institutions that continue to retard financial development and growth.

**KEYWORDS:** legal origin, financial development, fascism, corporatism, syndicates, Catholic social teachings, ethics

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## 1. Introduction

As the 19th century drew to a close, his Holiness Pope Leo XII grieved at the twin evils of liberalism and socialism, which he foresaw imperiling the peace of the coming century.<sup>1</sup> His solution was the 1891 encyclical *Rerum Novarum*, *On Capital and Labor*. Forty years later, Pius XI avowed in his follow-up encyclical, *Quadragesimo Anno* (lit. “In the 40<sup>th</sup> Year”), that *Rerum Novarum* (lit. *New Order*) “laid down for all mankind the surest rules to solve aright that difficult problem of human relations called ‘the social question.’”

These rules describe an economic model that soon gained wide acceptance as a Third Way: Equality is a cruel illusion; people are happiest when rightly placed in a legitimate hierarchy guided by the Church. Competition is spiritually demeaning, so business, labor, and the state must cooperate to set quotas, prices, and wages throughout designated vertically connected swathes of the economy called Corporations (workers and owners form one body, lat. *corpus*). Each Corporation is governed by an Association, composed of government officials plus representatives of the Corporation’s two Syndicates: a business owners’ syndicate and a workers’ syndicate. Private property is a stewardship, legitimized by owners’ obedience to Church and Association, but forfeited by competition. A Principle of Subsidiarity devolves authority unneeded at higher levels to the lowest feasible level throughout the hierarchy. This model came to be known as Corporatism.

The Crash of 1929 and the Great Depression shattered popular support for liberal democracy, and corporatism was the major alternative to socialism on offer. By substituting “Fascist Party” for “Church” throughout the above, Mussolini created the world’s first avowedly corporatist economy, though Il Duce sought and received papal endorsement of his social policies. Austria soon followed with a corporatist dictatorship of Catholic clerics who enacted the Church’s undistorted teachings. Vichy bought enthusiastic clerical support by embracing corporatism. Papal endorsement of their corporatist economies gave Iberian and Latin American dictators a legitimacy that persisted well into the cold-war era. After the war, corporatism spread across the former French, Spanish, Portuguese and Dutch colonial empires. Ataturk and the Lebanese Christian Falangists brought the secular and Catholic variants of corporatism to the Middle East, where Arab Ba’athist movements embraced the ideology.

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<sup>1</sup> Throughout, we follow Leo in associating the term *liberal* with a philosophy extolling individualism, rationalism, and human freedom of choice. This accords with everyday use except in the United States, where *liberal* has come to mean “social democratic” or “progressive”. The Pope anticipated a global readership, and uses *liberal* to mean what American readers now call *libertarian* or *classical liberal*. For brevity, we beg the indulgence of American readers in accepting the more globally prevalent usage.

Just as liberal democracies and people's republics fail to realize their ideals, corporatism has its compromisers and backsliders. But a less perfectly realized ideal can be a more powerful force, for its failing can be blamed on apostasy rather than intrinsic flaws. So it was with corporatism.

Catholicism (and Islam) and French legal systems correlate strongly with enfeebled financial systems and retarded economic development (La Porta et al. 1997; Stulz 2005). These correlations are too strong to ignore, but hard to explain. Catholicism and Islam have different values from many other religions, but they also differ markedly from each other. Moreover, Mohamed was a merchant and Novak (1983) describes most Protestant sects as roughly as anti-business as Rome. Lamoreaux (2005) describes French law as more supportive of industrialization than American law. Most puzzlingly, Rajan and Zingales (2003) find large robust financial systems in the early 20<sup>th</sup> century in Catholic countries and countries with French legal systems, and observe a mid-20<sup>th</sup> century atavism that explains to present cross-country correlations.

Corporatism was Roman Catholic social doctrine from the 1890s to the 1960s, and secular corporatism was equally dear to Anti-Cartesian French intellectuals of the late 19<sup>th</sup> and 20<sup>th</sup> centuries. We therefore posit a corporatist shadow upon Catholic countries, ex-colonies with French educated leaders, and perhaps many Islamic countries. Most economies with French legal codes are former colonies of France, Spain, Portugal, Belgium, or the Netherlands. Napoleon ruled all of these mother countries; each adopted a variant of the Napoleonic Code and each passed that legal system along to all of its colonies. Catholic clerics ran most schools in Latin America, Spain, Portugal, the Philippines, and elsewhere; and Catholic missionaries ran schools throughout Africa, India, and much of East Asia. Corporatist economics was a core part of their curriculum, with the explicit objective of influencing future political leaders wherever possible. Colonial French native elites who missed out on Catholic missionary schools attended colonial academies replicating the curriculum of metropolitan France, where corporatist economics again took pride of place. We hypothesize that these educational efforts were successful, and therefore posit that empirical evidence linking financial and economic infirmity to Catholicism, Islam, or the Napoleonic Code may well actually capture a residual corporatist tradition. Indeed, a variable set to one for a French legal code or a Catholic or Islamic majority may well be a better proxy for a corporatist history than direct attempts to engineer such a variable from labor laws, price regulation, etc.

In retrospect, theologians should have recognized something akin to the problem of theodicy (Leibnitz 1710): Why, in a universe governed by an omnipotent, omniscient and loving God is there such widespread suffering? Expecting a corporatist elite, even one composed of devout Catholics, to solve problems of social justice that a loving and all-powerful deity either cannot or will

not resolve seems an oddly antinomian indulgence of pride. Anti-Cartesian French intellectuals and generic dictators might readily be excused for succumbing to this foremost of the Seven Deadly Sins, but clerics ought to have known better.

The failure of corporatism lies, in part, in its failure to accept human nature as it is. Catholic corporatism stresses a duty to God and the Church patriarchy. Secular corporatism stresses a moral duty to a *Volk*, or Nation. If such Anti-Cartesian feelings of duty were strong enough, as Leo XIII and Pius XI believed Catholic education could make them, a more hierarchical organization of society becomes feasible.

Why this did not work is aptly summarized by the Italian intellectual Salvemini's (1936) lament that "it is the state, i.e., the taxpayer, who has become responsible to private enterprise. In Fascist Italy the state pays for the blunders of private enterprise." In good times, "profit remained to private initiative"; but in bad times, "the government added the loss to the taxpayer's burden. Profit is private and individual. Loss is public and social."<sup>2</sup> Corporatist elites everywhere, Catholic or secular, were charged with setting "fair" prices, wages, and quotas, but found fairness coinciding with self-interest unexpectedly often (Di Lorenzo 1994). Like socialism, corporatism demanded too much of its elites.

Corporatism's failure also stems from a misunderstanding of the economic purpose of private property. Thus, *The Economist* editorialized (July 27, 1935) that Italian corporatism "only amounts to the establishment of a new and costly bureaucracy from which those industrialists who can spend the necessary amount, can obtain almost anything they want, and put into practice the worst kind of monopolistic practices at the expense of the little fellow who is squeezed out in the process." Wages and prices in a corporatist economy lose their ability to transmit information and create incentives to coordinate economic decisions. Absent these functions, private property loses its *raison d'être* and becomes nothing more than the guarantor of entrenched inequality socialists abhor.

We sympathize with the popes who endorsed corporatism. Liberalism justifies self-interest, an overtly sinful "means", with economic efficiency, a materialistic "end". Soviet socialism was militantly atheist. Both ideologies left the Vatican understandably queasy, and their 19<sup>th</sup> and early 20<sup>th</sup> century incarnations were far less palatable than critics in 21<sup>st</sup> century liberal democratic welfare states might realize.

The Roman Catholic Church has come a long way. Novak (1993, p 101) rightly states "we are all capitalists now, even the pope" and, for proof, cites *Sollicitudo Rei Socialis*, wherein John-Paul II "declares the right of personal economic initiative to be a fundamental human right, second only to the right of

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<sup>2</sup> Salvemini (1936), p. 416.

religious liberty, rooted (like religious liberty) in the image of the creator endowed in every human being.”<sup>3</sup>

The term corporatism was resurrected by various postwar secular Third Ways, from the British Labour Party to Swedish Social Democrats. These groups adopted bits and pieces of the corporatist agenda, but are best styled *neocorporatist*, for none embraces the ideals of the genuine model. Indeed, most are better thought of as relatively minor variations of the liberal democratic welfare state. They have little in common with the full-blooded corporatism in the dictatorships of interwar Europe, postwar Latin American, and many post-colonial era dictatorships throughout the third world. Philosophical arguments in favor of cartels run by elites, hereditary inequality, or state subsidies to big business became unpopular.

But corporatism is undead. Mussolini boasted that "three-quarters of the Italian economic system has been subsidized by government" Salvemini (1936), and corporatism's ghost lingers in the rational expectations of state-enforced cartels, state subsidies, and other favors that business tycoons and other elites hold in post-corporatist economies. Such expectations are not entirely unrequited anywhere, but "business-government cooperation" is an especially apt euphemism for corruption in many countries to which we ascribe a corporatist legacy (Faccio 2006; Faccio et al. 2006; Haber 2000; Haber et al. 2008; Wiarda 1981, 2004). Governments wishing limit corruption might consider exorcising this ghost.

## **2. Credo**

Corporatism is a body of normative economics promoted by the Roman Catholic Church from the late 19th century through the mid 20th century as a Third Way, in overt opposition to Protestant liberalism and atheist socialism.<sup>4</sup> In truth, much of the model predates Leo's encyclical, and is really due to 19<sup>th</sup> century academics disenchanted with liberalism and fearful of socialism – anti-Cartesian philosophers romanticizing medieval Europe's feudal guilds. However, the church's explicit endorsement surely moved corporatism from seminar rooms to presidential palaces. Sermons from Catholic pulpits throughout Europe legitimized variants of corporatism in Fascist Italy, theocratic Austria, Falangist Spain, Portugal's Estado Novo, and Vichy France. The Iberian variants spread throughout Latin America, and a Phalange movement took root in Maronite Catholic Lebanon. Ataturk's New Turk movement and Arab Ba'athist regimes also drew explicitly upon corporatist thinking.

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<sup>3</sup> On John-Paul's views about capitalism, see Houk and Williams (1983).

<sup>4</sup> This section draws heavily on Williamson (1985) and references therein, and on the texts of the various papal encyclicals.

More recently, a broadened usage attaches *corporatism* to any non-socialist form of state planning, such as postwar French dirigisme, Swedish social democracy, and the British Labour Party's 1970s industrial policies (Williamson 1985). The term has thus grown fuzzy. For clarity, we adhere to the original usage of corporatism, but acknowledge as *neocorporatist* certain elements in this broader range of economic models. Corporatism in its original sense is identifiable through four key characteristics.<sup>5</sup>

### ***Fundamentalist Corporatism***

First, corporatism endorses hierarchy based on innate human inequality. The Catholic Church legitimizes ethically ordained and rigidly hierarchical chain of authority with the Pope and Vatican at the apex. Similarly, corporatism entrusts economic power to an ethically superior elite. Leo envisioned an elite made selfless by Roman Catholic teachings; but elites of loyal Fascists, Ba'athists, or military officers work equally well – or badly. All that is required of the elite is that they act solely for the greater good.

The corporatist state is charged with regulating individual behavior to protect this social order, so that the elite can direct resources to provide all with their accustomed livelihoods and standards of living. This charge gives corporatism its metaphysical content and its moral force. The evil in liberalism is therefore not indifference to poverty, but its alienation of workers from a just and natural hierarchy, which would end strikes and all other manifestations of class conflict. Corporatism thus distinguishes itself from socialism in explicitly rejecting egalitarianism and class identification.

Second, to safeguard this social order, the state, businesses, and labor must cooperate. This harmony is achievable only if an ethically superior elite governs all three; for otherwise power might be abused. Moreover, this cooperation constrains the role of the state, for policies that would disrupt society's innate order are unacceptable, even if democratically endorsed by an erring electorate. Corporatism thus endorses authoritarianism – not as an end, but as a means to protect a legitimate social order ordained by God, or in Fascist and National Socialist corporatism, by a Nation's patrimony. Corporatist writers seem to agree broadly that democracy is undesirable because it treats all votes equally. Somewhat inconsistently, most also see corporatism resolving all conflict and achieving a consensus; others charge the state with imposing harmony.

The Church clearly endorsed an authoritarian line: the Discussion Club Outline circulated with *Quadragesimo Anno* explains that the state would direct, though not absorb, the activity of small and large organizations to establish “a

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<sup>5</sup> The following summarizes the contents of *Rerum Novarum* and *Quadragesimo Anno*, drawing on Williamson (1985, 1989) and Wiarda (1981, 2004).

better hierarchical order” and “to abolish class conflicts and promote harmony.”<sup>6</sup> Corporatism thus distinguishes itself from liberalism in rejecting social mobility and democracy.

Third, corporatism offers a qualified endorsement of private property – owners must use their property morally – and of wage labor; and thus explicitly rejects socialist ideals. The economy’s Commanding Heights are not controlled solely by public officials, but shared with *Associations* that also represent industrialists and workers. A corporatist economy might be divided into several dozen major vertically related product chains, each called a *Corporation*, evoking the Latin *corpus* (body) and thus literally meaning *embodiment*. A Corporation is a coalescing of everyone in the product chain into one body. Each Corporation thus encompasses the workers and owners of raw materials producers, intermediate goods makers, consumer goods producers, retailers, and servicing industries. Each Corporation is governed by an Association of carefully selected ethically superior representatives of its industrialists and workers. Each Association sets just prices, wages and production quotas for all goods in the product chain so as to protect everyone’s traditional occupation and standard of living. Each such Association also controls worker training, employment, and such social assistance as workers or their families might truly need. An economy-wide Association, containing representatives of each Corporation, determines just prices and production levels of intermediate goods that pass between Corporations. All quotas, prices, and wages are enforced by the police power of the state; and competition is an abuse of private property – explicitly sinful in the Catholic variant and treasonous in the secular variant of corporatism. Imports are limited or prohibited, for their prices would otherwise disrupt the above arrangements. Corporatism thus distinguishes itself from socialism by endorsing private property – all the firms in the Corporations are to be privately owned – and from liberal capitalism by rejecting market-based wages, prices, employment, and production levels as abuses of private property.

Fourth, corporatism applies a Principle of Subsidiary: Authority subsidizes to the lowest feasible level of the hierarchy. The Church safeguards souls, and must retain power over all matters it judges necessary to this end, but should leave other matters to the prince. The prince retains powers he deems necessary for governing his realm, but other matters subside to the Corporations. These retain powers they deem necessary to setting their just wages, prices and quotas, but other matters subside to industrialists. Industrialists retain such powers as they need to govern their businesses, but details subside to shop foremen. These charge master tradesmen with tasks, but leave them to get on with it, and so on down to the lowest worker – who is still master in his house, and due unquestioning

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<sup>6</sup> Cramer and Leathers (1981), p. 768.



obedience from his wife and children. This Principle of Subsidiary devolves authority as the lowest point in the hierarchy consistent with the smooth functioning of the system. It thus reinforces the hierarchy at the core of the corporatist model, and thus distinguishes corporatism from the central planning of socialism and the alienation of liberalism.

Some corporatist writers add to this list – for example requiring each Corporation to run a comprehensive social safety net for its workers of the sort they associate with medieval guilds. Others qualify the above points by, for example, not explicitly rejecting democracy but accepting its redundancy after a corporatist harmony emerges. Some corporatist writers explicitly demand state enforcement of just wages and prices; others foresee universal consensus on just wages and prices, and consequently no need for their enforcement.

However, the main tenets listed above characterize the full-blooded corporatism of the interwar era. They accurately describe interwar Austria under the clerical-fascist dictatorship of Fr. Engelbert Dollfuss (Bischof and Pelinka 1996). They apply, with modifications, to Fascist Italy (Mussolini and Orano. 1934; Mussolini 1935, 1936) and Nazi Germany (Weitz 1997); where lapsed Catholic dictators pushed the Church aside to enforce secular versions of corporatism. They quite adequately describe Vichy France (Fine 1971), along with the Iberian (Royo 2001) and Latin American (Malloy 1977; Haber 2000) dictatorships, whose devoutly Catholic dictators ran corporatist economies with papal blessings.

### ***Reformed Corporatism***

Elements of interwar corporatist thought persisted and found new vigor in the 1970s in many high income countries in Europe and elsewhere. We follow Williamson (1985) in calling these ideas *neocorporatist* because they draw only selectively from the full range of corporatist prescriptions.<sup>7</sup> These elements typically include centralized wage-setting, labor union leaders' involvement in government policy, labor market regulation, or some mixture of the above (Kenworthy 2002). Kenworthy links centralized wage-setting to lower unemployment rates across high income countries in the 1970s and 1980s, though not the 1990s; and argues that this practice internalizes an externality that otherwise mars liberal labor markets. That externality arises when each individual union presses for higher wages, forcing output prices up and thereby depressing employment in general. Greater union involvement in policy correlates across all three decades with lower unemployment.

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<sup>7</sup> Heinze and Schmid (1997) refer to tripartite wage negotiations in German Länder as *mesocorporatism*.

Labor market failures are a well established problem (Freeman 1988; Lazear 1995; Besley and Burgess 2004; Fonseca, Lopez-Garcia, and Pissarides 2000; Heckman and Pages-Serra 2000; Ichniowski, Freeman, and Lauer 1989; and others). Thus, practices such as those described by Al-Marhubi and Willett. (1995), Cameron (1984), Havrilesky and Granato (1993), Kenworthy (2002), and others may indeed have welfare improving effects. However, these policies are arguably more social democratic than corporatist (Roe 2000; Pagano and Volpin 2001; Alesina and Glaeser 2004); for they generally do not entail the comprehensive industry cartelization, incumbent control over entry, trade autarchy, massive subsidy programs, and hierarchical inequality that distinguishes corporatism from socialism.

Moreover, the high-income countries in Kenworthy (2002) and like studies are also all highly open, so wages cannot stray too far from globally competitive productivity-adjusted levels. Indeed, expanding the sample to include developing countries, Botero et al. (2004) find more heavily regulated labor markets correlated with higher unemployment, especially of the young; and find this effect most pronounced in countries with French legal system legacies.

We recognize the legitimacy of these and similar studies, but view them as studying neocorporatism. Their appropriation of the term corporatism to summarize a range of labor market restrictions is in step with recent usage, but differs from our usage fundamentally. For example, countries like Australia and Sweden, which never experienced an avowedly corporatist economic reorganization nonetheless score high on the corporatism indicators used in these studies. Our focus is on the institutional footprints of a genuine full-fledged corporatist experience, not of essentially liberal or social democratic governments tinkering with labor markets.

A second important caveat is that Catholic teachings have become more accepting of both capitalism and liberalism in recent decades (Novak 1993). John-Paul II, in his *Laborem Exercens* encyclical celebrates the 90<sup>th</sup> anniversary of *Rerum Novarum* by condemning not free market economics, but “the error of economism, that of considering human labour solely according to its economic purpose ... [rather than] the spiritual and the personal” [§13]; and teaches that “capital should be at the service of labour and not labour at the service of capital” [§23]. A decade later, in *Centesimus Annus*, he endorses a “struggle against an economic system ... upholding the absolute predominance of capital ... in contrast to the free and personal nature of human work.” He interprets his predecessor as having “proposed as an alternative ... not the socialist system, which in fact turns out to be State capitalism, but rather a society of free work, of enterprise and of participation. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the State, so as to guarantee that the basic needs of the whole of society are

satisfied.” To clarify, the pontiff adds that “[t]he Church acknowledges the legitimate role of profit as an indication that a business is functioning well” [§35].

Following John-Paul’s lead, Benedict XVI’s encyclical *Caritas in Veritate* criticizes free markets relatively sparingly: “if the market is governed solely by the principle of the equivalence in value of exchanged goods, it cannot produce the social cohesion that it requires in order to function well. Without internal forms of solidarity and mutual trust, the market cannot completely fulfill its proper economic function” [§35]. Reasonable economists can scarcely object; especially after reading *Rerum Novarum* and *Quadragesimo Anno*.

### ***Corporatism of the Elect***

Frank Knight (1939 p. 418) channels many of the era’s economists in disparaging *Quadragesimo Anno* as “religious exhortation without knowledge or understanding – of well-meaning people attempting to meddle with the workings of extremely complicated and sensitive machinery which they do not understand.” History validates Knight, in that the Church backpedaled energetically in subsequent decades.

However, corporatism was not without its high profile academic proponents. Some were clearly “useful idiots” in the sense of Lenin.<sup>8</sup> But one prominent and thoughtful proponent of the pope’s corporatism merits serious consideration: Joseph Schumpeter. In a 1945 speech in Montreal (Prime and Henderson 1975 pp. 297-8) Schumpeter exhorts that postwar economics be organized “in the sense advocated by *Quadragesimo Anno* [because] this doctrine does not call upon false theories [but] recognizes all the facts of a modern economy [and] shows us the functions of private initiative in a new framework.” Challenging Knight’s critique, Schumpeter continues “the Pope was not speaking from “up in the clouds”. He was showing us a practical method to solve practical problems of immediate urgency.”

As an example, Schumpeter explains “what happens in a depression. Business firm A cannot work because business firm B is not working; B can’t because C finds itself incapable of producing; and so on. No single firm can, by its own action, break the “vicious circle”.” Whence the closing down of an entire industry, a closing down that ends only too easily in the ruin which menaces all enterprises and of which the workers are the victims.”

Schumpeter’s example echo’s Keynes’ concerns about insufficient aggregate demand, and presages Rosenstein-Rodan (1943), Murphy et al. (1989), and others who advocate a “big push” of state orchestrated industrialization to solve precisely such coordination problems and kick-start rapid growth in low-

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<sup>8</sup> Lenin (1966, p. 449) so describes U.S. President Woodrow Wilson to activists of the Moscow Organization of the Revolutionary Communist Party of Britain (RCPB) on December 6, 1920.

income countries. But Schumpeter sees no role for the state, and prefers the vertical organization of firms in industries because “the corporate action of professional associations, by the fact that it guarantees to every individual enterprise that it will not be the only one to advance, that consequently it will find in the production of others the demand for its output.”<sup>9</sup>

Differentiating this from socialist planning, he summarizes: “the corporate principle organizes, but does not regiment. It is opposed to all systems with a centralizing tendency and to all bureaucratic regimentation.” Schumpeter thus would have private sector leaders get together to coordinate a “big push” without state planners. Morck and Nakamura (2007) suggest that the very large and highly diversified business groups found in rapidly industrializing economies (Khanna and Yafeh 2007) form precisely to do this.

Highlighting Schumpeter’s stress on organization over regimentation, Cramer and Leathers (1981) argue that Schumpeter likely did not consider Nazi Germany or Fascist Italy “legitimate corporate societies.” Instead, they posit “Latin America (except for Chile)” as more like what he had in mind, and draw attention to Newton’s (1974) concept of a natural *corporatism* developing “within, or parallel to the conventional and more or less constitutional political pressures.”<sup>10</sup>

Schumpeter clearly knew what full-fledged corporatism entailed. He served as Austrian Finance Minister in a 1919 elected coalition government of Social Democrats and the Christian Social Party. He resigned after a few months, but almost certainly because of his failure to control inflation, rather than any disquiet over the Christian Social party’s overtly Catholic corporatist agenda. Though no fascist – he fled for the United States in 1932 – Schumpeter clearly rejected egalitarianism, and instead advocated subordinating the will of the masses and the state, both fixated on the short term, to entrepreneurs intent on building private dynasties. Leadership in this, he explains is lacking “if each applies himself to constantly drawing up a balance sheet of his personal and immediate benefits and costs at any given time.”<sup>11</sup> Most discordant to modern neoclassical economists, he then denounces “utilitarian philosophy” as an “irreligious (and perfectly stupid) rationalism” that legitimizes “no other regulatory principle than that of individual egoism” and promotes “a spirit of social irresponsibility.” This, he explains, courts disaster by discouraging leadership.

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<sup>9</sup> Quoted in Prime and Henderson (1975), pp. 297-8.

<sup>10</sup> Quoted in Cramer and Leathers (1981) pp. 752-3.

<sup>11</sup> Quotes are from Prime and Henderson (1975), p. 296.

### 3. Genesis

Liberalism in the 19<sup>th</sup> century was markedly anticlerical (Fanfani 1935; Manhattan 1947). Centuries of bloody sectarian conflicts, massacres, Wars of Religion and Inquisitions failed to quench this bloodthirst. Only after rival Catholic and Protestant powers ruined much of Europe in the Thirty Years War (1618-48) did religious militancy give way to liberal ideals. The Enlightenment that followed displeased the Church – Pius IX attached a Syllabus of Errors to his 1864 papal encyclical *Quanta Cura* damning democracy, human rights, rationalism and bible societies; and proclaiming absolute monarchy God's chosen form of government.

The Papal States of central Italy were, after all, a prominent outpost of absolute monarchy – a theological dictatorship and the pope's *fief* by feudal right. When such exhortations failed to turn the tide, the Church instead embraced 19<sup>th</sup> century Anti-Cartesianism – an intellectual backlash against French Revolutionary chaos and Dickensian industrialization. These intellectuals glorified Europe's lost medieval Eden and pined for a social justice free of Enlightenment values.

Victorian Anti-Cartesians lamented what Weber called the “disenchantment of the world” – a bottom-line rationalism created by capitalism that enabled scientific skepticism. While rationalists celebrated this (e.g. Simmel 1900), poets, philosophers, and novelists pined for a bygone golden age of spirit-lifting harmony (Muller 2009). The economic theories of Austrian Catholic theologian Baron Karl Freiherr von Vogelsang (1981, 1883, 1883/84, 1884, 1886), especially, portray a medieval Europe of utopian harmony, with every class assigned well-crafted rights and duties to every other class.<sup>12</sup> Vogelsang's call for renewed Christian fervor to rebuild this lost Eden scarcely displeased the Vatican.

Thus the preamble to the 1891 encyclical *Rerum Novarum* of Pope Leo XII blames the “prevailing moral degeneracy” on industry, science, and a false social leveling of masters and workmen amid worsening economic inequality. Exploiting the secular schism between socialists and liberals, Leo endorses both liberal criticisms of socialism and socialist criticisms of liberalism.

Against socialism, Leo thunders of “upset and disturbance ... in all classes”, the “intolerable and hateful a slavery [to which] citizens would be subjected,” and how “the door would be thrown open to envy, to mutual invective, and to discord; the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry; and that ideal

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<sup>12</sup> Vogelsang's collected works are not readily available in English. Boyer (1995) explains them thoroughly, esp. discussing anti-Semitic content.

equality about which they entertain pleasant dreams would be in reality the leveling down of all to a like condition of misery and degradation.” Hayek could hardly have put it better.

Against liberalism, Leo quotes Aquinas (1265/74): “Man should not consider his material possessions as his own, but as common to all, so as to share them without hesitation when others are in need.”<sup>13</sup> On the labor theory of value, Leo echoes Marx: “it is only by the labor of working men that States grow rich. Justice, therefore, demands that the interests of the working classes should be carefully watched over by the administration” [§34]. The pontiff demands state intervention, declaring that “it lies in the power of a ruler to benefit every class in the State, and ... to promote to the utmost the interests of the poor” [§32]. Presaging postmodern literary critics, he denounces a system that would “misuse men as though they were things ... for that is truly shameful” [§20]. Condemning markets, Leo laments “that working men have been surrendered, isolated and helpless, to the hardheartedness of employers and the greed of unchecked competition” [§3]. His disbelief in economic theory is scathing: “Wages, as we are told, are regulated by free consent, and therefore the employer, when he pays what was agreed upon, has done his part and seemingly is not called upon to do anything beyond. ... To this kind of argument a fair-minded man will not easily or entirely assent; it is not complete” [§43].

These twin evils thus demolished, Leo XII advocates a sweeping reorganization of the economy, neither liberal nor socialist, but reviving Vogelsang’s mystic medieval golden age of Catholic unity.<sup>14</sup> Pius XI, in his 1931 encyclical *Quadragesimo Anno* celebrating the 40<sup>th</sup> anniversary of *Rerum Novarum*, explains the historical basis of Leo’s vision “of the reconstruction and perfection of social order” thus: “For there was a social order once which, although indeed not perfect or in all respects ideal, nevertheless, met in a certain measure the requirements of right reason, considering the conditions and needs of the time. If that order has long since perished, that surely did not happen because the order could not have accommodated itself to changed conditions and needs by development and by a certain expansion, but rather because men, hardened by too much love of self, refused to open the order to the increasing masses as they should have done, or because, deceived by allurements of a false freedom and other errors, they became impatient of every authority and sought to reject every form of control.”

That social order was medieval Europe, for *Rerum Novarum* explains how “history attests what excellent results were brought about by the artificers’ guilds of olden times” and that “such unions should be suited to the requirements of this

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<sup>13</sup> *Summa Theologiae* IIa - IIae, q. Ixvi, art. 2, Answer], cited in *Rerum Novarum* §22.

<sup>14</sup> Vogelsang was heavily involved in drafting the encyclical, and may well have authored much of it.

our age.” Evoking medieval guilds as blueprints, Leo calls for Associations “either of workmen alone, or of workmen and employers together” organized with the goal of “helping each individual member to better his condition to the utmost in body, soul, and property.”<sup>15</sup> To help their members in these ways, medieval guilds restricted entry, limited output, and fixed both prices and wages.

Leo debunks the socialist error of presuming “class is naturally hostile to class, and that the wealthy and the working men are intended by nature to live in mutual conflict. So irrational and so false is this view that the direct contrary is the truth.” Calling for cooperation instead of conflict between capital and labor, Leo proclaims “it ordained by nature that these two classes should dwell in harmony and agreement, so as to maintain the balance of the body politic. Each needs the other: capital cannot do without labor, nor labor without capital.”<sup>16</sup>

Guilds organized the medieval economy vertically, by industry and across classes, rather than horizontally, by class and across industries, as socialists advocated, and *Rerum Novarum* proposes a similar structure for late 19<sup>th</sup> century industrial economies: industry Associations vertically cartelizing each industrial product chain and distributing vertically integrated monopoly rents across employers and workers. Leo predicts few disputes over this distribution, for “it will be easy for Christian working men to solve it aright if they will form associations, choose wise guides, and follow on the path which with so much advantage to themselves and the common weal was trodden by their fathers before them.”

Leo charged the State with enforcing these cartels, and with intervening further as necessary so “regulated wages ought not to be insufficient to support a frugal and well behaved wage-earner” [§42]. This intervention is morally justified to aid “wage-earners, since they mostly belong in the mass of the needy, should be specially cared for and protected by the government” [§37]. This, Leo declares, would render strikes “obviated by public remedial measures” [§39] for labor regulations would “lend their influence and authority to the removal in good time of the causes which lead to conflicts between employers and employed” [§39].

In *Quadragesimo Anno*, Pius reaffirms all of the above, and goes on to blasts joint stock companies in ways modern advocates of corporate social responsibility still echo: “by hiding under the shelter of a joint name, the worst of injustices and frauds are penetrated; and that, too, directors of business companies, forgetful of their trust, betray the rights of those whose savings they have undertaken to administer” [§132]. But Pius has more fundamental problems with liberal free-market economics, writing that “from this source, as from a poisoned spring, have originated and spread all the errors of individualist economic teaching [§88]. Indeed, his problems are with the core of enlightenment

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<sup>15</sup> Quotes from *Rerum Novarum* §49 and §57.

<sup>16</sup> Quotes from *Rerum Novarum* §19.

values: “when the principles of rationalism had been implanted and rooted in many minds, there quickly developed a body of economic teaching far removed from the true moral law, and, as a result, completely free rein was given to human passions.” [§133].

Despite a paternalism that grates on modern ears, *Rerum Novarum* and its elaborations, including *Quadragesimo Anno*, were major advances in Catholic understanding of economics. Traditional Roman Catholicism “was adversarial to both commerce and manufacturing. It was aristocratic. The viewpoint ... was favorable to inherited wealth (or wealth conferred by royal endowment); but it was quite dismissive of earned wealth” (Novak 1993). This viewpoint is understandable, for until Italian unification, the Pope was feudal Lord over the Papal States. In fairness, this view is older, for Viner (1991) writes that “[t]he early Christian fathers on the whole took a suspicious if not definitely hostile attitude towards the trade of merchants or middlemen, as being sinful or conducive to sin.” Catholic theologians merely embraced this attitude. *Rerum Novarum* and *Quadragesimo Anno* broke that embrace and ultimately straightened the path to *Vatican II* and John Paul II’s encyclical *Sollicitudo Rei Socialis* conceding [§41] that “the Church does not propose economic and political systems or programs, 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” amid a broader Catholic acceptance of democracy and free markets (Woods 2005). But decades of Catholic blessings upon cartels and state intervention built sturdy institutions and mindsets.

#### **4. Principles or Power**

To carry *Rerum Novarum* into public policy, the church formed a laic movement, *Popular Catholic Action*. In 1901, Leo’s encyclical *Graves de Communi* restructured this movement into *Christian Democracy*: “the ensemble of Catholic doctrine, organization, and action in the field of popular social questions.”<sup>17</sup>

This was risky, for previous Catholic experiments with democracy disquieted the Hierarchy. For example, the French counterrevolutionary and Catholic theologian Félicité Robert de Lamennais, dismayed by the bloody aftermath of the Revolution, used his newspaper *L’Avenir (The Future)* to propound a liberal democratic Catholicism. In horror, Gregory XVI responded with his 1832 encyclical *Mirari Vos* denouncing virtually everything *L’Avenir* proposed: “liberty of the press, liberty of conscience, revolt against princes, the need of regenerating Catholicism, etc.” De Lamennais was ordered not to “discuss

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<sup>17</sup> *Catholic Encyclopedia* (1917) article on “Christian Democracy”.



publicly questions which belonged to the authorities of the Church.”<sup>18</sup> Bitter and broken, he died apostate.

As the new century opened, liberalism remained heresy. The *Catholic Encyclopedia* of 1917 describes De Lamennais as possessing “an insight, confused but keenly felt” but “wrong, too, in believing that liberty was the positive foundation of everything.” To clarify, the Encyclopedia disparages *L’Avenir’s* motto “God and Liberty”, explaining “either *Liberty* was superfluous, since that is already implied in *God*, or the phrase was illogical, since there can be no question of liberty unless it harmonizes with social order. And so de Lamennais and his movement ended in failure.”<sup>19</sup>

Leo’s Christian Democracy would avoid such errors. Liberal governments might permit the free expression of its philosophy, but Christian Democracy would vigorously oppose liberalism in all its guises. True to *Rerum Novarum*, Christian Democracy wed radical rightwing views on social issues – sex, abortion, and the role of women – to a seemingly leftish, but really medieval, mistrust of markets. Advocating Lordly paternalism on both economic and social issues, the new movement was at least more consistent than modern American liberals and conservatives, who often esteem paternalism in one sphere but not the other.

Christian Democratic movements, unions, and parties soon spread the gospel of *Rerum Novarum* to every country with rudimentary freedoms and significant Catholic populations. From Austria, Belgium, France, Italy, Portugal, and Spain, Christian Democracy spread to Germany. In the Netherlands, these ideas renewed the Dutch Anti-Revolutionary Party, which fought against the ideals of the French Revolution; and in Sweden a Protestant revival proclaimed itself Christian Democratic. Pius XI does not exaggerate where, in *Quadragesimo Anno*, he writes that “The Apostolic voice did not thunder forth in vain. On the contrary, not only did the obedient children of the Church hearken to it with marveling admiration and hail it with the greatest applause, but many also who were wandering far from the truth, from the unity of the faith, and nearly all who since then either in private study or in enacting legislation have concerned themselves with the social and economic question.”

Nor is he far from the truth in proclaiming that “with Leo’s Encyclical pointing the way and furnishing the light, a true Catholic social science has arisen.” The church would now “establish a juridical and social order which will, as it were, give form and shape to all economic life.”<sup>20</sup> Inspired by *Rerum Novarum*, Catholic academics would guide the development of labor law and a

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<sup>18</sup> *Catholic Encyclopedia* (1917) article on “Félicité Robert de Lamennais”.

<sup>19</sup> Novak (1993, p. 75).

<sup>20</sup> *Quadragesimo Anno* §XX.

broad range of social policies. Their ideas would be taken up by reformers everywhere seeking Third Ways.

Ultimately, however, Catholic parties failed to attract majority support in Europe and Latin America. Their choice was power through coalitions with socialists or liberals, or hectoring from opposition benches. The Vatican found Catholics who concerted with these diabolically inspired philosophies questioning the Church's teachings, and feared they might slip into the error that destroyed de Lamennais (Manhattan 1947). Consequently, the Vatican forbade coalitions. Christian Democracy thus succeeded in airing the ideas in *Rerum Novarum*, but made little headway in implementing them.

Democracy having failed it, the Church contemplated authoritarian alternatives. Novak (1993) rightly concedes that Catholic social teachings seem "to the Anglo Saxon ear... not at first glance easy to distinguish for the heavy-handed political order which plans and directs the economy, and enforces the monistic cultural order enshrined in the corporatist states of socialism and fascism." Leo and Pius both vehemently denounce socialism; and Novak, perhaps somewhat wishfully, extrapolates these denunciations to fascism by arguing that "Fascism ... was a form of socialism – national socialism." Leo is blunter, declaring that "the Church possesses a power [to] bring men to act from a motive of duty, to control their passions and appetites, to love God and their fellow men."<sup>21</sup> Catholic morals would thus prevent the abuse of power found in secular dictatorships.

## **5. Mussolini's Corporatist Epiphany**

The Great War, the inequities of the Versailles Treaty, hyperinflations in the 1920s, and the Great Depression in the 1930s reduced European liberal capitalism to intellectual rubble. Chronic high unemployment, annihilated savings, and middle classes reduced to poverty reenergized socialist and communist parties across the continent. Vilfredo Pareto (1922), dismayed at the "astonishing popularity of Marxism in Italy" and "progressive taxation to the disadvantage of the well-off ... an arrangement in which taxes are voted by those who do not pay them," saw Fascism "as a spontaneous and somewhat anarchical reaction of a part of the population to the 'Red tyranny,' which the government permitted to run rampant, leaving it to private individuals to defend themselves alone" (p. 148). Pareto died in 1924, shortly after Mussolini appointed him a senator, so his likely reaction to the full reality of Fascism remains debatable (Raico 1996; Cirillo 2006).

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<sup>21</sup> *Rerum Novarum* §26.

Raico (1996) argues persuasively that Pareto feared that democracy, unbalanced by emotional electorates and plutocratic special interests, would undo economic liberalism, and thought sacrificing political liberalism the lesser evil. Raico's quotation from Edoardo Giretti, a leading interwar Italian liberal economist, well summarizes such thinking: "If Mussolini with his political dictatorship will give us a regime of greater economic freedom than that which we have had from the dominant parliamentary mafias in the last one hundred years, the sum of good which the country could derive from his government would surpass by far that of evil".<sup>22</sup> Certainly, Mussolini's early rhetoric included liberal economic ideals (Raico 1996).

Although wariness of the Soviet Union and unremitting Catholic denunciation of social democracy may well have held back proletarian revolutions, discredited liberal democratic governments lost their monopolies on the use of force as party militias took to the streets of Europe. In 1919, Italy's elected government watched helplessly as Benito Mussolini organized armed squads, his *Fasci di Combattimento*, to battle the socialists who had expelled him from their ranks in 1914. Hundreds died in street fighting, and soon few Italian villages lacked a squad of black shirted *Fasci*. In 1922, with tens of thousands of black shirts marching on Rome, the king appointed Mussolini prime minister. The Fascists pushed through a new electoral bill giving the party with the largest vote two thirds of the seats in Parliament. The Vatican, apparently to ensure a Fascist triumph, began the dissolution of the Catholic Party, which formerly rivaled the socialists in parliament, and priests throughout Italy endorsed Mussolini. The socialists, cheated by massive electoral fraud, and decapitated by the murder of their leader Giacomo Matteotti, boycotted parliament.

Mussolini proclaimed a one-party state, coextensive with the Fascist Party and set to work on the economy. One of his first decrees bailed out the Bank of Rome, to which the Holy See entrusted its funds. The Head of the Sacred College of Cardinals, ignoring intermittent murders of Catholic Party leaders, praised Mussolini's "energetic devotion to his country, adding that the Duce had been chosen by God to save the nation and to restore her fortune" (Welk 1938). Amid rumors of an antifascist alliance of the Catholic and Socialist Parties, the pope extinguished the former, declaring Mussolini "sent by Providence."<sup>23</sup>

Mussolini (1932) is clear that his goal was *order*. He is explicit that "Fascism was not the nursling of a doctrine worked out beforehand with detailed elaboration; it was born of the need for action and it was itself from the beginning practical rather than theoretical." But, over the years, he concedes, it became an "ordered series of doctrinal concepts, forming the Fascist politico doctrine - different from all others either of the past or the present day."

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<sup>22</sup> Papa (1970), p. 67.

<sup>23</sup> Dec. 20, 1936.

In fact, few Fascist economic policies were genuinely new. Mussolini began with a thorough fiscal housecleaning. His first Minister of Finance, Alberto de Stefano, slashed income taxes, repealed inheritance and wealth taxes, cut spending, and privatized telephones. Investor confidence returned, and from 1922 to 1926, the number of listed companies and their capital investment nearly doubled. *Il Duce* reacted to investment bank failures in the Great Depression with a 1936 *Bank Law*, which, echoing the 1933 Glass-Steagall Act in the United States, prohibited universal banks.

One apparently unique Fascist innovation was, however, the state-controlled pyramidal group of listed corporations. When Italy's three major universal banks – Banca Commerciale, Credito Italiano and Banco di Roma – collapsed, *il Duce* nationalized them into a single holding company, the *Istituto per la Ricostruzione Industriale* (IRI, or *Institute for Industrial Reconstruction*). The IRI became a control pyramid, directly holding control blocks in a swathe of major Italian corporations, many of which held control blocks in other firms, which in turn held control blocks in yet other firms.<sup>24</sup> It is hard to overstate the brilliance of this move. The Fascists running the IRI, by voting these control blocks, essentially appointed the boards of directors of all these seemingly distinct firms. This, along with an ambient threat of violence against dissident officers and directors, gave the Party control over the governance of the private sector without overt nationalizations. Thus Mussolini (1936) could repeatedly boast that Fascism respects private property.

The IRI oddly aligned the Fascist Party with shareholder rights. Thus, Knox notes how “the dictator found industrialists’ preferences for financial stability and modest profits over aggrandizement increasingly irritating”.<sup>25</sup> To lock in control over the private sector, the Fascist State thus strengthened shareholder rights with the 1942 *Civil and Commercial Code* and *Bankruptcy Law*. The former guaranteed shareholders a mandatory annual report and meeting to elect directors; the latter strengthened shareholder rights, while weakening creditor rights by permitting discretionary court-supervised reorganizations, instead of liquidations.<sup>26</sup> The courts were, of course, by now Fascist controlled. These reforms let IRI controlled firms invest heavily in unprofitable armaments, extend credit to loyal industrialists’ firms, and deny it to others. (Williamson 1985, pp. 99-103)

But usually, wherever Fascist policies strayed from the beaten path, they echoed *Rerum Novarum* – omitting sections on Catholic moral guidance. Mussolini (1936) proclaims Italy one national “Corporation ... created with a view to increasing the wealth, political power, and well being of the Italian

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<sup>24</sup> For details, see Aganin and Volpin (2005).

<sup>25</sup> Williamson (1985), p. 100.

<sup>26</sup> Aganin and Volpin (2005).

people” (p. 20). The national Corporation consisted of twenty-two vertically integrated industry Corporations, each comprising all the firms in a product chain from raw materials to a specified set of finished products, one of which was a Corporation of the self-employed.

Supreme power over the Corporations, though vested with *il Duce*, was delegated to the appointed *Fascist Grand Council*, which Mussolini (1936) describes as “The Corporation.”<sup>27</sup> He clarifies that “Corporations mean regulated economy and therefore also controlled economy, for there can be no regulation without control.” Thus, the *Fascist Grand Council*, together with the *Fascist Party Organization* directed the *National Council of Corporations* which, with its various subsidiary planning bodies, organized the economy. The *National Council of Corporations*, through the *Ministry of Corporations*, was responsible “for the collective regulation of economic relations and the unitary discipline of national production” by individual corporations.” Each Corporation had a board – composed of worker, and employer representatives, technical experts, and Party representatives – to set production quotas, wages, and intermediate and final good prices, all subject to *Ministry of Corporations* oversight.<sup>28</sup>

In fact, this structure was used to lock in Party control over the economy, and concern for the spiritual ideals of corporatism – living wages, the preservation of traditional ways of life, etc. – was largely window dressing.<sup>29</sup> Mussolini banned free labor unions, and Williamson (1985) summarizes his corporatist Charter of Labor as “a cynical piece of propaganda.” The Party intervened directly at every level – consistent with the letter of the Principle of Subsidiarity, in that higher powers decide how much authority subsidizes to lower ones, but surely not what most corporatist intellectuals envisioned. Mussolini (1936) explains that “everything that draws the citizen within the machinery of State is useful to the social and national aims of Fascism.” Soon, businesses grew dependent on innumerable subsidies, administered by a separate network of state organs. This dependency let the Party correct firm-level decisions whenever subsidiarity led to an undesirable outcome.<sup>30</sup>

Consistent with corporatist ideals, foreign trade was largely shut down so that the industry Corporations might manage prices. This also allowed Mussolini greater foreign policy freedom – for example, the League of Nations’ 1935 trade sanctions, imposed after Italy’s invasion of Ethiopia, were pointless.

Mussolini’s advisors drew on their French corporatist professors, who echoed Vogelsang’s Anti-Cartesian medievalism. Thus, Sorel (1908) calls for industrial Associations (*syndicats*) to overthrow France’s liberal democracy.

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<sup>27</sup> Page 23.

<sup>28</sup> For details and diagrams of this structure as it evolved over time, see Welk (1938).

<sup>29</sup> See Williamson (1985), chapter 6.

<sup>30</sup> See Mussolini (1938), and Welk (1938) or Manhattan (1947) for critical analysis.

Duguit (1923) predicts in France a “vast Association movement which fills our epoch, extends to all classes of society, and tends to coordinate them into a harmonious whole.”<sup>31</sup> Mann (2004) provides an excellent overview of how this educational lineage came to culminate in Nietzschean values of “will” and “struggle”, and legitimized Mussolini and other interwar fascist leaders.

These educators may have been mere “useful idiots” (Lenin 1966), but their writings also echo non-economic ideals from *Rerum Novarum*. Liberalism and socialism both see the happiness of individuals as the goal of society, and argue about the instrumental value of the state. But Fascism, “accepts economic liberty merely as expedient method, a concession made to the individual by society in the interest of the social group as a whole, a concession which may, whenever necessary, be revoked”, a position little different from the pope’s.<sup>32</sup>

Regardless, the Vatican accepted Mussolini. He not only accepted Church social teachings, but, unlike democratically accountable Catholic politicians, could actually implement them. In return for Church endorsement in the Lateran Agreement of 1929, Mussolini recognized the independence of the Vatican State; pledged financial compensation for the Papal States the Vatican lost in Italian unification; established Catholicism as the state religion; mandated religious education; subjected textbooks and teachers to Church vetoes; subsidized the clergy and religious orders; forbade books, papers, and films banned by the Church; and made the criticism or insult of Catholicism a penal offence.

Discord between Party and Church arose primarily over education – the Church wanted total control – and to a lesser extent, over the killing of Catholic politicians by Fascist death squads.<sup>33</sup> Thus, Pius XI had to smuggle his 1931 encyclical, *Non Abbiamo Bisogno* abroad for dissemination; although it thanks the Party for its many reforms, it also criticizes Fascist education policy and violence against Catholic Action members who disobeyed the Hierarchy and continued opposing Mussolini. Pius explains: “We have not only refrained ourselves from formal and explicit condemnations, but on the contrary we have gone so far as to believe possible and to favour compromises which others would have deemed inadmissible. We have not intended to condemn the Party and the regime as such. We have intended to condemn those things in the programme and in the activities of the Party which have been found to be contrary to Catholic doctrine and practice.” Children at Catholic schools said grace before meals thus: “Duce, I thank you for what you give me to make me grow healthy and strong, O Lord God, protect the Duce so that he may be long preserved for Fascist Italy.”<sup>34</sup>

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<sup>31</sup> Duguit (1923), p. 9.

<sup>32</sup> Quoted by Welk (1938); see also Manhattan (1947, esp. c. 9).

<sup>33</sup> Manhattan (1947), p. 122.

<sup>34</sup> Manhattan (1947), p. 123.

Thus, the Vatican legitimized Mussolini, who reciprocated with special status for the Church. Fascism, searching for philosophical depth, incorporated Catholic social teachings and put into actual practice the ideas outlined in *Rerum Novarum*, many of which Mussolini (1936) recapitulates in *The Corporate State*. The Catholic theologian Fanfani (1935) reciprocated with a ringing endorsement of Italian corporatism that assigned primary credit to the Church. Nonetheless, Novak (1993) is probably correct in writing that “Mussolini’s followers bellowed in sour rage against *Quadragesimo Anno*” (p. 75), for the pope’s insistence on Catholic teaching, rather than Fascist discipline guiding corporatist institutions doubtless genuinely annoyed the dictator. However, a growing influence of nationalists like Alfredo Rocco and Luigi Federzoni over the Party largely squelched anticlericalism by 1929 (O’Brian 1981; Pollard, 1985); and Margiotta-Broglio (1966) recounts Mussolini’s transformation from a fierce anti-Catholic to a shrewd “son of the Church.”<sup>35</sup>

## 6. Evangelical Corporatism

Mussolini (1936) proclaimed Fascist Italy the vanguard of a global renewal.<sup>36</sup> “Today,” he proclaims, “we bury economic liberalism.” With the Great Depression dragging on, he predicts “There is no doubt that, in view of the general crisis of capitalism, the Corporate solution will force itself to the fore everywhere.” For corporatism to succeed, he lists three preconditions:

1. “A single political party” must be entrenched. Otherwise, politics might distort government policy.”
2. “There must be a totalitarian State, a State which by absorbing the energy, interests, and aspirations of the people, may transform and uplift them”. This is so corporatist decisions, once made, are carried out.”
3. There must be “An atmosphere of strong ideal tension,” which exists in Italy because “This is an age in which arms are crowned by victory, ...” Deliberately enigmatic, this perhaps commends terror as usefully limiting individualism. Certainly, Mussolini (1936) repeatedly stresses “discipline” as needed to expunge “liberal” self-interest from Italy.

Pius XI was clearly thrilled with corporatist success in Fascist Italy, and sought to renew Catholicism everywhere with this social agenda. It is worth quoting at length from his famous 1931 encyclical, *Quadragesimo Anno*:

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<sup>35</sup> Margiotta-Broglio (1966), p. 52.

<sup>36</sup> Quotes are from Mussolini (1936), pp. 23-25.

- §91. Recently, as all know, there has been inaugurated a special system of syndicates and corporations of the various callings which in view of the theme of this Encyclical it would seem necessary to describe here briefly and comment upon appropriately.
- §92. The civil authority itself constitutes the syndicate as a juridical personality in such a manner as to confer on it simultaneously a certain monopoly-privilege, since only such a syndicate, when thus approved, can maintain the rights (according to the type of syndicate) of workers or employers, and since it alone can arrange for the placement of labor and conclude so-called labor agreements. Anyone is free to join a syndicate or not, and only within these limits can this kind of syndicate be called free; for syndical dues and special assessments are exacted of absolutely all members of every specified calling or profession, whether they are workers or employers; likewise all are bound by the labor agreements made by the legally recognized syndicate. Nevertheless, it has been officially stated that this legally recognized syndicate does not prevent the existence, without legal status, however, of other associations made up of persons following the same calling.
- §93. The associations, or corporations, are composed of delegates from the two syndicates (that is, of workers and employers) respectively of the same industry or profession and, as true and proper organs and institutions of the State, they direct the syndicates and coordinate their activities in matters of common interest toward one and the same end.
- §94. Strikes and lock-outs are forbidden; if the parties cannot settle their dispute, public authority intervenes.
- §95. Anyone who gives even slight attention to the matter will easily see what are the obvious advantages in the system. We have thus summarily described: The various classes work together peacefully, socialist organizations and their activities are repressed, and a special magistracy exercises a governing authority. ...

Pius does not criticize the Fascist state, but recounts that others may harbor reservations, for §95 concludes “We are compelled to say that to Our certain knowledge there are not wanting some who fear that the State, instead of confining itself as it ought to the furnishing of necessary and adequate assistance, is substituting itself for free activity; that the new syndical and corporative order savors too much of an involved and political system of administration; and that (in spite of those more general advantages mentioned above, which are of course fully admitted) it rather serves particular political ends than leads to the reconstruction and promotion of a better social order.”



Pius reassures the faithful in §96 that this fear can be avoided if the state is directed by “those sons of Ours whom Catholic Action imbues with Catholic principles and trains for carrying on an apostolate under the leadership and teaching guidance of the Church in this field also that We have described, as in every other field where moral questions are involved and discussed, can never forget or neglect through indifference its divinely imposed mandate to be vigilant and to teach.” Recall that Mussolini (1936), in contrast, prescribes state terror and “discipline”.

Catholic apologists have sacrificed forests elaborating on *Quadragesimo Anno*, to prove Pius rejected Fascism. Recall Novak’s (1975) stretching of the encyclical’s condemnation of socialism to cover National Socialism (p. 75). Other Catholic intellectuals own up - thus von Nell-Bruening (1971), who helped the pope draft this encyclical, regrets that he and the pope insufficiently criticized each others’ contributions.

But Mussolini, not Pius, was likely corporatism’s greatest advertisement. The socialist dictatorship in Russia felt no disquiet seizing control of businesses – that, after all, was the whole point of socialism. Non-socialist dictators also want total control of the economy, but without trespassing overtly on private property. Mussolini showed how corporatism permits this *léger-de-main*, and so makes a totalitarian fascist dictatorship feasible.

### ***National Socialist Germany***

Hitler, like Mussolini, took charge of an economy in deep depression, and at first enacted arguably sensible reforms. Corporate income taxes were cut, capital investment made tax deductible, monetary policy reformed, and unemployment attacked via defense spending, public works and the numerous make-work programs of the *Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung* (the RfAA, or *Reich Institution for Placement and Unemployment Insurance*).

But a corporatist framework was also rapidly deployed.<sup>37</sup> This was likely concordant with public opinion at the time, for Mierzejewski (1998) documents strong anti-liberal sentiments prevailing in the Weimar Republic. In 1933, the *Reichswirtschaftsministerium* (*Reich Economy Ministry*) assumed the power “to suspend the creation of new enterprises and to fix the productive capacity of existing enterprises in any industry. The same year, that ministry undertook “to unite enterprises into associations, cartels, pacts, or similar agreements, or to join them to consortiums already existing, with a view to regulating the market, when this union or fusion seems necessary in the interests of the enterprises, of

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<sup>37</sup> What follows is distilled from Fohlin (2005), Guérin (1936), Silverman (1998), Weitz (1997), and Woolston (1941).

production as a whole, and of the community.”<sup>38</sup> Within months, the economy was partitioned into twenty-eight employer-employee industry Corporations, all controlled by the Reich Economy Ministry.

As in Italy, these Corporations were only one avenue for extending Party control throughout the private sector. Make-work programs soon proved inadequate in solving Germany’s unemployment crisis, and after 1933 the RfAA became a forced labor allocation authority – authorized to assign workers to any business or state project, first for a limited period and, after 1939, indefinitely.<sup>39</sup> The allocation of forced labor became a form of business subsidy. In 1934, the Party took control of import and export licenses, and their allocation became another way of controlling businesses. In the mid 1930s, price setting migrated from the industry Corporations to the Reich Economy Ministry, and “price regulating commissioners”, assigned squads of brown shirts, enforced fixed prices with heavy fines, forced closures, and violence. After the *Reichsbank* took control of all savings banks in 1934, it controlled the allocation of virtually all household savings, and could starve uncooperative owners’ firms of loans and reward loyal industrialists with loans subsidized by forced savings. To this end, savings account withdrawals were sharply limited in 1935, and taking over ten marks out of Germany became a capital offense in 1936.

One decidedly innovative feature of National Socialist corporatism was its use of universal banks to lock in state control over most of the private sector, while leaving it privately owned.<sup>40</sup> In Germany, stock brokerage services and banking services are provided by universal banks. The 1937 *Aktiengesetz* (*Shareholder Law*) forced investors to forego anonymity to retain their voting rights. Shareholders who opted to remain anonymous automatically delegated their voting rights to the universal banks through which they bought their shares.

This gave the top managers of a handful of universal banks voting control over listed firms whose shareholders opted not to reveal their identity. Since most traded shares were in bearer form, this amounted to much of the private sector. Bailouts in the banking crisis of 1931 gave the Reich voting control blocks over the universal banks – 90% of Dresdner Bank, 70% in Commerz und Privatbank, and 35% in Deutsche Bank und Diskonto Gesellschaft – and thus over most listed firms. When the banks were subsequently privatized, Nazi directors dominated their boards and Party control was locked in.

One wrinkle in this arrangement was the *Mehrstimmrechtsaktien*, or multiple voting share. During the Weimar Republic, these grew commonplace to preserve insider control in family firms that opted to issue more shares. In other cases, they took the form of *Vorratsaktien*, or treasury shares – legally issued but

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<sup>38</sup> Guérin (1936), p. 215.

<sup>39</sup> Silverman (1998) p. 218.

<sup>40</sup> For more detail re the following paragraphs, see Fohlin (2005).

not yet sold to investors. These could be allocated quickly to insiders should they suddenly need more votes to fend off a raider. Fohlin (2005) shows family firms quite important in 1930s Germany, and that roughly 40% of listed firms had multiple voting shares of one sort or the other in 1934. This was a problem for the Nazis because multiple voting shares could give the firm's insiders a majority of the votes, even where universal banks voted most of the shares. Multiple vote shares were therefore abolished by 1937, though some exceptions were grandfathered in.

The 1937 law further proclaimed the *Führerprinzip*, the principle that a corporation should be run not for its shareholders, but for all its stakeholders – especially the *Reich* and *Führer*.<sup>41</sup> This not only enshrined an utter rejection of liberal individualism (Silverman, 1998), but freed Party-appointed directors of narrow shareholder concerns like profits.

Nazi Germany not only erected corporatist economic institutions, but defended them with echoes of Catholic denunciations of liberal individualism. Thus, Hitler (1925) writes "The Aryan is not greatest in his mental qualities, [but is noblest nonetheless, for he] willingly subordinates his own ego to the community and, if the hour demands, even sacrifices it."<sup>42</sup> The dictator's Austrian Catholic roots arguably also show in the mystical pageantry of Nazi state ceremonies, which Voegelin (1938) likens to Catholic rituals.

A seeming economic miracle ensued, with most of Germany's six million unemployed rapidly rejoining the workforce. Silverman (1998) examines labor market policy in detail, and argues that, despite statistical manipulation and remilitarization absorbing many unemployed, the recovery was real. However, the success was largely due to forced labor raising employment, and so is hardly a ringing endorsement of corporatism.<sup>43</sup>

### ***Clericofascist Austria***

While Italian and German corporatism both kept their distance from the Church, Austrian corporatism was indistinguishable from the Catholic Church (Bischof 1996). Vogelsang's Anti-Cartesian call for a medieval renewal resounded especially loudly in his native Austria, whose aristocracy and officer class united to support his disciple, Carl Lüger, and his *Christian Social* movement. In 1890, Lüger won election as mayor of Vienna, though probably by campaigning against Jews more than by espousing Vogelsang's theories (Manhattan, 1950).

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<sup>41</sup> See §70 I AktG 37.

<sup>42</sup> DiLorenzo (1994) discusses the economic purposes of these slogans.

<sup>43</sup> Weitz (1997) suggests monetary policy also mattered, but this also fails to recommend Corporatism.

Under the Prelate Ignaz Seipel, the Christian Social party ruled Austria through the 1920s, and implemented Vogelsang's vision with the help of its *Heimwehr* (Home Guard) militia of unemployed youths. Seipel retained his clerical office, ruling Church and State with equal scorn for socialism and liberalism. The *Christian Social* government subordinated all political, economic, and social issues to ecclesiastical considerations, in a Catholic approximation of the most extreme of modern Islamist regimes, all the while building a corporatist economy along by-now familiar lines. Seipel's policies so delighted the Vatican that he was asked to help draft *Quadragesimo Anno*.<sup>44</sup>

In 1933, at the nadir of the Great Depression, Seipel's successor, Engelbert Dollfuss, merged the *Christian Social Party* and the *Heimwehr* into the *Fatherland Front*, dismissed Parliament and the Supreme Court, and assumed dictatorial powers (Binder, 2002). The Vatican ordered Austrian priests to support the coup, though thousands died as the Fatherland Front consolidated power.<sup>45</sup> After Dollfuss's 1934 assassination by Nazis, the Jesuit-trained Kurt Schuschnigg took over. From 1933 to the 1938 Austria was overtly *clericofascist*, with Catholicism legally mandatory and ultraconservative zealots, who wielded dictatorial secular powers, completing Vogelsang's corporatist utopia.

The project was an economic and political failure, and died abruptly in 1938, with Hitler's Anschluss of Austria into the Third Reich. However, Austrian corporatism is especially interesting in that it closely followed Papal teachings, received enthusiastic Vatican support, and also had a degree of democratic legitimacy at its outset.

### ***Falangist Spain***

Europe's fourth great corporatist experiment was Spain, under Generalissimo Francisco Franco (Lukauskas 1997; Wiarda and MacLeish 2001; Witney 1965). An anticlerical socialist Republic displaced the monarchy in 1931, horrifying the deeply conservative and militantly Catholic countryside, which remained loyal to the Church, as did the military and aristocracy. Reactionary Catholics formed *Falange* units across Spain in 1932 to fight socialism and liberalism.<sup>46</sup> The *Falange* quickly absorbed the nascent Fascist movement and the entire Catholic Youth Organization, run by Franco's brother-in-law (Manhattan, 1950).

*Falangistas* soon routinely beat and killed political opponents, including judges and journalists, in imitation of Italian black shirts. Street violence escalated into civil war by 1936, when Franco, with German and Italian backing, and blessings from every pulpit in Spain, staged a *coup d'état*. Fearing a Bolshevik

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<sup>44</sup>Manhattan (1947), pp. 244 and 245.

<sup>45</sup> Manhattan (1947), p. 257.

<sup>46</sup> The term *Falange* or *Phalange* derives from the ancient Greek *phalanx* battle formation.

state in Western Europe, the world's democracies also tacitly backed the bloody overthrow of Spain's elected government.

Falangist economic policy, called National Syndicalism, faithfully replicated Italian corporatism. Corporations representing employers and employees took charge of each industry, with central economic control vested in military and Party appointees. Franco successfully broadened his support by ridding Spain of "excessive competition" with a vast system of subsidies and extensive regulation directed by Falangist officials who, working in parallel with the Syndicates, protected employed workers and existing business owners from market forces (Acena and Comin 1995; Wiarda and Mott 2001; Zaratiegui 2004).

Spanish corporatism differed from Italian corporatism, and especially German corporatism, in its overt and passionate Catholicism. Unlike Austrian clericofascism, however, the Spanish Falange was ultimately controlled by the military, not the Church (Guerin, 1936). Also unlike its German and Italian counterparts, Spanish fascist corporatism was allowed to play out over many decades. The economic stagnation it wrought soon became clear, as Spain slipped ever farther behind other Western countries. Even before Franco's death in 1975, the system was partially abandoned, and Spain's accession to the European Economic Community left only tattered remnants of Franco's system (Thomas 2009).

### ***Vichy France***

Another corporatist experiment, often neglected by historians, is Fascist France under Marshall Henri Philippe Pétain, a devout Catholic and hero of the Great War. After the Fall of France in July 1940, Hitler appointed Pétain dictator of France. With his capital at Vichy (Paris and northern France remained under direct German occupation), Pétain reorganized the economy with *Quadragesimo Anno* as his explicit guide (Guérin 1936).<sup>47</sup>

Pius welcomed the new regime with a letter to French Bishops proclaiming "a chance to bring about reawakening of the entire nation," and personally assured the Vichy ambassador to the Holy See of his support for Pétain's "work of moral recovery" (Manhattan, 1950).

As in other corporatist economies, Syndicates and Associations of business owners and employees, modeled on medieval guilds, controlled prices, capacity, and entry throughout each vertically organized chain of industries. In *Quadragesimo Anno*, Pius envisions wages determined by need, rather than market forces, and Pétain complied with decrees ordering wages proportional to

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<sup>47</sup> See also Halls (1995), esp. chapter 15.

the size of each worker's family. Attendance at mass was compulsory, and all schools were turned over to the Catholic Church.

Remarkably, Vichy France evoked voluble support from intellectuals. While some prominent academics fled, DiLorenzo (1994) writes that many others who stayed "began the most vigorous exploration of social and spiritual problems and initiated a full-blooded Catholic revival." A few cases suffice to make the point.

One such explorer, Charles Maurras, called Pétain's ascension "a divine surprise."<sup>48</sup> Maurras founded *intégrisme*, an Anti-Cartesian philosophy portraying society as an organic whole composed of cooperating naturally unequal classes, united by blood and soil. A better fit with corporatism is hard to imagine. The Vatican initially welcomed Maurras – Pius XI called him "one of the finest minds alive today."<sup>49</sup> Maurras, in turn, admired the Church for, among other things, suppressing Gospels "by four obscure Jews" (*Le Chemin du Paradis*, 1894). Such pronouncements ultimately brought his *Action Française* newspaper mention in the *Index of Forbidden Books*.

Other distinguished French Anti-Cartesians also lauded corporatism, if not fascism. The most notable, Émile Durkheim (1893), a founder of modern sociology, hedged his liberalism by advocating occupational cartels to instill moral discipline that the Church, aristocracy, and guilds no longer dispensed. Nisbet (1943, 1952, 1965) attributes this undeniably corporatist vision to unease with liberalism, but Giddens (1971) sees a renewed liberal republicanism. Unsurprisingly, others detect Marxist precognitions (e.g. Gouldner 1962; Lukes 1973). Durkheim (1902) is remarkably explicit about industry cartels as 'the elementary divisions of the State ... [which] instead of remaining what it is today, an aggregate of juxtaposed territorial districts, would become a vast system of national corporations.'<sup>50</sup> However, his corporatism is now generally regarded as an elitist vision of socialism, with scant connection to fascist corporatism (Newman, 1981). Ordinary people, Durkheim argues, cannot control their appetites and suffer a "malady of infinite aspiration" and overconsumption made possible by the division of labor and advances in science<sup>51</sup>. But Durkheim's occupational Corporations and his State can, if run by a morally educated elite, reduce people's appetites, and so heal this malady (Kaufman-Osborn, 1986).

These, and numerous other examples, reveal a theoretical grandeur unparalleled in corporatism elsewhere. Sternhell (1978, 1983, 2009) argues that this reflects a depth of anti-Cartesianism in 19th century French thought that preconceived virtually every major element of Fascism, including corporatism,

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<sup>48</sup>The quote is from an editorial article in Maurras' newspaper, *Action Française*, on April 1941.

<sup>49</sup>Rhodes (1973), p. 106.

<sup>50</sup> Translation quoted in Newman (1981) pp. 7 – 8.

<sup>51</sup> Durkheim (1925), p. 40.

long before Mussolini's March on Rome or Leo's *Rerum Novarum* (Payne 1995). Sternhell details the influence of Anti-Cartesian French academics on each specific Fascist leader.

At the most extreme was Alexis Carrel, Nobel Laureate in Medicine in 1912 and famous for his account of a miracle at Lourdes.<sup>52</sup> His 1935 bestseller *L'Homme, cet inconnu* (*Man, This Unknown*), argued for rule by an intellectual elite – an idea quite in keeping with corporatism – but went on to suggest gas chambers to cull "inferior stock." The introduction to the 1936 German edition of his book clarified that criminals and the insane could be "humanely and economically disposed of in small euthanasic institutions supplied with proper gasses." Three years later, the Nazis built their first experimental gas chambers. While such outrages surely did not reflect Catholic teachings, corporatism's legitimization of inequality perhaps explains an insufficiency of immediate outrage against such ideas, and perhaps even the low priority some ex-corporatist countries still seemingly assign to universal education, rural infrastructure, and social mobility.

While corporatist government came late to France, it was arguably coming home. Although De Gaulle restored the separation of church and state after the war, corporatist ideals survived. Industry Associations continued negotiating wages and prices; a web of subsidies orchestrated capital investment; and an elite of Grandes Écoles alumni directed postwar reconstruction.

Corporatism fit nowhere as snugly as in France, but ultimately yielded to French political ambitions to lead a united Europe. European Union policy continues to reflect an ongoing tension between Anglo-Saxon liberalism and French corporatist ideals.

### *Academia*

Corporatism appealed to dictators because, in Mussolini's words, it places "the labor force, as an obedient mass, at the disposal of the leader."<sup>53</sup> That may have been enough for Mussolini, and for others attracted to the doctrine from above. But corporatism was also unquestionably genuinely popular among unemployed workers and devout Catholic peasants. However, its most remarkable proponents included a roll call of distinguished interwar era academics.

The eminent Austrian economist Ludwig von Mises served as a senior advisor to the clericofascist Dollfuss. Kuehnelt-Leddihn (2001) proposes that von Mises worked with Dollfuss to fight the greater evil of socialism, but also notes that he needed "steady employment." However, Von Mises' (1927 p. 51) own

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<sup>53</sup> Nolte (1966).

words belie this: “It cannot be denied that [Italian] Fascism and similar movements ... saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history.”

Leading intellectuals and politicians everywhere effused praise they would later regret.<sup>54</sup> In 1926, the House Foreign Relations chair, Congressman Sol Bloom (D-N.Y.), extolled Mussolini as “a great thing not only for Italy but for all of us if he succeeds. It is his inspiration, his determination, his constant toil that has literally rejuvenated Italy . . .” In 1927, Sir Winston Churchill wrote “If I had been an Italian I am sure I would have been entirely with you [and] don the Fascist black shirt.” The same year, George Bernard Shaw declared that “socialists should be delighted to find at last a socialist [Mussolini] who speaks and thinks as responsible rulers do.” Shaw helped found the British Union of Fascists, which produced an *Outline of the Corporate State* that the organization's founder, Sir Oswald Mosley, described as “the Italian Model.” The American poet Ezra Pound saw Mussolini “continuing the task of Thomas Jefferson.” If all this seems surreal, see Lilla (2003) for lists of prominent Western intellectuals lauding communist dictators.

The Axis Powers' defeat in 1945 ended intellectuals' fascination with fascism, but its economics lived on. Catholic schools and universities throughout the world continued to stress corporatism, and French intellectuals taught a generation or more of the innate inequality of human beings and the elite's duties to the masses, of the social necessity of industrial Corporations, of the evils of market forces, and of the principle of subsidiarity.

### ***Unto the Ends of the Earth***

Corporatist ideologies took root across Europe. In 1932, António de Oliveira Salazar's Estado Novo seized power in Portugal. Suppressing pro-Italian activists in his *National Syndicalist Movement*, the Catholic seminary student Salazar established an ardently Catholic corporatist order (Wiarda 1976, 1977). Until 1974, an elite of Church-educated academic corporatists set just prices, wages, and quotas, rarely relinquishing such power to the rather ill-organized Corporations (Williamson 1985 p. 108).<sup>55</sup> Poland's interwar Pilsudski dictatorship likewise adopted a corporatist ideology, as did Greece under Metaxas; and later Albania, Bulgaria, Estonia, Hungary, Latvia, Lithuanian, and Romania; as well as puppet governments in Belgium, Czechoslovakia, Holland and other German protectorates. In many, including Belgium and Croatia, local Catholic

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<sup>54</sup> The following quotes are all taken from DiLorenzo (1994), who discusses this fascination with Fascism at length.

<sup>55</sup> Limited accession to EFTA in 1960 eroded the regime's autarky and thus constrained its price fixing power thereafter.



reactionaries enthusiastically helped the invaders overthrow the institutions of liberal capitalism and erect corporatist economies.

From Europe, zeal for corporatism spread to the Americas. A 1933 document entitled *Program on Social Reconstruction*, released by the Canadian Roman Catholic Bishops, proclaims “It is the duty of the State to impose overall direction on the national economy and to establish a National Economic Council which will express a corporatist organization and make it possible for the authorities to act in close collaboration with the authorized representatives of all branches of production.”<sup>56</sup> Even in the midst of total war, a *Collective Pastoral Letter* dated March 11, 1941 “explicitly recommends the institution of corporatism. ... This would indeed be the New Order, based on justice and charity, which all good citizens demand.”

Roman Catholic schools and universities everywhere trained future leaders to appreciate corporatist insights. The force of these teachings is apparent in Nemni and Nemni (2006), whose document the early life of Canadian Prime Minister Pierre Eliot Trudeau. The biography chronicles Trudeau’s Jesuit high school teachers assigning one French corporatist text after another, denouncing liberalism and socialism as theologically evil, and proclaiming corporatism the only ideology consistent with Christ. These teachings perhaps influenced Trudeau’s worldview, though he also flirted with other extreme ideologies before settling into the center-left of his country’s politics (Nemni and Nemni 2006).

Catholic corporatist teachings took deepest root in Latin America (Wiarda 1981, 2004, Edwards 2010). Although overt Fascist movements spread across the region in the 1930s, most died out by the 1960s. But corporatist economics proved irresistible to Cold War era dictators who seized power to save their countries from erring voters. Thus, although Bolivia’s *Falange Socialista Boliviana*, established in 1937, never won an election, its leaders featured prominently in the cabinet of General Hugo Banzer, who seized power in 1971. The Falange quickly dissolved, as its membership migrated to Banzer’s *Nationalist Democratic Action* party.<sup>57</sup> Cold War Latin American dictatorships, with the exception of Castro’s Cuba, evoked Iberian corporatist prescriptions and accepted the tutelage of Catholic clerics (Morse 1964; Veliz 1979; Wiarda 1968, 1969, 1974, 1981, 2004): Juan Peron’s Argentina, Getúlio Vargas’ Brazil, Carlos Ibáñez del Campo’s Chile, Laureano Gómez’s Colombia, Rafael Trujillo’s Dominican Republic, Jorge Ubico’s Guatemala, the PRI’s Mexico, the Somozas’ Nicaragua, Alfredo Stroessner’s Paraguay, Manuel Odría’s Peru, and across Central America. The lasting vigor of these treatments persists in Latin American industry’s chronic dependence on subsidies, aversion to competition, protectionist

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<sup>56</sup> Nemni and Nemni (2006).

<sup>57</sup> For details, see Bertrand (1973).

leanings, and profoundly concentrated corporate control (Haber 1997, 2000; Haber et al. 2008; Wiarda 1999, 2004).

Institutions across the region are still constrained by Corporatist legacies and the vested interest they sustain (Edwards 2010). A key debate (see Collier, 1995) in Latin American Studies is whether corporatism is a cherished cultural heritage or a dispensable ideological import (Schmitter 1971, 1974). Thus, *radical dependency theorists* – most notably Prebisch (1950) – assume corporatism as a common background, and argue that free trade lets cartels of multinationals use monopsony power in raw-material producing developing countries and monopoly power in finished-goods producing developed countries to lock in an unequal international economic order.<sup>58</sup> Prebisch's solution, *import substitution*, has developing country governments erecting trade barriers and banishing multinationals to regain sovereignty over their corporatist economies.<sup>59</sup>

The debate between corporatism-as-problem and corporatism-as-solution framed the world for a generation or more of Latin American economists (Adams 2004; Vellinga 2004, Wiarda 2004). Within the field of Latin American studies, the argument that a Corporatist legacy constrains development remains prominent (Wiarda 2004; Edwards 2010).

*Import substitution* (Prebisch 1950; Singer 1950) spread from Latin America to post-colonial Africa, endorsed by Wallerstein's (1979, 1983, 1984, 1986) models of core countries exploiting various categories of periphery countries. These models essentially organized the then emerging field of African Studies. Thus blessed by economic theory, corporatist thinking spread across the Third World.

The Young Turks, who seized power after Ottoman Turkey's defeat in the Great War, like Mussolini, needed a modern ideology other than liberalism, which seemed too tied to the Christian West, and socialism, whose atheism offended religious Muslims. Parla and Davison (2004) describe how Mustafa Kemal Atatürk, the movement's leader, seized upon corporatism as an economic model for his secular republic. Kemalism, as the ideology became known in Turkey, borrowed heavily from Mussolini and Durkheim's (1893, 1897, 1902) secular corporatism, rather than *Rerum Novarum*.

As the Second World War drew to a close, Arab nationalist movements gained strength in the British and French protectorates and colonies of North Africa and the Middle East. The Arab proverb "the enemy of my enemy is my friend" engendered a wartime interest in the Axis powers, and Arab independence movement leaders saw in secular corporatism a doctrine unassociated with liberal colonizers and untainted by atheism. Thus, the *Christian Phalange Party* in

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<sup>58</sup> See also Singer (1950). This thesis is generally referred to now as the *Prebisch-Singer hypothesis*.

<sup>59</sup> A rival solution, of course, was Marxist revolution.

Lebanon modeled itself explicitly on Franco's Falangistas; and the *Ba'ath Socialist* movement, founded by the Syrian Christian and Sorbonne graduate, Michel Aflaq, borrowed heavily from French corporatist thinking.<sup>60</sup> Farah (1978), laying out Ba'athist ideology, attributes many of its key premises to the same litany of French Anti-Cartesian philosophers whom Sternhell (1983) credits for corporatism. Gelvin (2002, esp. 88-96) describes Egyptian dictator Gamal Abdel Nasser's explicit imposition of corporatist economics after the 1958 Suez Crisis and lays out the role of corporatist thought in Ba'ath policies.

Corporatism's Catholic roots necessitated careful marketing in the Arab World. Jaber (1966), never mentioning corporatism, explains Ba'athism in terms paralleling *Quadragesimo Anno*: Ba'athism avoids socialism's "materialist internationalistic message and denial of nationalism and spiritual values" that "treats disease with disease" (p. 105). Thus, in *Ba'ath Socialism*, there is no "class struggle" (p. 106) for "socialism is secondary to nationalism, it is a means for resurrecting the Arab nation to glory" (p. 101). Equally *Ba'athism* rejects liberalism because "Arabs ... cannot accept an alien doctrine" (p. 105); rather "all individual freedoms are defined 'within the national interest'" (p. 125) and "liberties must be sacrificed during a period of *inqilab* (*transformation*) until the Arab 'self' is strengthened" (p. 126).

Thus, the constitution of the *Arab Ba'ath Socialist Party* declares that "private property is protected, but the law shall regulate its social function" (§26). Labor has no right to strike, but is entitled to dignified treatment by employers; and all workers should belong to state-controlled unions (§18). The constitution holds that "the government will direct the affairs of domestic and foreign commerce to abolish monopolies and protect domestic enterprises" (§36). Although pre-existing monopolies are abolished, competition in each industry is to be controlled via "a comprehensive economic plan [that] will be drawn up to increase national production" (§37).

During the *inqilab* (revolution), from which no *Ba'athist* regime ever emerged, an ethically enlightened elite would lead the masses. Obedience to this elite would stem from a mass commitment to an "eternal Arab mission" to transform the world, in part with Islam.<sup>61</sup> This is epitomized in the Ba'ath Party

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<sup>60</sup> The Arabic word *ba'ath* roughly translates as *renaissance* or *resurgence*.

<sup>61</sup> Aflaq, though Christian, realized that any successful ideology would have to appeal to the intense pride Muslims feel in the superiority of their religion (Jaber, 1966). Aflaq (1943) writes "The connection of Islam to Arabism is not, therefore, similar to that of any religion to any nationalism. The Arab Christians, when their nationalism is fully awakened and when they restore their genuine character, will recognize that Islam for them is nationalist education in which they have to be absorbed in order to understand and love it to the extent that they become concerned about Islam as about the most precious thing in their Arabism. If the actual reality is still far from this wish, the new generation of Arab Christians has a task which it should perform with daring

slogan “One Arab Nation with an Eternal Mission” (Jaber, p 115). As Jaber (p. 118) notes, most *Ba’athist* leaders were educated in Europe, and quite unconnected to traditions of their societies. They legitimized their leadership by portraying themselves as an elite vanguard.

Avowedly *Ba’athist* parties took power in Syria and Iraq; and *Ba’athist* ideology profoundly influenced secular Arab nationalist leaders across North Africa and the Middle East. Ayubi (1995) describes the spread of this ideology across the Arab world, and its ultimate failure to displace traditional tribal and religious associations. A debate in Arab studies, in some sense paralleling that in Latin American studies, turns on whether corporatist economies are a cultural heritage or an imported paternalism (Sharabi, 1992; Cosgel 2007; Gobe 2008).

In Asia, the military government of Japan copied many German policies in the 1930s and early 1940s, including increasingly intrusive state control over all major corporations. Post-war Japanese economic policies contained significant corporatist elements, such as extensive state subvention of selected firms and paternalistic labor relations (Raines and Leathers 1992). Military dictators of South Korea, Taiwan, and other Asian countries adopted parts of the corporatist model for a time, but soon modified it beyond recognition. Some pro-independence intellectuals in British India also envisioned a corporatist system – an economy liberated from market forces, ordered by caste consciousness, and united by Hindu religious nationalism (Basu 2001, esp. c. 1 & 4). Independence movement leaders throughout Africa, leery of liberalism but equally unwilling to subscribe to full-fledged socialism, likewise appreciated the virtues of corporatism (Nyang'oro and Shaw 1989) and accepted its strictures to varying degrees.

Classical corporatist economics remains a prestigious intellectual position in French schools and universities, with free market economics either marginalized (Theil 2007) or taught as an “autistic” mathematical abstraction (Fullbrook 2003). Countries whose francophone elites otherwise benefit from an education in France receive a flattering presentation of these ideas. Interwar education policies differed starkly in different colonial empires: Oliver and Fage (1990, c. 18) write that British African colonial governments funded missionary schools “capable of providing perhaps a quarter of their young citizens with two to four years of schooling and a select few with eight years or even twelve”, but that “the French, on the other hand, ... set up state schools in which a very small minority of Africans followed the curricula of metropolitan France.” That curriculum presented corporatism as the pinnacle of social ideologies and taught of the elite’s duty to guide the masses. These ideals, and those of Vichy, feature prominently in the education of French Africa’s postwar elites, and persist in their

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and detachment, sacrificing for it their pride and benefits, for there is nothing that equals Arabism and the honor of belonging to it.”

independent countries' curricula (Cooper and Barbier-Wiesser 2004). That French West Africa went for Vichy, while French Equatorial Africa backed de Gaul is far less important than the elitist ideologies the French-educated leaders of all former French colonies learned from their metropolitan French schoolmasters and professors. Niger's reliance on economic ideas associated with interwar corporatism (Robinson 1991) epitomizes former French colonies across the continent. Vietnam, another former French colony, illustrates the remarkable tenacity of French secular corporatism, which features prominently in its post-socialist economic reforms (Jeong 1997).

Corporatism, tainted by its wartime association with Fascism, became an unappealing label for the economic policies of progressive Third World nations. Consequently, corporatist economic systems are so-advertised mainly in devoutly Catholic regions and former French colonies, whose elites were taught by French academics to venerate the term. Elsewhere, corporatism little different from that of Fascist Italy or Falangist Spain took deep root, but under local aliases such as Arab Socialism, Libyan Jamahiriya Economics, and so on (Wiarda 1997).

Full-blooded corporatism failed to take root in the United States (Gordon 1998), Britain and its other former colonies, and the Nordic countries, though policies characterized as neocorporatist arose in all of them. Roosevelt's first New Deal, ruled unconstitutional by the Supreme Court, was America's only serious attempt to follow an overtly corporatist path (Whitman 1997; Black 2003). To combat deflation, Britain's postwar Labour governments built socialism with tax incentives encouraging employee-run pension funds to buy corporate stocks (Cheffins 2009). Canada's depression era government established industry Marketing Boards to fix prices, but dismantled them rapidly after World War II – with a few exceptions such as agricultural product marketing boards, which persisted for several decades. Corporatism was far more popular and long-lived among French than English Canadian intellectuals and politicians (Nemni and Nemni (2006). Australia and New Zealand also established marketing boards and centralized wage bargaining to various extents, but abandoned these in subsequent liberal reforms. The Scandinavian countries all built social democratic welfare states prone to intrusive tinkering with markets, but retained market prices. Consumer demand for imports kept all the Nordic economies open to global trade, and long democratic traditions made comprehensive price fixing by unaccountable elites untenable. But the deeper reasons for institutions developing along these paths, and thus for full blooded corporatism's failure to flourish in these countries, are unclear.<sup>62</sup>

Despite these occasional lapses, corporatism's immense influence around the world and across the decades renders Pius XI unduly reticent in praising

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<sup>62</sup> On this issue, see Glaeser and Shleifer (2002), Morck and Stier (2005), Stulz (2005), La Porta et al. (2008) and many others.

*Rerum Novarum* thus: “Catholic principles on the social question have as a result, passed little by little into the patrimony of all human society, and We rejoice that the eternal truths which Our Predecessor of glorious memory proclaimed so impressively have been frequently invoked and defended not only in non-Catholic books and journals but also in legislative halls and courts of justice.”

## **7. The French Connection**

Recent work in financial economics finds a remarkable correlation of poor economic outcomes - slow economic growth, inefficient capital allocation, financial system lethargy, weak economies of scale, etc. – with a “hierarchical religion” such as Roman Catholicism or Islam (La Porta *et al.* 1997; Stulz and Williamson 2003) and with a French legal system heritage (La Porta *et al.* 2008). These findings are notable for both their empirical prominence and lack of ready intuition.

Pagano and Volpin (2005) convincingly demonstrate the empirical importance of religion, but justify it with a model of labor and investor voting strategies, rather than with corporatist legacies. La Porta *et al.* (2008) survey the voluminous literature on the economic problems associated with a legal system based on the French Civil Code. Much of that literature attacks their earlier work for incompletely appreciating or overstating the importance of different legal systems. However, a French legal origin – or something highly correlated with it – is unambiguously highly significantly predictive of poor economic outcomes.

Other factors – some far less empirically robust – clearly ought to affect economic performance: education (Glaeser *et al.* 2004), colonial conditions (Acemoglu *et al.* 2001), state intervention and legal formalism (Djankov *et al.*, 2003), risk tolerance (Li *et al.* 2010), trust (Guiso, Sapienza, and Zingales, 2006, 2008, 2009), trade and investment barriers (Stulz 2005), labor law (Pagano and Volpin, 2005; Roe, 2003), democracy (Perotti and von Thadden, 2006; Pagano and Volpin, 2005; Bordo and Rousseau, 2006; Barth, Caprio, and Levine, 2006), price stability (Perotti and Schweinbacher, 2009), and entrenched elites (Rajan and Zingales, 2003, Morck, Stangeland, and Yeung, 2000; Acemoglu, 2005; Morck, Wolfenzon, and Yeung, 2005; Perotti and Volpin, 2005).

The oddly robust empirical correlations of economic infirmity with “hierarchical religions” and French legal systems require explanation. Stulz and Williamson (2003) recall Weber (1905) in listing various Catholic doctrines with illiberal and anti-business implications. However, Novak (1993) rightly notes that many Protestant churches’ teachings were little different. La Porta *et al.* (1997) argue that hierarchical religions – Roman Catholicism and Islam are their two major examples – promote vertical relationships of authority and submission, but impede lateral relationships of trust. Weber (1905) complements this:

Protestantism, he declares, arose from a merchant's rationalistic mindset of balancing pluses and minuses that "disenchanted" the world and prepared minds for science. The stirrings of liberalism are thus a cause, not an effect, all of which Weber celebrates and Anti-Cartesian philosophers, such as his colleague Sombart (1906, 1911, 1928), abhor. Nonetheless, elemental features of the Roman Catholic faith are unlikely suspects, for Rajan and Zingales (2003) show the early 20<sup>th</sup> century's most financially developed countries to be predominantly Catholic.

This suggests that the explanation should be a feature of the Catholic faith that attained prominence only as the 20<sup>th</sup> century unfolded. That feature, ideally, might also explain why a French legal code also correlates with poor economic outcomes (La Porta *et al.* 1997). We suggest that institutional residues of *Quadragesimo Anno* and *Rerum Novarum* and of secular French corporatist teachings may well be this missing factor.

Corporatism entered Catholic dogma at the end of the 19<sup>th</sup> century, and took hold across Catholic countries in the interwar period and Cold War era. This dovetails precisely with Rajan and Zingales's (2003) finding of Great Reversals in the financial development of both Catholic countries and countries with legal systems of French derivation in that period. The Jesuits and other clergy running the schools and universities that educated elites across the Roman Catholic world needed, perhaps, a generation to put *Rerum Novarum* into effect.

The remarkable enthusiasm of some French academics for corporatism may also underlie the oddly persistent correlation of a French legal system with weak economic outcomes. The elites of developing countries tend to speak the languages of their former colonial powers, and often receive advanced education in their best universities. The great majority of non-Catholic developing economies with French Civil Code legal systems are former French colonies, whose Francophone and French educated political elites were students in the 1930s and 1940s. Their French language educations would have included the thoughts of the great 19<sup>th</sup> century Anti-Cartesian philosophers discussed above. Such educations would have delegitimized liberal economics and pushed corporatist ideals at a generation or more of Francophone third world leaders. Meanwhile, France and other European nations substantially diluted their corporatist heritage in an increasingly open and liberal European Union.

In hindsight, a legacy of fundamentalist corporatism seems a plausible common factor underlying other drags on economic performance that, at first glance, seem unrelated. Corporatism sanctifies established hierarchies, endorsing the perpetual power of entrenched elites. This also obviously makes high quality education for the poor unnecessary. Corporatism, at least as much as socialism, necessitates extensive state intervention. Corporatism's principle of subsidiarity requires extensive legal formalism to define freedom of action at each level of the hierarchy. Corporatism sanctifies the status quo – existing jobs must pay

traditional wages and existing firms must continue providing these jobs – so a low tolerance for risk emerges naturally, as do rigid labor laws and lofty entry barriers. By consecrating hierarchy, including the patriarchal family, and vilifying impersonal market transactions, corporatism deters both trust in strangers and trustworthy behavior towards strangers (Bolton *et al.* 2008). Similarly, corporatism legitimizes barriers against foreign trade and investment, for without these corporatist Associations could not meaningfully set prices, wages, and production (Murphy *et al.* 1992). Finally, as Mussolini (1935, 1936) makes clear, corporatism can do without democracy.<sup>63</sup> A corporatist legacy is surely not solely responsible for all the institutional weaknesses of laggard economies, but it quite likely helped prolong these infirmities, and thus their human consequences.

Obviously, inept central bankers, insane leaders, adverse trade shocks, and sheer bad luck also clearly matter. So, doubtless, do numerous as yet unappreciated factors. But a legacy from an era of fundamentalist corporatism may well be a previously unacknowledged missing link, coalescing many recognized effects into one. For example, European invaders carved up the Americas long before *Rerum Novarum*, yet which colonial power seized which American territory still matters (Acemoglu *et al.* 2001). Perhaps, though, this matters in part at least because corporatist philosophies defused from only some mother countries to their former colonies.

We therefore suggest that work explaining present day financial development might consider a country's *corporatist legacy*. We further suggest that the best proxy for a corporatist legacy is an indicator variable set to one for countries with Roman Catholic (or Muslim) majorities, or a French-educated elite. Across non-Catholic countries, we suggest that a Francophone elite can be identified using an indicator variable for a French Civil Code legal system. We suggest that this, rather than attempts to measure corporatism in terms of the details of labor regulations or labor input to decision making, might best capture the spirit of corporatism, the defunct theology which we believe yet enslaves the practical men who command the economic resources of many countries, regardless of how exempt they might feel themselves from any intellectual influence.

## **8. Economics, Ethics, and Hindsight**

We suspect that Catholic social teachings unintentionally perpetuated widespread poverty in scores of countries – including many beyond Catholic unity and even

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<sup>63</sup> Pareto (1906, 1922), Schumpeter (1942, 1951), and others saw excessive democracy leading, perhaps inevitably, to socialist stagnation because of the instability associated with the high growth rates of liberal capitalism. This accords with empirical findings linking robust, but constitutionally limited, democracy with high economic growth (Haber and Perotti 2008).



outside Christendom. Although their attendant effects on souls lie beyond the scope of this study, the empirical evidence above is consistent with the overall impact of these teachings being profoundly detrimental.

Of course, corporatist teachings were never implemented perfectly. In many countries, explicitly corporatist leaders held power only briefly, though the institutions they established often lived on. And many corporatist leaders implemented the model only partially. However, in every case corporatist ideology came with a profound moral conviction of unique rectitude. Such emotionally highly charged social norms can entrench a profound “status quo” or “just world” bias (Lerner 1980; Kay and Jost 2003; Jost et al. 2004), consistent with the ideology’s remarkable tenacity (Wiarda 2004).

By lending ecclesiastic and academic authority to corporatism, clerics and secular scholars lent legitimacy to oppressive hierarchies, entrenched elites, and rigged markets. That legitimacy locked in a status quo of poverty and a set of economic policies that could hardly have perpetuated poverty more effectively had they been designed to that end. It condemns the intense competition that economic theory posits as the driving force behind economic efficiency; and demands instead state-enforced cartels to shelter businesses and workers from uncertainty.

Corporatism preserves existing jobs, businesses, and industries; protecting all from innovation and instability. Thus, workers need not invest in the human capital accumulation that liberal economies demand for continued high employment, and that econometric evidence indicates is a first order factor in economic growth (Glaeser *et al.* 2004).

Likewise, cartelized corporatist industries free firms from competition to innovate. Schumpeter (1942) posits that established cartelized firms might be innovators, contradicting his earlier hypothesis (Schumpeter 1912) that creative upstart firms are an economy’s primary innovators. Empirical work linking productivity to corporate turnover (Fogel et al. 2008) and easy entry (Djankov *et al.* 2000) supports the young upstart as the better innovator. Thus, Corporatism’s organization of the economy through cooperation between established businesses, organized labor, and the state excludes the innovative entrants that appear most important in fueling economic growth.

It is profoundly unfortunate that Pius’s concern about socialism in §95, “some who fear that the State, instead of confining itself as it ought to the furnishing of necessary and adequate assistance, is substituting itself for free activity; that the new syndical and corporative order ... serve(s) particular political ends than leads to the reconstruction and promotion of a better social order” was not perceived to apply equally to any system that entrusts a select elite with uncontestable power – including corporatism as laid out elsewhere in the encyclical.

We believe that the Church's error was to stray from its own teachings on the inevitability of sin. Adam Smith (1759) and the economic theory he founded agree with Catholic doctrine that human beings are ethically challenged. In a widely known quote, condemned by Ratzinger (2010), among others, Smith (1776) argues rightly that "it is not from the benevolence of the butcher, baker, and brewer that we get our dinner, but from their self interest." But Smith (1762) explains that our regard for others directs our self interest towards producing things that others value. This intuitive human appreciation of each other's needs, which Smith (1762) calls *fellow feeling*, justifies Smith's (1776) advocacy of free markets.<sup>64</sup> Trade requires putting oneself in the other party's position, and thus aligns one's self regard with the needs of strangers. Such grace, at least, genuinely arises amid merchants and money changers.

Leo was, in hindsight, astonishingly overconfident in asserting that "the Church possesses a power [to] bring men to act from a motive of duty, to control their passions and appetites, to love God and their fellow men."<sup>65</sup> Power corrupts even devout Catholics. Elites less fearful of dislodgement via hostile takeovers, foreign competition, and the unhindered economic mobility of talented upstarts have a more absolute power, and therefore risk a more absolute corruption. Corporatism's cartels bleach private property of its social purpose – the effecting of that very dislodgment and price changes and market forces reallocate the economy's resources to where they are most valuable. Without conveying the freedom to change jobs, retool factories, and create new markets, private property is no more than the dead hand of entrenched privilege. Corporatism's defense of private property, but without these features, is indefensible on both efficiency and equality grounds.

Corporatism's principle of subsidiarity likewise throws away the baby while diligently guarding the dirty bathwater. Letting each level in the hierarchy decide what powers to delegate to that below it and equating submission to this hierarchy with godliness explicitly let elites retain such powers as are most advantageous to them. Unsurprisingly, Latin American political and economic elites jealously guard their powers to limit competition, but generously delegate the enforcement of nonsmoking zones to shop stewards.

## **9. Benediction**

Government's calling is to supervise the economy. It must design and operate a system that mediates the control and redistribution of resources. Control over an economy's resources translates unflinchingly into power over others, so

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<sup>64</sup> Smith (1762) was republished during his life after 1776, without major changes. Smith clearly did not change his mind; but regarded the two works as complementary.

<sup>65</sup> *Rerum Novarum* §26.

governments must acknowledge that they are charged with distributing, legitimizing, and limiting the power of some people over other people. This basic truth renders liberal free market economists who ignore distributional issues vulnerable to ethics-based critiques that many find convincing.

For over a century and a half, since Marx and Engels published their Communist Manifesto in 1848, amid liberal rebellions across Europe, the most fundamentally divisive distributional issue has been the distribution of power between capitalists and workers. The Marxist critique of liberal economics holds that industrialization excessively concentrates command over the economy's resources, and hence power over others, in the hands of capitalists. That is, capitalists' power over workers' jobs and wages lets the powerful take advantage of the powerless leaving workers the losers in this class struggle, despite their constituting the majority of the population. Marx and Engels call for workers of the world to discard false allegiances to nation and religion, and to unite in demand of an even distribution of resources as the only solution to class conflict. Somewhat ironically, this struggle is now reasserting itself as labor unrest (Lee and Shen, 2009) spreads across Communist China in the wake of market reforms with distinctly neocorporatist tinge – entrenched inequality in the hukou system of residency restrictions (Cheng and Selden 2009), and monopolistic Party-controlled “private companies” (Pistor 2009; Mcgregor 2010).

Now a trite litany, “Workers of the world, unite!” was a jarring provocation when Leo and Pius wrote their encyclicals. Reasonable people feared for their countries, property, and safety – especially after the 1917 Great October Revolution and seeming economic success of the Soviet Union, whose agitators in Catholic countries were avowedly anticlerical. The mid 19<sup>th</sup> century's popes were waging a defensive war to protect feudal institutions – commanding serfs' utter submission to their lords, damning technology, and condemning as diabolical elections, freedom of the press, public education, bible study groups, and the like (Manhattan 1947). Leo sought to reformulate the conflict by advancing corporatism as a new system that could preserve what was good about the old, embrace liberalism's private property and socialism's concern for the poor, and challenge both for the commanding heights of an industrial economy.

*Rerum Novarum* and *Quadragesimo Anno* are therefore rightly considered major advances in Catholic social teachings, for what came before was much worse. The church successfully groomed corporatism into a seemingly viable third way. Diamant (1960) argues that the failure of the Austrian corporatist experiment, in which the clergy had unhindered powers, demonstrates the utter bankruptcy of Catholic social thought. This may be too extreme, for Mussolini's Italy enjoyed some economic success. However, corporatism went badly wrong where it took and held power for the long term.

Corporatism erred by denying human nature. Like socialism, corporatism presumed the continual reliability of a benevolent and competent elite. But devout Catholics proved no less vulnerable to the temptations of power than Lenin's socialist central planning engineers. Since corporatism left superiors to determine what powers subsidiarity would carry down to lower ranks, the principle was no protection against abuse of authority. Any authority worth abusing could be retained. Corporatist regimes in Iberia, Latin America, and elsewhere fostered corruption and cronyism. Mussolini was wrong about many things, but he rightly declared corporatism placing "the labor force, as an obedient mass, at the disposal of the leader" (Nolte 1966), and Catholic generals, dictators, and oligarchs pursue their self-interest as vigorously as anyone else.

Corporatism also erred in misapprehending the internal workings of a liberal free market economy. Corporatist elites, by setting "fair" wages and prices, insulated consumers and producers from the price signals and thus the incentives that, by coordinating economic activity efficiently, justify the existence of private property in a liberal free market economy. These self-interest-driven processes – the collection of information and the direction of private effort – provide needed adjustments to any society in flux (Hayek 1944). Flux is hard for a society to avoid in the modern world.

Religion has always influenced government – shamans instruct tribal chiefs in hunter-gatherer culture and the tradition persists. Naturally, the Roman Church did not excuse itself from this duty. Resolving the class struggle, ending human suffering, and allocating wealth fairly are all economic problems with profoundly moral overtones, which naturally evoke religious commentary. But religious authorities find economics uniquely troubling. Adam Smith's (1776) insight that self-interest, properly channeled, could yield socially beneficent outcomes is deeply troubling to Christian ethicists who would assess sin on the basis of intentions, rather than outcomes. Economists' endorsement of ethically damnable intentions, however grand the results, strikes many as "ends" justifying "means" – a moral adage even most neoclassical economists appreciate as of limited utility. That such arguments were especially unconvincing to clerics is perhaps understandable. This troublesome disconnect is why Knight (1939 p. 399) concludes that "evil rather than good seems likely to result from any appeal to Christian religious or moral teachings in connection with the problems of social action."

The Vatican represented corporatism as a middle way between socialism and liberalism. This is defensible only in that corporatism's principle of subsidiarity gave central governments a lesser role than in socialism and a greater role than in liberalism. But this is only one of the doctrine's four core ideals. Recognition of innate human inequality probably causes socialists and liberals equal discomfort, as does a "harmonious cooperation" of government, labor, and

private business. Wage, price, and quota fixing Corporations are objectionable to liberals as delegated central planning and to socialists as fortresses of oligarchic privilege.

Corporatism's metaphoric status as an ethical passageway between the twin evils of liberalism and socialism is thus primarily about the role of government. Socialism is indeed a polar case where the market is untrustworthy and cast aside before government planners; while liberalism similarly deems government untrustworthy and casts regulation aside before market forces. Of course, social democrats acknowledge a role for markets and liberals recognize the need for the state to protect private property, enforce contracts, and perhaps even regulate financial institutions.

But the genuine middle way now seems to be the liberal democratic welfare state that, in various guises, prevails across the developed world. The poles are uninhabited – no one seriously advocates Dickensian liberalism or Soviet socialism. But corporatism is equally lifeless. Neo-corporatists might argue for stronger unions, or for labor input in corporate governance, but these are adjustments to the liberal democratic welfare state – arguably the worst economic system, except for all the others.

Corporatism is not dead. Its shade haunts many countries. Corporatist policies from the 1930s live on in wage and price rigging to benefit incumbent firms and workers, and in firms expectations of subsidies, tax breaks, and regulatory forbearance from governments used to running national Associations. Oligarchies in Latin America and elsewhere drew long life from corporatist legitimacy. That liberal democracy might take root across Latin America remains an open question; that it might flourish across the Middle East and in former French colonies in Africa is not yet testable.

We clearly have yet to attain a perfect economic system. Too much socialism risks government corruption and stagnation. Too much liberalism risks costly bubbles and busts and unacceptable poverty for too many. Corporatism presented itself as a middle way between the two. In fact, it resurrects medieval economic ideals, mixing legitimized inequality with fixed prices – arguably the least desirable features of liberalism and socialism, respectively. Despite stock market bubbles, special interest group politics, and other chronic infirmities, the liberal democratic welfare state, our ongoing experiment in blending the best of liberalism and socialism, remains the state of the art. Whether the next step is a better blend or something entirely new is at present unknowable. The Catholic Church has accepted this and moved on. We propose that corporatism's last and best service to humanity would be to die finally, and to leave no trace that it ever was.

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