



FONDAZIONE CENTESIMUS ANNUS
PRO PONTIFICE

THE CENTESIMUS ANNUS PRO PONTIFICE

2015 STATEMENT

A REFORMED MARKET ECONOMY: ENTREPRENEURSHIP FOR HUMAN DEVELOPMENT

When Pope Francis says "*thou shalt not* to an economy of exclusion and inequality - such an economy kills", all those who are professionally involved in economic life may feel directly concerned; in good faith many will probably accept to put their active life under review and try to understand what concrete steps it takes, not only to say "No to an economy of exclusion, to the new idolatry of money, to a financial system which rules rather than serves, to the inequality which spawns violence..." (Evangeliu Gaudium, chapter two), but to effectively promote reforms which support inclusion and dynamic solidarity. This is what members and friends of the Fondazione Centesimus Annus have done during 2014; the present document is a brief summary of their findings*.

A. GENERAL FRAMEWORK

The world-wide **demand for transparency** constantly brings cases of bad practice and wrongdoings in economic life and finance to the knowledge of the public; although this can be considered a positive trend, it contributes however to increase a gap in trust between economic actors and public opinion, where the whole is often taken for the part and a general negative judgment is made on the market economy.

In the meantime, **ambitious regulatory reforms** are being promoted in the Western economies, partly through supranational governance bodies, especially in the financial sector; simultaneously, a wide-ranging movement towards **responsible economic behaviour and sustainable use of resources** is transforming many areas of business.

*Summary of meetings held from September 2013 to October 2014. Full presentations and reports can be found on the Foundations website (www.centesimusannus.org).

These too are positive trends, but they require a stronger human and ethical direction: the vision of Catholic Social Teaching can contribute to make the new frameworks creative and positive for all.

Wherever the rule of law is not respected and, even more, wherever the economy lacks an essential ethical reference, it is almost always the poorer part of populations who pay the highest price. Those who are less protected pay the price of corruption; they often pay the price of protectionism and egoistic defensive strategies; they pay the price of inefficiency in public administration and they suffer the consequences of economic mismanagement and crime. There is no simple definition of poverty, there are many ways of being poor and Christians have tried to understand poverty and be close to the poor for centuries. Now the emphasis changes: **reforming the market economy against some of its ills is an urgent task, also from the point of view of the Christian preferential choice for the poor.**

Experience shows that economic development, driven by entrepreneurship and practical innovation at all levels, is the key driving force to reduce poverty. Economic growth may generate winners and losers and this requires specific action to *help the poor help themselves*. But **development and the market with sound economic policies are the only contexts in which poverty has been effectively reduced in large numbers.**

The economy of abundant consumption and extensive services creates new needs and produces new tensions within the traditional ethical frameworks. The commitment to family life, the responsibility to act for the purpose of the common good, the learning process to seek the true good life are permanent **demands of human development which economic growth does not solve by itself**. The role of Christians here is to rethink and develop new answers and proposals, so as to translate the permanent principles of the primacy of the human person, subsidiarity and solidarity and the common good into actions which may be effective in the world of today.

The role of the public institutions (Supranational, State, Regions...) is essential to set the framework for sound economic policies, and the market economy can prosper in different institutional environments. **The essential condition is that entrepreneurial initiative is free to develop and can apply itself to human development.** This is true for business and jobs, but also for social and civic projects: both sectors need systematic management expertise, transparency and good governance.

In poor countries, as a complement to general economic policies introduced from the top, there is immense potential for applying entrepreneurial management systems to the construction of **development projects starting from the bottom of local communities**. Good governance practice, transparency rules, the latest communication technologies, well-managed microfinance, the integration of supply chains are elements which can transform life for whole communities. A participative approach will allow the people involved to freely control their own economic future as families and groups.

In rich countries, where welfare systems proved generally resilient during the recent crisis years, the competition from new and efficient productions in low-middle income countries has contributed to wage stagnation, a pressure to reduce labor cost and the increase of unemployment, precariousness and poverty in the midst of abundance. In

this context it is essential to rediscover that work and job satisfaction are basic needs. **The wrong education policies and inflexible labour rules** generate casual, short-term jobs as well as inadequate qualification for available jobs, and they **can lead to persistent unemployment**. Relying only on centralized and impersonal public programs may induce a “welfare trap” which can lead to social exclusion. A sustainable answer to these ills requires a **renewed understanding of labor and virtue**, in contrast to the two extremes of market individualism and state interventionism, where economic effort and civil courage are prized, and where both responsibility and power are devolved to the most appropriate level consistent with human flourishing.

B. A ROLE FOR SOLIDARITY IN BUSINESS DECISIONS

Every economic decision involves a degree of solidarity, the same way as any human act: human persons are a totality, inserted in a network of relations, where gift and fraternity in fact co-exist with the natural yearning for individual satisfaction. And business decisions are made by real humans.

Entrepreneurial initiative never relies only on personal greed. Against many cases of mismanagement, corruption and lack of accountability – which are permanent temptations of economic life – it is also possible to build areas of the market economy which serve directly the common good, based on a positive moral culture centered on the dignity of the person and the value of labor.

1. Develop a corporate culture of service to society

Putting business enterprise to the service of common good is not primarily a question of legal ownership structures, but rather **a cultural fact which permeates all corporate policies** from investment to product design, from the use of resources to sales policies, from personnel management to financial plans. This requires investing in a corporate culture of solidarity balanced by subsidiarity, with management taking the lead and giving example.

2. Promote intermediate bodies

To foster these ideas, all those who have the capacity should promote or participate in intermediate bodies which autonomously sustain solidarity and contribute in practical terms to harmonize concepts and interests that would otherwise be in conflict. There actually are a growing number of foundations and charitable associations, some of them initiated by business; this positive trend in turn creates a need for transparency and independent evaluation systems so as to avoid abuse and inefficiency, and to encourage the good use of charitable initiative.

3. Connect entitlements with duties

Losers in economic growth need special protection and added opportunities, but it is crucial to connect rights and entitlements with obligations and duties. To be sustainable, welfare systems must link work and apprenticeship with receiving a benefit.

4. Decentralize mutual help

Both in low income countries and in developed economies, redistribution through income tax and social insurance schemes are essential. But there is a danger of nurturing a passive attitude and excessive dependence on the public sector. A real alternative can be found in many existing or in new **decentralized mutually helpful schemes which combine universal entitlement with personalized provisions**; these should be actively supported by business and accompanied by suitable legal and tax arrangements.

5. Build on co-responsibility at corporate level

In the present crisis co-responsibility has materialized often through solidarity contracts which allow a company to avoid failure or catastrophe restructuring. This can be developed in the form of inclusion of all people working in and around a company; it requires transparency to allow risk sharing and establish proportionate rewards among employers and employees, but also among investors and owners, shareholders and managers, lenders and borrowers, producers and consumers, in a free and flexible legal context.

6. Promote apprenticeship and transitional mentoring

Following best practice in some European countries where unemployment remains low, a wider effort is needed, also through dedicated tax breaks and lower contribution to social security, to diffuse programs of apprenticeship and transitional mentoring for the youth where young employees are hired at lower salaries and paired up with elder employees who can provide mentoring and training to the next generation.

7. Develop inter-generational solidarity systems

The dangerously over-sized volume of private and public debt in rich countries is growing more than investment. Thus the debt passed on to the next generations, at least partly used for present consumption, may become a net burden without the compensation of lasting equipments. There is need for reintroducing the long term perspective through new initiatives bringing the young in contact with the old, thus fostering full participation of different generations in a new social ethos open to solidarity.

C. FINANCE WITH THE PURPOSE OF THE COMMON GOOD

In the last few years, financial global development as a fact has been accompanied by amplified economic volatility. On the background of the resilience shown by some banks and the heavy public cost of the bail-out processes of others, **the financial sector is undergoing profound change**, both through added regulation and through internally promoted reform. The call to **give this reform a human and ethical perspective** can be translated into practical ways which, in addition to the acknowledged ethical approach to finance, also involve the idea of **“inclusive finance”**, i.e. “finance that helps fight exclusion”. The Foundation’s special group on finance has formulated this in “The Dublin Proposals on Finance and the Common Good” which principally include the following ideas:

1. **Change in managerial culture and behaviour:** there is a human being at the beginning and end of each and every transaction. This may go against the demands of technology and regulation.
2. **Helping job creation through decentralized lending:** the greatest possibilities of job creation lie at the level of small enterprise and in a more flexible redistribution of employment among adaptable and creative companies, and this requires decentralized lending from banks and from non-regulated credit intermediation.
3. **Fighting fraud, corruption and abuses:** effectively implement zero tolerance of unethical practice, including “regulatory arbitrage” practices; make unethical behaviour punitively expensive.
4. **Promote stability and clarity of legislation** to mitigate the cost of bureaucracy and the difficulties of interpreting regulation, which is one of the roots of corruption.
5. **Make consumer protection more effective** through transparency and simplification. Explore fair and equitable deleveraging for over-indebted households through risk sharing by creditors and debtors. Promote family financial education.
6. **Promote and support long term investment** especially through institutions capable of “patient” financing which involve public and private funds and require adequate legal and tax arrangements.
7. **Mobilize financial technology for inclusive finance** through the use of mobile devices and the digitization of government disbursements, of health services and of supply chains.
8. **Enrich financial education** to avoid transmitting future finance managers a “value-free” framework, by cultivating ethical reflexion, the ability to understand history and the capacity to exercise critical analysis.
9. **Redefine the financial business model** with moderate profit objectives and long term incentives and bonus policies.

To start these processes and give them enough strength, it will be necessary to **reformulate the mission statement of finance** in terms of service to the entire economy and society, without which no young people will feel motivated to work in financial institutions.

D. POVERTY AND THE “RESPONSIBILITY TO PROTECT”

Whatever the past merits of the market economy in overcoming poverty in parts of the world, a Christian inspired approach necessarily has to envisage the present state and the permanence in many places of the wicked problems of poverty and under-development. While a mounting euphoria of the Western world trivialized the wisdom enshrined in traditional precautionary principles and let hubris proliferate – with the ensuing crisis and depression -, others remained trapped in the negative circles of poverty. **The drama of insufficient emergency response to catastrophe – natural or**

man-made – and immigration are two aspects by which the disquieting truths of inequality are brought again and again to the fore.

In cases of natural disasters, the duty is not only to act quickly, but also intelligently. Contacts between groups within the Church in donor countries and in the receiving countries can be essential to increase the donors' generosity and also to direct external help towards longer term development needs, of which the immediate emergency may be just an indicator. **Man-made humanitarian crises tend to disappear from the priorities in front of natural disasters** (as was evident for example in the coincident tsunami in Southeast Asia and the Darfur genocide in 2004). There is reluctance to intervene in man-made crises, even when the latter are responsible of unlimited numbers of human victims. The drama of child soldiers in many conflicts tests international policies of non-intervention, as does the suffering of Christians and other ethnic groups in the Middle East. The Church's teaching clearly affirms that the "**responsibility to protect**" – or the obligation to intervene – has shifted away from individual countries and has been entrusted to the **international community**.

In the issues of development there are positive trends that make significant contributions to the impact of policies and alleviation of poverty, mainly through better quantitative analysis, better scientific data on "behavioural economics" and through private-public collaboration in financing and monitoring development projects. But institutional structures will never be enough: the human person is integral and human beings are beyond measure. As many examples suggest, the key to development requires the **mobilization of people, from the bottom up**, and with a fully human dimension, including freedom, moral agency, goodness, virtue and vocation.

Migration is an example of the need for greater focus on the vocation of the human person. To begin with one should see not only the abuses, the tragedies of refugees and the lack of coordinated policies – all of which need to be addressed - but also the positive aspects of migration, the gifts it brings. Economic migration does not proceed from extreme poverty. It involves an investment, an economic calculation and, very often, a family-oriented plan. The question of unaccompanied minors is especially acute and requires a priority treatment based on the human person, as does the whole issue of migration.

Promote a world-wide solidarity fund

Both when discussing the **new dimensions of inequality** and the role of finance, the idea of an international tax based on financial turnover or on capital is often mentioned. These proposals would require international unanimity, unlikely to be forthcoming at the global level, and their effect could be confiscatory. Instead of a tax, the Catholic Church could support and promote the idea of voluntary contributions, not part of public finance, **to endow new independent solidarity national funds** aimed at supporting meritorious causes at the service of the poor. These funds should come together in a **supranational network under guarantees of transparency and good governance**.