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# Economic Freedom: Adam Smith vs. the Papacy

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MICHAEL McPHELIN

**A**DAM Smith appears to be regaining popularity. This is understandable in a country where controls have been choking the life out of the economy and where economic freedom needs stout and vocal champions. As passing illustrations of the high regard in which the famous Scot is currently held I can cite two recent experiences. First, after the esteemed president of the Free Enterprise Society of the Philippines, the Honorable Benedicto Padilla, had addressed the students of a local college, it was suggested that an Adam Smith Chapter of the Society be set up for students interested in fighting the good fight for economic freedom. Second, in the course of a Symposium on Labor and Management — part of the Ateneo Centennial celebration — an able and enlightened young businessman expressed his agreement with Adam Smith: Freedom on the part of each to pursue his self interest will lead to the greatest good of the greatest number.

We have suffered from excessive economic controls; we have worked up a strong appetite for economic freedom. But we should not follow discredited prophets. Economic freedom is a good thing; we need more of it. But social order is also a good thing; we need more of it, too. This paper proposes to contrast the eccentric notion of *laissez faire* held by Adam Smith, Jeremy Bentham and the Philosophic Radicals with the

balanced concept of economic freedom put forward by the Pa-pacy.

## I

The fundamental problem of economic society can be stated in terms of the conflicting demands of individual freedom and of social order. In balancing the tension between freedom and order, two extreme positions, both intolerable, have been historically important. One allows so much scope to individual freedom that it degenerates into chaotic license. The other imposes so much regimentation upon the individual that it grows to be oppressive tyranny. Freedom without order makes a jungle of society; order without freedom a jail. Individualism effects a world of every man for himself; collectivism a world of every man for the state. Between the extremes lies a range of positions, some nearer the one, some nearer the other. Because society exists for men and not men for society, the freedom of man is in possession. This is the starting point of the Popes. Freedom to pursue one's private interest is the energy upon which an economic society depends to get things done. Of itself it is an immoderate force. It needs to be curbed lest it impair the common good. Yet every restriction upon freedom is a rein on the dynamism of economic life; none should be imposed unless truly required to insure social order. Civil society is quite different from a monastery in which men freely yield up all their independence to vow utter obedience to a superior whose voice is the voice of God. Men live in society to retain the maximum of their personal liberty consonant with the common good.<sup>1</sup> This principle is applicable to all spheres of social life. Here we are interested only in the economic sphere.

A free economy is one in which the use made of economic resources is determined from below by the myriad economic decisions of *private* members of the society rather than closely controlled and regulated from above by the public authority. An economy of free households and firms has certain requirements which can be specified nicely. So has economic order.

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<sup>1</sup> *Quadragesimo Anno*, 25.

The two can be fused. Indeed, no economy has been completely free and none has been completely regimented. But not every blend of the two brings about the ideal of economic society envisioned in the Encyclicals. Private interest must be curbed wherever it threatens the common good. But "public interest" must also be checked lest it stifle the versatile energy of private interest.

As an illustration of an important area of social life in which the blending of the two has been fairly successful, the family suggests itself. Among civilized men marriage is regulated by the state in the public interest. A man may have only one wife at a time. If he fathers children, he may not thrust upon the woman alone the full burden of supporting them whenever he tires of her companionship. Even in his approved marital relations he must observe laws of public decency. Yet the state may not order a man to marry the woman of his choice, nor tell him how long the union may endure, nor limit him to one child, nor specify the details of what the child is to eat, wear and learn, nor dictate what religion it is to practice. For the family, being a natural society, has its own natural laws.

Like domestic society, economic society depends upon two basic but effective motives for inspiring human activity while at the same time compressing it within due bounds. One is private interest taken most broadly and the other is fear of social condemnation.<sup>2</sup> Private interest is needed to get things done efficiently, fear to keep the wrong things from getting done. Private advantage and the common good need not clash so resoundingly as to render social life a savage struggle in which only the strong and the cunning survive.

## II

The private interest of the individual can be wise or foolish accordingly as it regards the needs of order or disregards them.

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<sup>2</sup> Private interest here is understood to comprehend all of the preferences of the individual whether his own person is their object or not. It can include ambition for one's family and love of one's neighbor as well as one's personal advantage.

Individualism as a social practice sins by extravagance. It seizes upon a piece of the truth — that it is good for man to be free to pursue his own happiness as he conceives it, and erects it into an exclusive social end. Such an attitude would do no harm if social order could be depended upon to take care of itself. As a matter of cold historical fact, it does not take care of itself.

It would not be quite accurate to ascribe to the prominent philosophers of nineteenth-century liberalism an attitude of disdain of social order. They were children of a generation which had experienced an excess of regulation and they reacted against it understandably. Bentham wrote:

The request which agriculture, manufacture and commerce presents to government is as modest and as reasonable as that which Diogenes made to Alexander: "Stand out of my sunshine."

They reasoned quite correctly that men, *duly* left alone, tend to provide for themselves more plentifully than a government can by interference. We who have lived under exchange and import controls heartily endorse the words of Diogenes.

There is, as we know, one conceivable constellation of economic conditions in which a kind of order occurs of itself. A purely competitive economy is the theorist's schematization of an economic system which can prosper after a fashion by means of an automatically balancing mechanism, the pull of private loss and gain. To arrive at a *relatively* optimal settlement, it requires a minimum of extra-economic regulation. It portrays the unique society in which production and distribution embody immanent forces of economic balance because it assumes that all the citizens in this economic society are of equal influence. That is, they are all equally small. No unit, be it household or firm, is so obtrusive as to be able to exert direct influence over the market, whether as a buyer or as a seller. Such a competitive system could have been the thing which Bentham and the Philosophic Radicals thought of as the *natural* state of economic society. They were hardly enamored of social chaos. As a matter of fact they rallied under the standard of the greatest good of the greatest number. Per-

haps they had in mind this one case in which "man's self-love is God's providence" and in which a common good of sorts, quite a defective one, is arranged behind the scenes by the equilibrating action of the invisible hand. At most they can be credited with the intuition — for it never got beyond that — that *due* freedom is not socially noxious.

But what, then, is due freedom? It is correlative to due order. It can be defined only with reference to the essentials of the common good which no individual is duly free to obstruct. Granted that men duly left alone tend to provide for themselves better than a meddling government: who is to provide for society, and how much, and how? Though the preoccupation of the liberal philosophers was to put government in its place, their thinking on the proper place of government was full of unaccountable omissions. The refined and difficult concepts of legal and distributive justice toilsomely elaborated by generations of moralists, jurists and political philosophers were given scant attention by them. The most confirmed liberals were under no illusions about the necessity of outlawing larceny, fraud and violence, overt or covert, in business affairs. Yet they took the stand that as long as the contractual relations between individuals were satisfactory to the parties involved, any further meddling on the part of the state constituted undue interference with private enterprise and with *the* laws of economic life.

Besides the relations of individual citizens among themselves in and out of the market place, there are reciprocal relations between the individual and society to be regulated by its governing organ, the state, according to the norms of legal and distributive justice or social justice. There is such a thing as the common good. Provision must be made for it. The individual citizen is helpless to provide for it. Only organized society can. The state is the custodian of the common good. Correspondingly, it is the duty of the citizen to submit to the direction of his government not only in all that pertains to the single good of his neighbor but in all that pertains to the common good of the whole. Bentham and the liberals, though not indifferent to the common good, were strangely blind to the magnitude and the delicacy of the problem it poses. They were

quite oblivious of the prior necessity of specifying the essentials of economic order before a criterion could be established by which to distinguish between *due* and *undue* exercises of economic freedom or, what comes to the same, due and undue governmental interference. As a result, they developed no such criterion. In philosophers who espoused freedom it was a glaring defect. For what, exactly, did they espouse? It is along this line that the break is sharpest between their philosophy and that of the Papal Encyclicals which also champion due freedom. *Quadragesimo Anno* clearly sets down the requirements of economic order. When that has been done, not only is due freedom defined but it becomes obvious that in the circumstances of the modern world economic order does not take care of itself. It must be made the object of statesmanlike social policy.

### III

According to *Quadragesimo Anno* the common good of economic society, neither a vague nor an empty concept, is compounded of four elements: the elimination of poverty as far as possible, the provision of security, the equitable sharing of economic goods, and respect for the dignity of man, the producer.

These four elemental constituents of the common good will not be considered at length here, but they do require an introduction. An economy aims expressly at overcoming poverty as far as possible. It aims to put at the service of its people the full product its potential to produce makes possible. There is unavoidable poverty imposed by the harsh fact that neither useful materials nor human skills are unlimited. But there can be unnecessary poverty resulting from faulty social organization. Such faulty organization is manifest when resources and skills lie idle despite the will of their owners to employ them. This social malady has merited the tragic name of poverty in the midst of plenty — potential plenty. No economy is making its full effort to vanquish poverty and insecurity unless it employs its resources fully, steadily, and under conditions which stimulate their further development. It ought to achieve full employment, in the economic sense which allows

for desired leisure. Next, it ought to *maintain* full employment. That is to say, it ought to render a good economic performance not simply for a few years out of each decade, but steadily, year after year. It is the cycle of alternating employment and unemployment which breeds the proletarian who is both poor and insecure. Besides, it ought to stimulate the improvement of its potential to produce and thus by degrees force back the limits of necessary poverty. Man has proven his ability to do new things and to do old things better. He can be depended upon to exercise his genius for economic development where the rewards offered make the effort worth while.

Moreover, the common good requires that the economy so distribute the goods it produces that the distribution meets the reasonable demands of all its members and wins their ratification and cooperation. There are societies in which men live contentedly. There are others which they condemn as showering privileges upon some and unrequited burdens upon others. The just distribution of economic goods will not be egalitarian, for economic contributions are not equal. Neither will it be the distribution characteristic of a slave economy where the masses labor for the advantage of the few.

Finally, human dignity must be taken into account. Man, though a productive economic resource, is quite unlike a mere tool or chattel. The difference is twofold. First, no economy exists for the good of its tools, but for the good of men. Second, a mere tool cannot derive enjoyment from work as man can. His temporal happiness is not gotten exclusively out of the consumption of finished goods. He takes joy in productive activity itself. It is in him to undertake work for something beyond the pecuniary reward it offers. Part of the reward is the opportunity for personal accomplishment which work affords, notably in the arts and professions, but in other undertakings as well. Since all society exists to complement the child of God and the lord of the universe, as the Popes call him, his basic dignity and importance in society should never be lost to sight.

These four elements of order constitute the compound goal toward which the mutual activity of the members of an

economic society *ought* to be directed. We are in the realm of social philosophy.

## IV

The starting point of any philosophy of society is man himself, the first and most assertive social fact of all. Society is constituted of men for men. Man has certain essential needs embracing what he needs to be truly human rather than just a beast of burden or a composite of chemicals. Above all man needs society, for he has capacities on all levels of his complex nature—animal, intellectual, esthetic and religious, which can be developed and fulfilled only in the company of his fellow-men. These needs are the test of society. It is good or bad in so far as it is successful or unsuccessful in providing men the opportunity to meet them.

If society be regarded figuratively as an organism, it is not improper to speak of its well-being nor to conclude that its essential purpose is to achieve and maintain its well-being. For this reason the *philosophia perennis* has defined society as the community of men who conspire under acknowledged authority to bring about the common good of all. The common good according to its classic formulation consists of *pax et prosperitas publica* — peace and plenty, tranquil order and general welfare. The specific content of the common good in any particular area of society, for example in family life or in economic life, is determined according to the essential needs of man. Where society fails of its purpose, it might be changed to accommodate man's needs, not *vice versa*.<sup>3</sup>

Just as the laws governing bodily growth and health are not made by physicians but are discovered by them and followed in practice, so the laws governing social well-being are

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<sup>3</sup> In states which respect the dignity of man, the civil constitution includes a bill of rights inalienable by law, agreed upon because of the general conviction that when man is deprived of such basic rights he is degraded below the dignity which befits the human being. Historians and sociologists both attest to the discontent and unrest which disturb societies in which man's *natural* rights are violated—rights deriving from the inescapable fact of his being a rational, social animal.

not made by men but must be discovered by them and formulated and carried out in social life. The dietitian does not decree that the human body shall thrive when given the proper abundance and quality of nourishment. It is simply so and the mightiest cannot make it otherwise. Man's social needs are objective in this same sense. They exist and clamor for fulfillment whether anyone bothers to philosophize about them or not. The canons of social well-being have not been left to the discretion of men to make or unmake. They inhere in the reality of things. In many areas of social communion these laws have been discovered and generally enforced from antiquity. Lawmakers did not decree arbitrarily that the familiar imperatives of the Decalogue should be the guardians of orderly social life any more than the denizens of the jungle dictated the law of the survival of the fittest. Men simply learned from their experience, bitter and sweet, that social communion is impossible where rebellion, murder, stealing, lying and lechery are as acceptable as their opposites. There are discoverable norms of social conduct which, when observed by men, produce social order, when ignored, social disorder, for no other reason than that men are and persist in being human.

There is nothing arbitrary about morality. It does not consist of a body of formulae which express one's private and highly biased opinions of what is right and wrong. Morality has nothing at all to do with determining the requirements of order. These exist *a parte rei* as soon as the individual man or the community of men comes into being. Morality simply promulgates these requirements. Though it cannot enforce them of itself, it has an ineluctable logic of its own. Unless the requirements of order are met, disorder follows whether in the individual or the social life of man.

There are objective norms to which moral precepts must conform in order to be binding. These norms are the requirements of orderly living. No law has moral validity *per se* unless it makes for the order without which tranquil human intercourse is impossible. It is precisely this relation to order which gives to moral laws their character of obligation. They are necessary for orderly human life. No action is bad be-

cause it is forbidden in the Decalogue; it is forbidden because it is bad—because it runs counter to the requirements of human nature, regarded either individually or socially.

The moral imperatives mark off the bounds within which the individual must restrain his freedom if all are to enjoy the benefits of order. They do not prescribe what man is to do; they proscribe certain things he must not do. They emancipate by imposing restraints. Yet morality is misunderstood if it is thought of as being merely negative. It affirms the freedoms which are not to be alienated. Once the frontiers of the forbidden land have been charted, the larger area is also plotted out within which one is free to ramble at will. The social precepts of the moral law put a check only upon the conduct which would damage, directly or indirectly, one's fellow man. For in society every man is his brother's keeper. That is the whole idea of society. It can attain a common good, literally that; not mine alone, nor another's alone, but mine and others' together. The concrete common good of economic life has already been mentioned. Keeping that in mind, it is clear that the common good is not any one thing. Above all it is not an article that can be produced and distributed by government. It is that manifold state of affairs which offers to each the chance to lead a decent life by his own efforts. Or, negatively, it is a social milieu which does not impede man's ordinary movement toward his due happiness by throwing frustrating obstacles in his way. In no sense is it a substitute for personal initiative, the dynamic force of all human society. It is rather the firm frame within which the individual can give free play to his native energies secure in the knowledge that he will neither inflict harm on others nor suffer harm from them, directly or indirectly.

## V

It has already been stated that the common good of economic society consists in its being not a concert of waste but truly an economy giving an orderly performance. It should be an atmosphere in which men can live and move and fulfill their essential needs without being confronted with dishearten-

ing obstacles. Economic society, a basic phase of all social life, has as its general aim the same aim as society. That is peace and public prosperity. The prosperity within the possibilities of an economy cannot be attained without the full, stable and improved employment of its resources. Peace, "the tranquility of order,"<sup>4</sup> cannot be had without justice in the distribution of economic goods and without respect for the dignity of man. The absence of any essential element of the common good raises the social problem.

The problem can be fruitfully analyzed in terms of freedom and order. The difference between wise and foolish freedom is the difference between social order and social disorder. In so far as individualism penetrated into business life—and its exaggerated notion of freedom had been characteristic of liberal capitalism in the 19th century—it succeeded first in reducing economic society to a mass of atoms each seeking his private interest, as he should, but with insufficient regard for the common good, as he should not. In time this divisive self-interest made of economic society—"that most important division of social life,"<sup>5</sup> an arena of clashing classes and a theater of bitter social strife which merited Pius XI's redundant denunciation of it as a "most evil evil."<sup>6</sup>

The criticism of *Quadragesimo Anno* is leveled at individualism rather than at individuals. Individualism is a system, a structure of habits and laws and institutions, which compels the individual to take care of himself even at the expense of the community or to lose out in the struggle for existence. It robs social life of its cohesion. It atomizes men. It skimps the role and importance of their solidary interest. 19th century Capitalism is a fascinating historical curiosity. It generated an economy unaware of, rather than indifferent to, the exigencies of society. It was a throbbing, developing, unstable and unstabilizing thing which at times has been marvelously productive of goods to satisfy the needs of individuals. Its apologists—it has had vigorous and eloquent defenders—have made much

<sup>4</sup> St. Thomas, *Summa Theologica* II-II, 29, 1, ad 1.

<sup>5</sup> *Quadragesimo Anno*, 110.

<sup>6</sup> "pessimum malum." *Quadragesimo Anno*, 83.

of this. Yet at no time has it satisfied the enduring needs of the whole. Erratic capitalism and the insecure proletariat go together as cause and effect. Proletarians are a product society cannot overlook.

Socialism found fault with individualism, as well it might, because the faults were there to be found. But it found them in the wrong place and as a consequence its greatest strides have been in the wrong direction. It laid the faults of the system at the door of private property, thus missing the point of the trouble. Private property is not the evil of individualism but misuse of property is or, more correctly, misuse of the economic freedom and the economic power which economic resources, whether these be property or labor, confer on those who own them or administer them. Because collectivism's diagnosis is wrong, so is its prescription. Whereas individualism exaggerates economic freedom, collectivism voids it.

The importance of economic freedom lies in this, that it is the presupposit of all the precious freedoms in virtue of which men shape their own lives according to their own lights and not as another dictates. Man can do practically nothing without the economic means thereto, not even choose a school or practice his religion.<sup>7</sup> Economic freedom is the absolutely necessary foundation of all freedoms. Private property in turn is the sole *guarantor* of economic freedom—private ownership of the means of production as well as of finished goods. It is the one secure and dependable condition for the full exercise of liberty. Else freedom to do anything which involves the use of economic resources depends upon the good will of another who controls the means thereto. A freedom which a stronger will can void arbitrarily is a very precarious one. The only independence it leaves man is highly dependent, an anomaly which is itself a grave social evil. That in brief is Pope Pius XI's justification of private property.

Notice that private property is not an end in itself. Personal freedom is an end but not an exclusive one; social order

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<sup>7</sup> The members of a society are not free, for example, to practice Catholicism where they are not free to maintain by their indispensable support churches and schools, convents and seminaries, and the services of bishops and priests.

is also an end. In society, freedom must be tempered with order. The *raison d'être* of society is the common advantage of all. In order to complement the individual, society must confine him. In order to give to him, it must take from him. In order to provide him with the opportunity to achieve his full stature, as he cannot by himself, it must deprive him of as much of his freedom as is required to insure the coordinate good of his fellows. Property is but the means to the end of man in society, the enjoyment of freedom in order.

Notice too that property is a juridical category, not an economic one. It is a right and like any right is bound up with society. It implies duties on the part of others and corresponding duties toward others. It is a right in justice to one's own goods carrying a corresponding duty to the society which guarantees the right against violation. The rule of strict justice is *suum cuique*—that each be given his due. To a solitary the term "his" is superfluous; in a jungle it is futile. Private property is a social thing essentially. It forbids expropriation by others in a social atmosphere in which reciprocal rights and duties are acknowledged relations. Consequently a property-right not limited within the requirements of social order is an absurdity.

For this reason *Quadragesimo Anno* insists on "the twofold character of ownership, individual and social, accordingly as it regards the good of separate persons or the common good."<sup>8</sup>

To steer clear of social shipwreck, "twin reefs must be avoided. One is individualism, which denies or minimizes the social character of the right of property. The other is collectivism, which attenuates or annihilates the private character of that right."<sup>9</sup> The critical point underlined by the Pope is this: The right of property is distinct from its use. . . . The use of property is circumscribed by the exigencies of social living. . . . In this matter men must consider not only their own advantage but also the common good.<sup>10</sup>

<sup>8</sup> *Quadragesimo Anno*, 45.

<sup>9</sup> *Quadragesimo Anno*, 46.

<sup>10</sup> *Quadragesimo Anno*, 47-49.

## VI

The common good and social order are terms which are used interchangeably in the Encyclicals to designate the limits beyond which personal freedom in the pursuit of private interest may not trespass lest it impair the health of the community. A closely related term is relevant to our present context. It is social justice. Commutative or strict justice regulates the relations of one person to another. It outlaws theft and imposes on the thief the obligation to restore stolen goods to their rightful owner. One can vindicate his rights in commutative justice before a court of law and win redress because it is possible, *per se*, to establish all the pertinent matters of fact. They are these:

- 1) Who holds legitimate title to the thing?
- 2) Who has damnified him?
- 3) What is the extent of the damage?

The damnified and the damnifier can be paired off, the extent of the damage measured and an indemnity awarded.

Social justice regulates the relations of individuals to the community and reversely. It is a very useful concept. Whenever social injustice is perpetrated, the community and its parts are truly damaged by the action of one or more of its members. It is truly an act of injustice. Yet there is no way by which the injured parties can vindicate their rights and gain redress as there is in the case of commutative injustice, because the damage is a social phenomenon in a special sense. It occurs *via* the solidarity and intricacy of developed community life. It cannot happen where there are only two, as commutative injustice can. It can happen only in a society composed of specialized parts, each in close dependence upon the other and each profoundly influencing the other. It is this peculiarity of social injustice which precludes reckoning the exact damage done to one assignable individual by another assignable individual, although palpable injury is done.

Perhaps a simple parable will clarify the distinction between commutative and social justice. Picture a peaceful

and prosperous community in which men cannot live without rice and corn. Its grain dealers, grown unscrupulous, combine and succeed in cornering the entire grain supply. In time they induce a famine in the land, in the course of which the hungry are willing to pay even the dizziest prices for the staff of life. The pressure exerted by the grain dealers is a misuse of property. The grain is unquestionably theirs but they abuse their ownership of it to the harm of their fellowmen in two ways. First, their action approximates common larceny. By charging unjust prices they rob each purchaser of a measurable portion of his wealth as truly as if they were to hold him up at the point of a gun. They put a price on something they do not own—the desperate need of their fellow citizens. But beyond that every purchaser of cereal, as its price mounts higher and higher, expends more and more of his limited means on rice and corn, less and less on all other things, with the result that an untold number of tradesmen and manufacturers in the community are ruined, their employees thrown out of work and depression and misery spread widely. An injustice has been perpetrated on the community but it is social injustice consisting in the painful, ulterior effects of the misuse of property.

Beyond its consequences to the individuals *immediately* involved, economic behavior has results which affect the welfare of the whole. Something in one society is the cause of tranquil prosperity. Something in another is the cause of economic disorder. The cause is not always to be sought in sunspots but often in the actions of men. Now the bond of society which ought to clasp its members together is each one's stake in the common good.

Upon consideration of the true requirements of the common good the public authority can determine what is permitted and what is not permitted to owners in the use of their property... The state may not discharge its duty arbitrarily. The natural right both to own goods privately and to transmit them by inheritance ought always to remain intact, for this is a right which the state cannot take away... The right of possessing goods privately has been conferred not by man's law but by nature. Consequently the public authority cannot abolish it but can only control its exercise and bring it into conformity with the common good. Yet when the state does bring private property into

harmony with the common good, it does not commit a hostile act against private owners but rather does them a friendly service. It prevents the private possession of goods from causing intolerable evils and rushing to its own destruction. It does not abolish private possession but safeguards it. It does not weaken the right of property but strengthens it.<sup>11</sup>

To guarantee order, prudent limitations upon the exercise of personal freedom must be embodied in a system of laws and institutions and not left without sanction to the singular insight and naked sense of duty of public-spirited citizens. There should be no legal way open to the individual to disturb the peace and the common good. Men do not depend upon good will all by itself to guarantee order in any important area of social intercourse. Their long experience has taught them that it is not enough. Once the requirements of the common good are known, public law should frame them and impose them with the uniform force of its authority on all the members of the community in their common interest. Thus it protects and strengthens the whole. If the condition of the whole is unsound even the sturdiest individual parts cannot enjoy flourishing health. Economic individualism has taught its lesson ruthlessly.

The Holy Fathers have been stalwart defenders of economic freedom. But their social philosophy of economic freedom is much better balanced than that of the Philosophic Radicals of the early 19th Century. Let us by all means encourage the voices which support free enterprise in this country, for economic freedom has suffered serious setbacks during the past ten years. But let us not uncritically select as our guides Adam Smith and Jeremy Bentham. We can do much better than that.

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<sup>11</sup> *Quadragesimo Anno*, 49.