

**Michael Novak, wealth and virtue:
Work, creativity and the poor in democratic capitalism**

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Abstract

The idea of this paper is to discuss the role of virtues in promoting general wellbeing for the common people. This is meant to contribute to the debate about possible linkages between overall wealth and individual character. My main source of inspiration is Michael Novak's perspectives on the cultural basis for capitalism.

Keywords: Michael Novak, wealth, virtue, capitalism

Introduction

Michael Novak's insights both in theology and economy are at the heart of a proper discussion about wealth and virtue. Speaking to a broader philosophical tradition of liberty he identified as Anglo-American, Novak emphasizes the United States' unique experience and the values of the founding generation as great contributors to a world of wealth and virtue.

This paper focuses on the importance of the passage of time in both virtue and wealth creation. Novak acknowledges that both economics and theology sometimes base their analysis on a temporal basis, where tensions between the immediate and the future, temporal and eternal, are presented to the individual. These disciplines, although different in their approaches, both present a contrast between immediate and deferred gratification. Both suggest, for different reasons, that indulging one's impulses for instant satisfaction may thwart compensations over the long-run. Virtue can be described as the ability to control emotions centered on the self, which are normally momentary. By tempering passionate impulses, the agent acts with benevolence and generosity, as if incorporating everyone else's standpoint. Such attitude deserves, later, the approbation of society.

The role of hard work coupled with living with frugality imparts virtue and leads to wealth creation. These are attitudes supported by the idea of deferred gratification. This article aims to reinforce Novak's remarks about the prominence of the poorest groups of any society, construed not only as beneficiaries from the general wealth thus created, but also as fully engaged participants in an entrepreneurial spirit. The poor hold the virtues needed for their success in a capitalist society.

It is important also to underline the role of intellectual property as a distinguishing trend of capitalism. Through the creation of new and better products men participate in the idea of divine Creation, and by doing so contribute to the betterment of other person's living conditions.

Novak's idea of capitalism contrasts with socialism or Soviet Marxism. After the collapse of the Soviet Union, the anti-bourgeois attitude remains alive but takes on new colors. This paper addresses mainly the period of the Cold War. But it could be argued the current decline in some of this cultural background emerges from an erosion of the very virtues alluded to in this paper. Novak noticed the emergence of an "adversary culture", a generalization of the philosophical and political ideas which undermine liberal western values.

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Wealth and creativity

“The answer to Adam Smith’s question, “What is the cause of the wealth of nations?” may be given in a single word – in Latin, *caput*; the human mind, wit, invention. The cause of the wealth of nations is the creativity of the human person. The person is the originating source of invention, enterprise, and economic dynamism” (Novak, 1992, p. 28).

For Novak, it is important to remind the reader that *caput*, meaning “head” or “mind”, gives us the name of capitalism, “a system of institutions designed to liberate the creativity of the human mind” (Novak, 1992, p. 44). Its distinctive features lie in the “qualities of human spirit” and not so much in “material goods” or even “instruments of production” (Novak, 1992, p. 44). This latter formulation is perhaps closer to the words a Marxist might choose. In advanced nations the promotion of prosperity happens through “*the possession of know-how, technology and skill*” (Novak, 1999, p. 61). It is each person by herself and in cooperation with others, rather than natural resources. The contrast between land-based or mind-based wealth was highlighted in the United States: “During most of human history, *land* had been the most important source of wealth; in America, *intellect* and *know-how* became the major source” (Novak, 1999, p. 59). Novak reminds us of John Paul II and paraphrases him: “All nature – the whole world, material, moral, and intellectual – is a mine” and our destiny is “to develop, by discoveries, inventions, and improvements, the hidden treasures of this mine” (Pope John Paul II, *Centesimus Annus*, as cited by Novak, 1999, p. 61).

Novak notices at least two ways of looking at wealth which are still present. Each of these were emphasized in different time periods. Arguably both theology and economics shared views about wealth which may have contributed to our present understanding. In *The Catholic ethic and the spirit of capitalism*, he notes that by the time of Adam Smith, theology referred to wealth as something to be conferred by royal endowment, or based on land – something quasi-aristocratic by nature. Wealth was inherited, something we look back upon, associated with the past. It was not a call to the future or a motivation to move, act or look forward. The terms “spiritual”, “habits” and “mind” describe the crucial principles of capitalism and wealth creation as a departure from traditional narratives associated with the role of resources or other material possessions. The former includes the virtues of self-discipline, order and constancy in wealth creation whereas the latter are something inherited or luckily possessed.

The realization that future levels of wealth are changeable according to decisions taken today may have been a defining moment. The propensity to postpone gratification to increase future satisfaction may be at the core of the idea of wealth creation. Restricting today’s consumption to invest may lead to a *higher* future return. Capital is the part of wealth dedicated to increasing the overall level of wealth. As Novak explains, “there is a keen difference between wealth and capital. Wealth merely hoarded or used for consumption is unproductive. Capital is the portion of wealth which is reinvested in productive activities. Wealth may or may not be socially useful. But capital provides many social benefits in the form of new employment, goods, services, invention, and new wealth” (Novak, 2000, p. 11).

The propensity for delayed gratification may not be related to personal creativity, another crucial constituent of economic growth. But it may be argued that even delayed gratification imparts the virtues of patience, persistence and tranquility needed for the long-time process of experimentation before creation. There are often long hours spend testing, days of trial and error and perhaps many years of setbacks. To be creative may require not to worry much with the present state of our endeavors, rather to look ahead and project what can be of them when we finally make it.

Wealth emerges from capital and capital can result from our ability to innovate, think or save for the future. Capitalism tells us to look ahead, as our results may depend on present day decisions.

It associates each person's actions and judgment with her future. This requires the responsibility to raise one's sights up to the horizon, to calibrate and adapt behaviors and self-correct actions to move closer to one's desired goals. This view on wealth coincides with the blooming of economics as a science and has evolved with its main achievements. This approach also instigated a unique way of respecting the role of work in society. The idea of daily work as inherently virtuous may have originated in medieval Europe, and was not equally shared by oriental civilizations (Stark, 2005, p. 62).

The betterment in the conditions of the working class generated greater interest. As the wealth of nations emerged, ideas that the country's wealth belonged to the King withered away. The idea of labor as a moral activity that generates benefits for others represents one of the watershed moments in the history of economic thought. This was the distinction between inherited wealth and wealth generated through our "own sweat". There is an essence of humility, humbleness, and an anti-aristocratic bias (Novak, 1993, p. 105). Capitalism is meant to be truly *popular*. Aristocratic taste may be important in "art" or "works of beauty" but by "corrupting practical wisdom, it in the end impoverishes" (Novak, 1982, p. 117).

From then on, especially in the West, the humble and poor were decisive for a nation to prosper. Their decisions mattered. Through their hard work, they would contribute to an overall compromise about each other's destiny. If wealth can be produced through the efforts of poor workers, it springs from a certain degree of humility. Thus "the market taught men and women to roll up their sleeves, to dirty their hands", especially in America (Novak, 1982, p. 118). With the rise of manufacturing and commerce, it was possible for the economic sciences to widen their approach. More important sources of opulence existed beyond the rents of landed interests. New sectors could generate prosperity beyond agriculture.

Working in these new sectors of activity could enhance overall output and satisfaction. But such economic activities only partially illustrate changes in the idea of wealth. These activities may have seemed less noble and elevated, but their capacity for generating welfare was unprecedented. They represented the multiplication of production through mass industry, which led to the gradual extension of new products to the working classes. Schumpeter argued that production for the masses would mean little to Louis XIV because "a budget on that level had little that really mattered to gain from capitalist achievement. (...) It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man" (Schumpeter, 1942, p. 67). This effect is also the result of what Adam Smith called "the division of labour". The first chapter of the *Wealth of Nations* ends with a comparison between "the most common day-labourer" in a "thriving country", and an "European prince". Smith admits that the accommodation of the first *seems* "simple" when compared to the luxurious one of the prince. But this frugal peasant has a "woolen coat", an object which represents a quantity and a quality of work that surpasses any imaginable combination of laborers (Smith, 1981, p. 22) and which makes him better off than a King in a still poor country, before the era of industrialization.

Louis XIV could have all the wealth of France and yet had no teeth. Access to modern dentistry was the effect of capitalism. Mass health care partly resulted from competition in science and efficiency in production. Production for the masses included a wider span of goods, some of which initially seemed difficult to produce at scale. In due course, the poor would obtain goods previously accessible only to the rich, all of which would later be deemed as necessities. This is the most observable rule of capitalism: the luxuries of yesterday become the necessities of tomorrow.

Though Novak generally agreed with Schumpeter's claim about the poor benefiting from the achievements of capitalism, he did not believe that wealth simply trickles down. For him, it wells

up from the bottom. The existence of wealth depends on people's creativity and entrepreneurial attitude. But how is business organized to generate mass production?

Novak acknowledges the role of important institutional steps humanity took in the quest for wealth. St Benedict (480–547), the founder of Western monasticism, “wisely provided for regular and frequent changes of leadership in each monastery according to formal rules” (Novak, 1999, p. 28) to ensure the structures would hold for future generations. Later in medieval times, from northern Italy, these orders were “gradually beginning to sell their wines, cheeses, brandies, and breads from region to region,” which “were the West's first transnational corporations” (Novak, 1999, p. 28).

The monks are described by historian Paul Johnson, as cited by Novak, like this: “They knew how to keep accounts. Above all, perhaps, they worked to a daily timetable and an accurate annual calendar – something quite alien to the farmers and landowners they replaced. Thus their cultivation of the land was organized, systematic, persistent” (Johnson, as cited by Novak, 1999, p. 29). As time passed new discoveries were made, such as double-entry booking, stock associations and insurance. Corporations learned how “to continue beyond the life of the founding generation” (Novak, 1999, p. 32). The passage of time deepens the institutional aspects and softens the personal ones. In this sense, they are “social, not individualistic” (Novak, 1982, p. 131). Generations communicate through institutions.

If pre-capitalist societies had “private property, markets, or profits”, what distinguished the late 18th century was the emergence of “structures of virtue”, entangling “creativity”, longing “for cooperation” and “seeking the common good”. Structures of virtue were built on realistic, sinful grounds. Ideas of “intellectual property” were emphasized at this time. As the cause of wealth was not only labor but ideas, those ideas required protection through patents and copyrights. Ideas were a “dynamic common good”. Novak argued that “writers and inventors came increasingly from the lower ranks, from persons not of noble birth, who had inheritance to prop them up, and were dependent on their wits for their livelihood. They wanted financial independence from printers, publishers, church, and crown” (Novak, 1999, p. 63).

Therefore, *human* capital is “the number one resource” of the free economy. *Wit* is the primary cause of the wealth of nations. As capitalism tries to read signals, predict preferences, understand people's needs, forecast the clemency of the seasons, and predict trends or fashions, it delights the human mind. “Enterprise is the inclination to notice, the habit of discerning, the tendency to discover what other people do not yet see” (Novak 2001, p. 224), as said in *Economic Affairs* journal. It makes us “more alert to small differences” and “more aware” of our capacities and environment (Novak, 1992, p. 104). This alertness to detail comes from facing uncertainty.

Novak associates this with a certain Whiggism and recalls Hayek's remarks (Hayek, 1960, Postscript) about not being a conservative but rather an *old Whig* (Novak, 1991, p. 89). In contrast to political ideologies based on revolutionary or utopian premises, the Whigs “welcome this challenge to create, to venture, to act even in the midst of doubts, uncertainties, and mere probabilities” (Novak, 1992, p. 112). For them liberty comes first and tradition is second. The “Whig theory of action focuses upon the future”. They “do not expect that human nature changes” but seek “better *institutions* for the future” (Novak, 1992, p. 112). At the same time, “Whigs value the tacit learning and practical originality that accumulates down the ages from experiments of preceding generations and deeply respect the slow, partial, but organic learning that comes from trial and error”. In a way, he adds, the Founders of the United States were Whigs. In Federalist #14, while respecting tradition, their political disposition depended on their “own sense” and their knowledge of their “own situation” and “own experience” (Novak, 1992, p. 112).

During the founding, Americans easily understood that upward mobility meant departing from material equality. Novak puts it in a nutshell: “They are performance oriented. For unequal performance, they want unequal pay” (Novak, 1999, p. 111). There was no desire for uniformity. On the contrary, the inclusion of diversity in opinions and passions was seen as a way to tackle the malevolent effects of factions. But this is not commonly accepted currently across all political families. Usually disguised under certain ideas of “justice” or “fairness”, “the green worm of envy has been the chief and most regular destroyer of republican experiments” (Novak, 1999, p. 111). Novak explains this dichotomy: “compassion rejoices in raising up the poor; envy rejoices in pulling down the rich” (Novak 1999, p. 113). What made the United States unique was its willingness to take chances. Americans engage with liberty knowing its benefits are not spread evenly. They know that liberty is like sailing into uncharted waters: we expand the horizon for all but don’t know exactly where each will be the next day.

But where does this *spirit* come from? Novak provides the answer in *The fire of invention: “A Spirit Born from the Sea”*. The United States was the embodiment of his argument: “They were not aristocrats, accustomed to ease. (...) Their aim was not military, but economic” (Novak, 1999, p. 3). The sea was decisive: “To understand America’s greatness, you have to understand the sea” (Novak, 1999, p. 1). Americans depended on their own abilities, invention and ingenuity, and on products coming and going from the seas. Tocqueville was amongst the first to notice the expansion of international commerce and how America was “born to rule the seas” (Tocqueville, as cited by Novak, 1999, p. 2). The sea was a space to be different; it made them “brave” and allowed them to be “free” (Novak, 1999, p. 3). Tocqueville associates it with a love for risk and alertness.

Contrary to some Europeans who tended “to cling to past entitlements *because they are entitlements from the past*” (Novak 1999, p. 9), Americans took a broader view. If someone’s entitlement diminished another’s position, there was room for renegotiation. A special interest could not maintain its position against anyone else’s. General welfare was procured if each self-interest was exercised through equal rules for everyone. The public good was not taken in abstract terms. In *Federalist #51*, this becomes clear: “that the private interest of every individual may be a sentinel over public rights” (cited by Novak, 1992, p. 41).

In *Free persons and the common good*, Novak addressed again this compatibility. The common good would not be *common* if it did not belong to everyone. As Jeffrey Tucker puts it: “The good of the individual and the good of all were not only not in conflict but were mutually dependent” (Tucker, 2014, p. 14). This was self-interest “rightly understood”, as Novak takes from Tocqueville: “The common good is all the arrangements and conditions that make it possible for the individual and for small social units to work together in an orderly fashion towards the fulfillment of their divinely willed purpose” (Novak, 1989, p. 17). By treating everyone as ends and not as means, societies can achieve communal good without disregarding each private good and idea of happiness.

Virtues and the poor

“There is a longing in the human heart to live under a system of natural liberty – that is, under those sorts of institutions that allow the human soul to express itself naturally” (Novak, 1993, pp. 218–219). Natural liberty was the expression Adam Smith used to describe the “simple” system of wealth creation that was possible in an advanced commercial society. At first glance, in natural liberty, each participant seems concerned only with his own interest. But Smith also tried to demonstrate the importance of the moral approbation bestowed through acts of benevolence as approved by an impartial spectator. “A rereading of Adam Smith brings out quite clearly the important role he claimed for sympathy, benevolence, the good opinion of others, and other social

determinants of virtue” (Novak, 1982, p. 145). As our self-interest can be realized only by addressing everyone else’s interest, it requires us to think as though we were somebody else. This helps us practice virtues of self-command and benevolence. Taken “broadly”, then, self-interest “is the key to all the virtues” (Novak, 1982, p. 93).

Secondly, the ideal or impartial observer represents the pressure within our hearts to adjust our actions by taking into consideration others’ feelings. Novak notices that Smith underlines sympathy, more than empathy, as a means of placing ourselves in our “neighbor’s shoes” (Novak, 1992, p. 77). Because we want other people’s approval, we should moderate our passions and reactions. We must smooth out our present appetites, usually self-centered, in an attempt to take other people into consideration. It is as though the impartial spectator represented our actions in the long run; we would see our actions beyond the time needed to calm down. By doing so, we become slightly less self-centered and more focused on others. In most moral traditions, virtue is associated with one’s ability to practice self-control and moderate momentary impulses for a greater good. We curb our immediate satisfaction to create a future return. This betterment through time is similar to the idea of economic growth. Capital is an asset capable of generating future returns. Grattan Brown, in describing Novak’s thought on the “self-correction” implications of a free society, chooses the right words: “These habits (virtues) grow slowly through experience. Again, to use business activity as an example, virtues develop through careful incremental investing, working patiently toward the return, reviewing strategy and changing course” (Brown, 2014, p. 150). This would require a long-term process of indulging market-based habits of the mind that become familiar and perhaps spontaneous. Ryan Anderson lists these market-based virtues: markets “provide incentives for people to be other-regarding as they try to discover, invent, and innovate products, with greater quality and efficiency in order to meet people’s needs. Because of the inevitable pitfalls along the way, markets also foster perseverance, fortitude, courage, hope, trust, cooperation, and collaboration” (Anderson, 2014, p. 184).

We can view this as the difference between what economists call consumption versus savings. We can only get direct satisfaction from consumption. Only consumption may be *assured* while future consumption can only be expected or *likely*. But we can only increase our level of consumption by saving what could have been used in the present. We do this by imposing restrictions on present living conditions – by living with frugality and parsimony. The parsimony required to save and invest in the long run entails virtue. Yet it shall be noticed these “virtues are not negative, repressive, or ascetic,” as perhaps Max Weber suggested. They entail on the contrary a certain positive inclination, a tendency to look ahead, for one’s future betterment, along with “serendipity” and “surprise” (Novak, 2001, p. 229). Some entrepreneurial creativity underpinning economic growth springs from the virtue of thrift.

These virtues can represent a regard for family as they foster “the future welfare of one’s own progeny” (Novak, 1982, p. 163). In *Catholic social thought and liberal institutions* Novak discusses this possibility. The *present* can be seen as a sacrifice we make for the benefit of *future* generations (Novak, 2000, p. 9). Restating Adam Smith, he suggests it was their children that the brewer, butcher and baker were considering: “The butcher, the brewer, and the baker are not usually motivated solely by selfishness. They have families to feed, loved ones to provide for” (Novak, 1982, p. 148).

Novak provides examples of those willing to sacrifice themselves. Referring to Latin America, he argues that the poor are among the most entrepreneurial persons in spirit and practice. One could argue that they represent what the Marxist would call proletarians. But the issues about which they protest are outside the reach of Marxism. Rather than protesting for labor rights or higher salaries, the poor in Peru noticed the difficulties the government introduced into their company registration

processes. They also found it hard to access credit, which was indispensable for starting a company. They wanted to reinstate property rights and decision-making freedom. They “are not proletarians, but micro-entrepreneurs” (Novak, 1992, p. 95).

Rather than facilitating the capitalist spirit, most governments seemed to undermine the impulse of entrepreneurship. They preferred to take the poor under their wing rather than let them fly. Novak provides examples of poor people who were indicted by their government for trying to buy assets or a college education with the welfare support they received for buying food. Government discourages the capitalist mentality and therefore long-term decisions. The poor in every country restrain their impulses for creation to meet their bureaucratic state’s support criteria. They can even lose this support by gaining other sources of income. This may be unfortunate if we consider the poor to be more creative, on average, than other people. Their dependence on the state lowers everyone’s possibilities because it slows down the group of foremost importance in any economy.

The poor are used to working hard, being diligent and not indulging their passions. It is easier to require thrifty behavior from someone not used to luxury. It may be easier for the poor to curb their profligate impulses, to find “contentment with the small but steady gains that can accrue” (Novak, 1992, p. 80) and eventually turn into greater gains. Small saving may be “the single most significant engine of sustained economic growth, since progress takes place at the margins” (Novak, 1982, p. 118). They can therefore be more inclined to accept the risks of starting a business. Novak argues that the poor can more easily assume “unusual ventures” on which future discoveries depend. They are also unfortunately more exposed to the severity of seasons and hazards. But it is precisely through illnesses, famines and “prolonged periods of hardship” that they learn there are “cycles of sterility in the soil” and later appreciate periods of living conditions over a bare minimum. If capitalism rewards those who are willing to postpone satisfaction through a frugal style of living, it is just a matter of *time* before the poor get on top. The “capitalist ethos valued *time* through which money might be used” (Novak, 1982, p. 98). Contrary to what Marxists believe, the poor understand this. Time rewards and is rewarded: it is the most precious value. It is a resource “for transforming the future” (Novak, 1982, p. 98). “Time and intelligence made ‘capital’ of useless miser’s gold” (Novak, 1982, p. 103).

The citizens must have “mastered certain virtues” in order to promote their enterprises and be confident in the future, all ingredients of a dynamic economy: “Economic growth arises only when citizens are willing to postpone the satisfactions of today to attain the growth of tomorrow. Thus, spirit must triumph over flesh, the future over present, delayed return over current pleasure” (Novak, 1992, p. 57). Many Europeans, both rich and poor, cling to their inheritances and privileges even in gradual economic decline. There is a lack of dynamism in Europe: “So it is that Europeans, even at the humblest levels of society, imitate the manners and methods of aristocrats” (Novak, 1999, p. 8). The love Europeans hold for their security, comfort and stasis will hamper their prosperity. Those who take short-cuts will “pay a long-term price”. Similarly, Middle Eastern countries, by accessing easy money through oil, would not develop the habits, skills and attitudes that generate “the *true wealth* of nations” (Novak 1992, p. 57).

The virtue required to start businesses and take risks seems to be unrelated to one’s level of wealth. There can be a big difference between *being* poor and *thinking* like the poor. For instance, Novak notices that immigrants in many countries are poorer on average but do not think in the same way as poor people from their country of origin. Because they are not dependent on the state’s provisions or welfare, they tend to risk more, save more, live with parsimony, and are more likely to reap future benefits. But they are often prevented from expanding what could be successful endeavors because of the many laws, regulations and bureaucracy repressing their economic activism.

The premodern society represented to the poor the impossibility of self-improvement. It is by moving from a rural to an industrial economy that new opportunities arose: “By taking great risks upon the seas or overland, a few merchants engaged in transnational commerce might become healthy” (Novak, 1992, p. 71). There was a form of apathy in the rigidity and stability of the agricultural society where forms of indolence may prevail. The “rise of commerce and industry awakened the rural poor out of the slumbers of idleness” (Novak, 1992, p. 75). Farmers turn into merchants, and merchants are often travelers looking beyond their pastures. Along with classical authors, Novak notices that commercial societies are usually peaceful, open, exciting, and maritime.

There is a trigger in overseas trade. By exposing merchants to other customs and manners, markets nurture the virtues of “patient explanation, civil manners, a willingness to be of service” (Novak, 1992, p. 77), and teach the value of reaching agreements by consent. Novak recalls Montesquieu in his argument that “commerce tames the rude and destructive passions” (Novak, 1992, p. 80). These moderations of manners induce bonds of union and friendship. A moral advantage of commerce, he argues, is to limit the “warlikeness” of a society. The founders of the United States wanted a commercial republic precisely to emphasize this pacific nature. Commerce is based on the same premises of the construction of the American republic: reflection and choice rather than accident or force (*Federalist #1*): “Following Montesquieu, they held that commerce inherently cries out for law and teaches respect for law; benefits by peace and is destroyed by war; teaches prudence and attention to small losses and small gains; softens manners” (Novak, 1999, p. 39).

Adverse culture: Planning and shirking work

The tensions between capitalism and socialism, with their different outlook on the virtues of work, introduce another apparent ideological paradox. Novak explains that it is capitalism, not socialism, which sees human beings as capable not only of making their own choices, but also of creating new and better things. Our ability to generate more welfare for all is better protected by democratic capitalism and the rule of law, which respects each person’s right to mobilize her insight and experience. In capitalism, the state believes that people would outwit their bureaucrats and politicians, that each person is naturally able and intelligent. Secondly, it aims to insure that markets are impersonal, that no-one in particular is able to control particular outcomes. There is no one there to corrupt, no one to bribe, and no one to blame for our situation. Capitalism brings “a significantly higher level of honesty, rule-abidingness, and self-reliance” (Novak, 1993, p. 225).

In socialism, on the contrary, people are seen mostly as unable. The most prevailing socialist views underline the role of the state not only as provider, or even producer, but also as the crucial entity entitled to choose for everyone else. Such a role calls for an ever greater state, which gradually encompasses more dimensions of our personal choices, preferences and desires. Most socialists believe that the central decisions of the state can overtake the decentralized decisions of countless free individuals.

However, with all their knowledge of particular situations and unique circumstances, individuals signal to society the degree to which their endeavors should be imitated, copied, adapted, discarded, avoided or rejected. We tend to imitate the successful decisions we observe in others. But the successful undertakings of some come only after a succession of failed attempts. With freedom comes many unavoidable unmerited failures. Commerce itself is a learning process. “Commerce also teaches that no one can be right all the time, since nearly all sometimes experience failure. The market puts a ceiling on ambition, proportional to each” (Novak, 1982, p. 120).

In the process of trial and error, error is crucial in this process of knowledge revelation. It tells us what not to do. Novak underlines the role of mind, thought and reflection in adjusting our personal decisions. “Free persons are intelligent and self-correcting. They have an interest in order. They do not achieve such an order “automatically” but they can detect when their shots in its direction go astray” (Novak, 1989, p. 78). In order to promote general welfare, we need everyone’s insight and “practical intelligence”. This “practical intelligence” appears to be the outcome of an order endogenously generated if we observe it with sufficient distance.

Recalling Friedrich Hayek, Novak argues that most knowledge we think we possess cannot be pre-arranged; its nature is tacit or practical and therefore impossible to collect. It would be impossible to master or channel it through the central authority of the state. Practical knowledge is realized only through the free interactions of the marketplace. By considering relative successes measured by prices, we can adjust our conduct and absorb part of the wealth thus generated through dispersed knowledge. Attempts to control the economy as if this practical knowledge did not exist is a step in the growth of governmental power. Temptations to use political measures to alter and modify the spontaneous interactions of the market would lead us to *The Road to serfdom*. The state or central plan decides beforehand which products we must produce and narrows the scope of production for what is already known.

Novak discusses examples where socialism and central planning would lead to colossal economic losses due to a lack of respect for human effort and labor. A planned economy requires certain measures of specific products, overvaluing the physical dimensions of products above their usefulness or attraction to other people. Trying to fulfill specific quotas of production was seen as more important than generating real satisfaction.

The Soviet system over-emphasizes the logistical components of production and despises the worker’s efforts. Workers become obliged to fulfill the plan for its own sake. In this way, socialist economies undervalue the intelligence and efforts of workers. Novak’s examples are very telling: “After toiling for days on the freezing seas at the risk of their lives, fishermen would discover that the refrigeration unit of the storehouse in which their catch had been deposited was defective and that the entire fruit of their labors had spoiled” (Novak, 1993, p. 121). Or his story where “steelworkers” would find their steel beams “pile up in huge lots and rust” as the result of logistical breakdown. The incentives to use one’s wit and particular knowledge to improve something were absent. The result is absenteeism and disappointment. Novak recalls, “As the joke among Soviet workers goes: We pretend to work, and they pretend to pay us” (Novak, 1992, p. 93). In a capitalistic system, by contrast, work typically translates into someone else’s satisfaction. If it does not find a bidder it rapidly diverts its attention elsewhere. Each tries to save time and labor while trying to generate more work. The emphasis is on alleviating energy to make the process less heavy or more efficient. During the Cold War, Novak’s contribution helped us understand Anglo-American prosperity, the virtues held in Latin America and the early decline of Europe.

But the efficiency of capitalism and the collapse of the Soviet Union were not enough to maintain a western liberal world order. Joseph Schumpeter and Daniel Bell’s warnings were taken seriously by Michael Novak. The decline of capitalism starts with the erosion of its components. Daniel Bell encounters a tension between “the two impulses of asceticism and acquisitiveness” which capitalism “yoked together”. Capitalism worked well “by the Catholic moral principle of the just price, and later by the Puritan emphasis on frugality” (Bell, 1996, p. xxiii). The problem, according to him, was “a shift in emphasis from “character” to “personality”, that is, from a “moral unity” with purpose to the “enhancement of self”. The former meant work was seen as a source of satisfaction whereas the latter is centered upon the idea of a certain “lifestyle” (Bell, 1996, p. xxiv). Capitalism carries the seed of its own destruction: “So long as work and wealth had a religious

sanction, they possessed a transcendental justification. But when that ethic eroded, there was a loss of legitimation, for the pursuit of wealth alone is not a calling that justifies itself” (Bell, 1996, p. xxiv).

Schumpeter points out another contradiction: the intellectuals that thrived under capitalism would eventually turn against it because they would be led by non-rational and even emotional appeals. This would happen because capitalism absorbs all types of creeds, including the sub-rational or super-rational or emotional dimensions. Ultimately, these emotional criticisms will not accept rational reproaches. Capitalism, through its successes, generates a class of people who will not understand that they owe their enjoyments to it. They will think of themselves as superior to its rationale. Schumpeter argues that capitalism is about “daily troubles and expectations”, “the frictions and disappointments” because of its dynamics and instabilities: “In the short-run, it is profits and inefficiencies that dominate the picture.” This is a breeding chamber for “intellectuals” who do not understand capitalism (Schumpeter, 1942, p. 145) and who, in turn, gain access to mass media. Schumpeter was far from knowing that these “intellectuals” would become influential “leaders” of culture. The ‘intellectuals’ take for granted a standard of living which they do not understand how it was reached.

Democratic capitalism and conclusions

In the chapter “War on Poverty”, Novak argues the “middle way” proposed by the Catholic Church since Leo XIII is not simply a “halfway” point between socialism and capitalism because socialism is an “all in one” system. It is capitalism which requires a democratic polity and religious liberty. To a degree, it is already a midway point because of its “pluralist culture”. The *democratic* inclination of Novak’s capitalism is a compromise: it is the people’s well-being that matters. As he reminds us of *Sollicitudo Rei Socialis*: “The goods of this world are originally meant for all”. Known as “the universal destination of created goods” and a crucial aspiration springing from the Vatican II (Novak, 1993, p. 148), it is the assumption that all goods were intended for everyone as we “unite in charity”. This is not to suggest we should be giving everything away. In support of human lives we must depart from a world of scarcity and hardship.

The Catholic doctrine, which stresses the universal destination of goods, also considers that “*created goods should abound*” (Novak, 1993, p. 148). To provide abundance for all, we must develop political structures based on democracy and rule of law. Wealth depends on this. When we consider that “goods should abound”, we are referring to the process of facilitating access to goods which can alleviate suffering and improve human conditions. In *Centesimus Annus* (#48), the Pope criticizes also “the Social Assistance State” which “leads to a loss of human energies,” and “which are dominated more by bureaucratic ways of thinking than by concern for serving”, along with “an enormous increase in spending” (*Centesimus Annus* as cited Novak, 1993, p. 160).

We should not reduce charity and compassion, but must understand that private property is a *practical necessity* for economic growth. It is a *means* to an *end*. Novak quotes Aquinas who notices that when an asset is common to all, no one feels the incentive to work and provide for all. Each person would rather “shirk the labor and leave to another” what concerns the community. Without property “quarrels arise” out of confusions about what to look after and how to divide burdens and benefits (Novak, 1993, p. 150).

In democratic capitalism, we do not expect equal results for all, or even that wealth will be acquired in a perfect correspondence to each person’s moral merit. “Luck and timing play important roles” (Novak, 1982, p. 120) in ascribing particular results. This can be what makes the concept of ‘social justice’ appealing, as some consider adjustments of welfare could be made according to a certain principle of distribution conducted by the state. In this situation, justice would

not emerge “from the rule-abiding behavior of free individuals, but rather from an abstract ideal imposed from above” (Novak, 2001, p. 128). Novak reminds us of Hayek, who observed that the virtue of justice “is a habit of personal conduct” and not “a state of affairs in society” (Novak, 1993, p. 65). This confusion in terms could be responsible for the growth of government and lead to arbitrary use of its powers.

That private property serves the common good better than political alternatives is the main point of the subchapter “Creativity Requires Property” (Novak, 1992, p. 52). Yet private property as such might not be the real trigger of opulence. It depends on which assets are protected. Precapitalist societies also enforced property rights, yet their level of prosperity was moderated by the low potential of the assets entertained. These societies failed to notice that “the cause of the wealth of nations is mind” (Novak, 1992, p. 53). Therefore, we need institutions to liberate that crucial dimension – the “practical intellect of individuals”. Universal education can be part of this liberation along with institutions promoting patents and discoveries. The success of each depends on the success of all others. No one can grasp the whole benefit of a new product or service other than by selling it to others who are willing to pay, to the degree that it benefits them. Novak insists on the ways in which our successes are bound together.

The level of human creativity increases by protecting these incentives through property, secured by democracy, the rule of law and limited government. It decreases when a society abridges these. The institutions which support economic creativity ultimately promote the common good. Capitalism has multiple origins in the Middle Ages, in its Jewish and Christian heritage, and in modern philosophies which permitted the birth of the institutions of freedom and the rule of law. Wealth grew from hard work with parsimony and forward thinking. It benefited from intellectual property and the more complex democratic republic.

But for capitalism to succeed, the institutions of a free polity and free economy, however crucial they may be, may not be enough often. They cannot “fulfill human moral and spiritual longing” (Novak, 1993, p. 220). Religion can be an additional bond to, and strengthen, all these virtues. It may encourage the creation of an atmosphere of belonging, fostering selflessness and raising our sights beyond our generation. Religion serves as *another* basis for self-control. It values virtues for their own sake and thereby incentivizes the virtues of the markets. It can be also important in the search for peace and fulfillment every time the spontaneous movements of the market and its cycles frustrate those who may remain in poverty for longer than initially expected.

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