ECONOMICS FOR ECCLESIASTICS

A GUIDE

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PREFACE

The economic dimension today directly challenges the work of the clergy and religious. In fact, economic choices must also manifest the proclamation of the Gospel, the rejection of the "culture of waste" promoted by the technocratic paradigm, and the will to build personal and social relationships of justice and solidarity. Economic choices are never ethically neutral; they can promote the whole person or foster exclusion; they can cultivate communion and fraternity or provoke inequality and inequity.

As required by canon law, it is a general principle that all administrators are bound to fulfill their function with "the diligence of a good householder," and this is all the more true in regard to ecclesiastical goods. Clerics and religious are also called to live poverty as enlightened stewards, taking care of what they have received, not only in terms of the graces of the Spirit, but also in terms of material goods. The ecclesial steward has the task of caring for, protecting and administering with fidelity and prudence what has been entrusted to him or her, for a given time and with special attention to the most vulnerable.

The management of the common good thus becomes a witness of coherence and responsibility. In the broader context of this responsibility, the Church today, at all levels, feels the need to review the ways in which such management is carried out, especially in light of its openness to the outside world and its interaction with the many actors who operate in it, according to defined norms and often in an interconnected way. This is, in part, the premise of the economic reform initiated by Pope Francis within the financial system of the Holy See and Vatican City State. Control, accountability and oversight should not be seen as limits to autonomy, but rather as tools at the service of communion. If the economic management of ecclesial goods is to remain at the service of evangelical mission and charity, so that it can be an authentic expression of mutuality and an instrument of integral human development, it cannot fail to be subject to adequate coordination to ensure its consistency with its ultimate purpose.

The principles of transparency and accountability are now indispensable for all those who wish to work in the field of economics in a balanced and conscious manner, especially within the Church. This is confirmed by the fact that even in the context of the most recent synodal reflection, at the conclusion of the first session of the XVI Ordinary General Assembly (October 28-29, 2023), the need was reaffirmed to establish structures and processes of verification that would help give an account of the exercise of one's responsibilities in the local Churches, indeed, to build a true "culture of accountability".

Moreover, the economic dimension of sustainability implies the need to maintain a clear distinction between means and ends, the reversal of which is one of the great challenges of the third millennium. Hence, Pope Francis' explicit call for politics not to be subordinated to the economy, just as the latter should not be subordinated to the efficiency-based paradigm of technocracy, lest the economy and technology dictate ends and goals instead of providing the means to achieve one single goal, that of the common good, which must be increased and safeguarded also for the future.

Catholic social teaching has always recognized that the end of economic life is the human person. This view has presented a challenge to mainstream economic thought, which some scholars have taken up directly or indirectly in their reflections on the origins and historical development of economic systems, especially the development of modern capitalism. An important distinction has been made between two definitions of economics. The first traditional one refers to the rational choice of scarce available resources that can be subjected to alternative uses. In this case, the goal is to obtain the maximum output with the minimum input. Individual choice is guided by the pursuit of one's own interests, where the cause-and-effect dynamics are well defined and determined in an almost mechanistic way by market laws. The second definition, on the other hand, refers to the multiple activities that members of a society undertake on an ongoing basis to engage in the production, distribution, and exchange of goods and services. This second definition requires a profound shift in focus from the search for a better combination of means to achieve a maximum end to the interactions between human beings and nature around them, interactions that should be based on trust and reciprocity and that enable them to satisfy their basic needs. The latter is a broader definition than the former, emphasizing the fundamental connection between the economic activity of human beings and the society in which they live and coexist.

The adoption of this second definition seems particularly relevant, since it presupposes a vision of the human person as structurally dependent on others to mediate relationships with the environment and to satisfy various needs, ultimately the quest for happiness. Moreover, this perspective implies the recognition that the market alone cannot guarantee integral human development and social inclusion, as often reiterated by Pope Francis, unless the direction, the goals, the meaning of economic growth are clearly defined by the material and immaterial needs of the human person. In addition to the good of the individual, Catholic social teaching affirms that there is a good linked precisely to living a communal life, to living in society. It is the good of the civil community, which includes individuals, families and intermediate groups. A humanistic economy should help the members of the civil community to pursue effectively their good within it.

Thus, these two definitions of economics are based on two very different anthropological models. The pursuit of profit maximization through the rational combination of limited resources is rooted in the model of the *homo œconomicus*, who is unrealistically driven by the mere desire for individual profit and acts rationally and amorally according to hierarchically ordered preferences. On the contrary, a focus on the satisfaction of human needs points to economic systems that recognize the value of the market and entrepreneurship, the relevance of private property, freedom and human creativity, but also a concept of efficiency that includes the possibility for all to participate in the process of distribution and consumption. Here, too, the value of human work and its subjective nature is a core principle to be protected and promoted by a caring management that seeks to develop its human capital. This type of economic system counteracts the financialization of the economy, maintaining financial services as a means at the disposal of the real economy, to which the production of goods and services is commended.

The pursuit of the common good and the replacement of the model of the *homo oeconomicus* necessarily require attention to the moral dimension of the human being. Economic systems oriented to human needs cannot grow without the moral and spiritual growth of their members, because in order to function effectively they too need immaterial values to guide internal and external relationships.

In fact, the common good can only be built by working on the personal and moral growth of every organization, including economic organizations and especially ecclesial organizations. Then the seemingly contradictory concepts of fairness and gratuitousness, as well as those of negotiation and gift, can be integrated into more effective systems and processes. Even the market economy cannot grow without the spiritual and moral growth of the people who participate in it, since it depends on fundamental immaterial variables that govern human relationships, such as trust and reliability. In this regard, we need only think of the extensive reflection that has taken place at the international level on corporate social responsibility, which today is essentially a dual concept of integrity and commitment to the community. No economic organization, including ecclesial ones, can be considered isolated from the environment that surrounds it and from which it draws the resources it needs. The concept of social responsibility should be read precisely in the light of the reciprocal relationship that exists between any organization and society. If society recognizes in an economic organization a resource to be safeguarded and developed for the common good, the same economic organization, for its part, takes on the broader challenge of pursuing the same common good by ensuring the protection of the human person, but also respect for laws and customs, and environmentally responsible technological development.

In this perspective, ethics can restore the proper order between ends and means, provided that it is an ethics based on the dignity of the human person. The Church, especially in her social doctrine, strongly affirms this essential link between the ethics of human life and socio-economic ethics, knowing well that a society cannot have a solid foundation if it radically contradicts itself by accepting and tolerating various forms of contempt and violation of human life, especially when it is weak and marginalized, including all forms of the "culture of waste", the domination of finance, and the logic of efficiency focused exclusively on short-term results.

Ethics, as it appears in *Economics for Ecclesiastics*, can help to bring about a paradigm shift in the principles that have long guided the economic, financial, and organizational thought and action of the global community. It is a paradigm shift from managing organizations primarily focused on efficiency and profit, competitiveness and individual gain, to organizations that are essentially human-centered and sensitive to moral ethics, open to reciprocity and solidarity.

However, it is not enough to create structures of co-responsibility if those who work within them are not able to activate these values in their professional work through personal conversion and education. The rapidly changing needs and social, cultural and normative contexts also require that clergy, religious and laity rethink the goals, structures, styles and methods of evangelization in their respective communities, including the style of management of their institutions.

These demands require competence and expertise. It is therefore essential to pay attention to the formation of clergy and religious who are able to deal with economic, organizational and financial issues with appropriate professional skills. Moreover, the complexity of modern organizations always and necessarily requires a multidisciplinary approach to problem solving, *ergo* a readiness to seek and welcome the contribution of different skills, to examine and deal with issues from multiple perspectives. There is also a clear need to foster contexts in which such skills can be acquired and shared. Knowledgeable religious and ordained ministers will then be able to work alongside professional lay people and participate more actively in the management of church assets. In this way, economic structures, particularly ecclesial structures, will be animated by a fruitful synodal spirit based on collaboration and subsidiarity, on a vision of work as a vocation, on professionalism and respect for the person, on service, and on the awareness of having been called to care for things rather than to possess them.

Sr. Raffaella Petrini, F.S.E.
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INTRODUCTION

It must have been in the year 2009, or shortly before, when Martin Schlag was at a reception in the Vatican at which he spoke with a former director of a large European Oil company. The top manager, who was a practicing Catholic, gave vent to a pent-up frustration about Catholic social teaching. “Never again a social encyclical,” he expostulated. “It’s all utopian and incomprehensible.” Shortly afterwards, Benedict XVI published his social encyclical *Caritas in veritate* that, for a businessperson, is anything but easy to digest. That was when Martin thought that we needed a research center in Rome to serve as a bridge between the world of business and Catholic social teaching. So, he gave birth to the Markets, Culture and Ethics Research Centre (MCE) of the Pontifical University of the Holy Cross in Rome.

Soon thereafter we met and had the opportunity to share many ideas on the way Catholic social thought could interact with economics and business. At that time, the issue of Corporate Social Responsibility had risen strongly to the attention of civil society, academic economists, and businesspeople in general. We have kept in close contact over the years, sharing views on those topics and challenges, the more so after Giuseppe Schlitzer was appointed Director of the Holy See’s Supervisory and Financial Information Authority (ASIF) in 2020. In the meantime, Martin had moved to Minnesota (USA) at the St. Thomas University to serve as the Moss-endowed Chair of Catholic Social Thought.

For all these years, MCE has continued to be a major driver. It has organized several international conferences in different parts of the world, and formed several young professors who combine professional expertise in economics, business, management, and finance with their deep Catholic faith. The Center has also published a series of books and notes that develop the theory of Catholic social teaching, to teach it, and, most importantly, practice it. One of the projects that was realized together with Lord Brian Griffiths of Fforestfach (author of a chapter in this book and member of the British House of Lords) and Antonio Argandoña (IESE Business School in Barcelona) was a course called "Economics for Ecclesiastics."

This book, which borrows the title from that course, is the result of our longtime friendship and fruitful collaboration over many years. Its purpose is not to present the reader with a general textbook on economics or economic thought, but to serve as a "guide" to a discipline that provides no scientific certainties. The book offers short chapters that are useful for reflection and the acquisition of basic knowledge in economics. Chapters cover a selection of topics that we consider of major importance, each addressing some of the apparent inconsistencies between economics and Catholic social doctrine. The authors of the chapters are economists with a deep knowledge of the Catholic social doctrine, most of them teaching in academia (prevalently in Catholic Universities). Therefore, the reader will find frequent references to the Bible and the Popes' encyclicals throughout the book.

The book opens with a contribution by Martin Schlag that provides the basic rationale for all that follows. Schlag explores the mutual influence that theological beliefs and business knowledge exercise on each other and investigates the contribution of Christian humanism to economic thought. Such interplay can foster a holistic understanding where the pursuit of material wealth is tempered by a profound appreciation for ethical considerations, shaping a more balanced and enlightened approach to economic endeavors. Within this context, he argues, good Church management is to be considered as pastoral service.

The nine chapters that compose the rest of the book can ideally be divided into three groups. In the first group, Joseph P. Kaboski, Philip Booth and Giovanni Farese examine, each from a different angle, the evolution of the world economy in a historical perspective, discussing the pros and cons of economic growth and globalization.

Kaboski illustrates the process of economic growth and addresses the question of when it can be deemed equitable and sustainable. Economic growth has indeed become the universally agreed upon goal among policy makers in every country, but our measures of growth are flawed to the extent that they do not properly account for the depletion of natural resources. Booth looks in depth at the impact of globalization on economic welfare, poverty, and inequalities, providing evidence that overall supports a positive view of globalization. While recognizing the relevance of the concerns expressed in recent encyclicals, he demolishes many of the misconceptions surrounding the notion of globalization. Farese examines how global economic governance has evolved since the publication of Adam Smith's *The Wealth of Nations*. He highlights that, albeit markets have become highly integrated, the global economy is made of different economic systems and social models, and their interplay will condition the future trajectory of growth and living standards.

The second group of chapters touches on more specific topics that are key to understanding modern economies.

Brian Griffiths explains why market-based economies have proved so successful in creating prosperity due to the interplay of flexible prices, competition, and the action of enterprises and entrepreneurs. Economists are aware, however, that markets can fail. Griffiths and, more extensively, Richard Turnbull, illustrate the main causes of market failures: the so called 'negative externalities' (which take place for example when industries pollute), the presence of monopolies and oligopolies, information asymmetries, and the case of public goods (like streetlights). All these situations open the door to public intervention. This is an area where Christian humanism can inspire economists and policy makers in the pursuit for the common good, especially in helping determine the extent of state intervention.

The finance industry is perhaps the economic domain where public policies play a major role. Carlo Bellavite Pellegrini and Andrea Roncella examine the fundamental functions that money, banking and finance discharge, as well as the risks that they inherently carry for financial stability. When considering the excessive financialization of contemporary economies and the 2007 global financial crisis, they ask when banking and finance can be defined ethical. They find that Catholic social doctrine provides the best answer to the question.

The last three chapters are more strictly related to the activities of the Church in the world, when she must deal with money. This encompasses several activities, such as receiving and making donations, doing charity, managing ecclesiastical structures, administering and/or investing ecclesiastical endowments. In this regard, it seems useful to recall the words of Pope Francis at the beginning of his Pontificate (Apostolic letter *Fidelis Dispensator et Prudens*, 24 February 2014):

> "As the faithful and prudent administrator has a vocation to care attentively for those goods that have been entrusted to him, so the Church is conscious

of her call to safeguard and carefully administer her goods in light of her mission of evangelization, with special care for the needy. In particular, the responsibility of the economic and financial sectors of the Holy See is intimately linked to its own particular mission, not only in its service to the Holy Father in the exercise of his universal ministry but also with respect to how they correspond to the common good in light of integral human development."

Marta Rocchi suggests that these activities should be guided by the four cardinal virtues of practical wisdom, justice, courage, and temperance. She shows how this virtue ethics approach can be applied in practice, and how a lack of virtues can undermine Church management. Rocchi highlights the need for a professional education of the clergy at all levels, from the parish priest to the administrator of ecclesiastical assets and provides some recommendations on how to move in this direction.

Luca Mongelli and Fernando Crovetto offer an example of good Church entrepreneurship and governance. They describe the case of 'Salto di Fondi', a large agricultural estate located south of Rome that was purchased under the guidance of the Prelature of Opus Dei in 1952. This is a success story not simply because the estate attained its goal of serving as a residence for students, was well managed and eventually sold at a margin, but also because it enriched the local community of farmers in an integral way: economic, spiritual and pastoral.

The final chapter, by Carmelo Barbagallo and Giuseppe Schlitzer, provides an account of the financial reform of the Vatican finances, aimed at aligning the Vatican jurisdiction to international standards and best practices. This process, initiated by Pope Benedict XVI in 2009-2010, continued and made broader by Pope Francis, has led to profound changes both at a regulatory level and in institutional structure of the Roman Curia. The significant steps taken in a little more than a decade are signs of a path confidently undertaken by the Holy See, whose cornerstone lies in the prevention and early identification of any anomalies and irregularities, and in the increasing efficiency and transparency of the spending mechanisms.

Readers will see that economic issues are complex in their very nature, and do not lend themselves to easy conclusions, such as in a black and white dichotomy. Consequently, identifying the best policy solutions to an economic problem is not always straightforward and, in most of the cases, requires judgement on the part of the policy maker.

John Maynard Keynes, one of the most influential economists of the 20th century, in his obituary of his teacher and mentor Alfred Marshall, provided a good description of how challenging the job of an economist is:

> "The master-economist must possess a rare combination of gifts .... He must be mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular, in terms of

> the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must be entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood, as aloof and incorruptible as an artist, yet sometimes as near to earth as a politician."

In the light of Keynes' words, if the book achieves to caution ecclesiastics against well-intentioned moralizing that misunderstands the economy and misguides them in their judgments, then the effort is well rewarded. If the book inspires some readers to delve deeper and undertake further inquiries, perhaps even admire the social science of economics, encourage young Christians to study it and serve their country as entrepreneurs, then we would be overjoyed.

MARTIN SCHLAG and GIUSEPPE SCHLITZER

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THE CONTRIBUTION OF CHRISTIAN HUMANISM TO ECONOMIC THOUGHT

Martin Schlag

In the vast tradition of scholarship on the relationship between business activity, economic reflection, and faith, we can discern three major currents. First, the religious stance regarding business and economics with great skepticism if not with outright rejection. This was the case in the Middle Ages, when a commentary on the influential 12th century *Decretum* of Gratian condemned businesspeople as unsuitable for Church membership. However, this is not an attitude solely of the Middle Ages. Up to our day, there can be a lingering negative attitude towards business among some Christians. Secondly, we can see the inverse attitude of economists and business scholars who disregard or reject religious influences on business agencies and economic reflection. Some business ethicists even regard religion as irrelevant.[1] Thirdly, there is a growing stream of research that strives not to combine religion and economics but to mutually enrich and illuminate each other. This is true for

[1] See, e.g., R. T. De George (1986), "Theological Ethics and Business Ethics," *Journal of Business Ethics*, (5): 421-432.

scholars like Stefano Zamagni and Luigino Bruni who are dedicated to civil economy but also for others, like Michael Novak and Luigi Zingales, who are more inclined to democratic capitalism, just to mention a few.

Little has been done, however, to show the relevance of business knowledge, including business ethics (see Marta Rocchi's chapter, in this volume), for the practice of Church management. This topic is of increasing importance and urgency. In the past, trust in the superior formation of the clergy led to the conception of a hierarchical Church run exclusively by bishops and priests. Now, lay Christians are much more involved in the management of the Church's material assets and hold their clergy accountable.

The purpose of this chapter is to show the mutual influence that theological beliefs and business knowledge exercise on each other. This influence is best expressed with the notion of Christian humanism, which I explain in detail below. Christian humanism is an aspect of the centrality of the human person in Catholic social thought (personalism) and is aligned with calls for a human-centered approach to business in secular ethics.

I structured this chapter by first addressing the question why priests, deacons, religious, and lay Church leaders should bother about economics, business, finance, and Church management. Secondly, I turn to the contribution of Christian humanism to economic thought.

1. The relevance of economics, finance, and business for clergy, religious, and Church leaders

a) *Credibility of the Church's social teaching on economics, finance, and business*

First, applying good business practices, and thus of business knowledge, when administering the Church's temporal goods is necessary for credibility. I remember how embarrassed I felt teaching business ethics to secular business leaders when the Vatican financial scandal became public around 2010. I imagined the thoughts running through the heads of the CEOs, CFOs and other executives who were listening to my exhortations: why doesn't the Church clean up its own mess before telling others what to do? Indeed, the faithful have every right that their donations are spent wisely, efficiently, and according to best business practices. Most of all, however, the faithful are entitled to the ethical use of their money in conformity with the Church's social teaching. Being exemplary in the use of the donations of the faithful has been a priority for the last popes, starting with Benedict XVI and forcefully for Francis. He has upended financial practices in the Vatican. Benedict XVI began reforms regarding IOR (the "Vatican Bank") and in 2010 established the Vatican's Financial Information Authority (see Barbagallo and Schlitzer, in this volume). Francis created the Secretariat for the Economy, the Council for the Economy and an

Office of the Auditor General, and has tenaciously been pursuing financial transparency, responsibility, and accountability throughout his pontificate. However, there is still a long way to go, especially in standardizing transparency requirements and other good business practices across dioceses worldwide.

In the context of credibility and trust, transparency is especially important. It is not only a central principle of business ethics but is crucial for the Church because the Church, in its self-understanding, is a truth telling institution:

> … the Church searches for truth, proclaims it tirelessly and recognizes it wherever it is manifested. This mission of truth is something that the Church can never renounce.[2]

The Church also speaks the truth about itself, even when it is unpleasant. Pope John Paul II did this when he publicly asked for forgiveness for the sins of members of the Church in the year 2000. Individual transparency before God is so important that the Church protects the confession of sins in the sacrament of reconciliation with a seal, the seal of confession. Under severest sanctions, no priest may reveal what was brought to him in confession. However, this kind of sacramental secrecy has no place in the normal business and financial dealings

[2] Benedict XVI, Encyclical Letter *Caritas in veritate*, 29 June 2009, n. 9.

of the Church. The Church demands transparency of international organizations:

> Hence it is to be hoped that all international agencies and non-governmental organizations will commit themselves to complete transparency, informing donors and the public of the percentage of their income allocated to programs of cooperation, the actual content of those programs and, finally, the detailed expenditure of the institution itself.[3]

As the biggest international organization worldwide, the Church should lead with a good example. Greater transparency aligns it with its own core corporate values.

b) ***Church Management is part of the spiritual life***

The second reason for the relevance of business and economic knowledge for Church leadership is of spiritual nature. Dealing correctly with money (see the chapter by Bellavita and Roncella, in this volume) and other material goods is an aspect of good spiritual life, not only of business acumen. We live in bodies and need material means to sustain our physical life. The Church needs material patrimony to fulfill its mission, to celebrate the liturgy, proclaim the gospel, teach, and help the poor. Our spiritual life does not disincarnate us nor does it aim at "liberating" us from the constraints of human nature and the laws of social co-existence because that would be impossible. Catholics remain in this

[3] *Ibidem*, n. 47.

world as humans like everyone else. If they are authentic and real spiritual practices, the sacraments and prayer, and other religious exercises, lead us to a virtuous life. Prayer is an energy for good. It unites us with our Creator and Judge who dwells in us and inspires our thoughts, words, and actions. Staying in our minds and bodies as in his temple, he purifies and cleanses our intentions. If this does not show in our virtuous deeds, something in our spiritual life is not working well. God's presence is active in our virtues, or he is not present.

Virtues are habits of correct choice of good actions that help us to flourish. Virtues are a strength of the soul that illuminate our practical reason to know what good thing to choose in every situation we encounter. Virtues purify us and give us the strength to perform good actions; and over time they also confer enjoyment on us for the fulfillment of the morally good. In other words, virtues possess a cognitive (knowledge), operative (action), and affective (enjoyment) dimension. A healthy spiritual life promotes the four central virtues of prudence, justice, courage, and temperance. Authentic spiritual life is discredited by a fake varnish of piety applied to a repulsive human character without virtue and to unethical behavior.

The virtue that orders our need for material goods and the attraction to them is temperance. This virtue moderates our desire for material goods and pleasure in such a way that it promotes the overall wellbeing of the person. Our passions can run wild and turn destructive if they are not harnessed by reason. Reason orders our vital energies, called passions, to ethical criteria. Behavior becomes unethical not only when it violates one of the Ten Commandments; but also, when it ignores or contradicts the science and technical skills required to perform a task well. An engineer who calculates the static requirements for a bridge hastily and erroneously because he or she wants to run to Church, or someone who neglects the household chores in the interest of prayer time, will not become a saint. A good Catholic should be known by their sincere effort to work well in whatever honest profession they have.

For this reason, priests, deacons, and other Church leaders need to be good administrators of the material goods required for the Church's mission. Church management and administration are not usually popular among priests. They would rather dedicate their time to the souls entrusted to them, administer the sacraments, and enjoy the liturgical celebrations. However, to be virtuous, we must learn to be skilled administrators who possess the theoretical and practical knowledge required by the virtues of prudence, justice, courage, and temperance to manage Church property well. Good, skilled administration increases time for pastoral ministry. Deficient, unskilled administration leads to errors that require a lot of time, money, and headache to fix down the line. Bad, hasty administration reduces time for pastoral ministry.

There is a Spanish proverb: “pan de hoy, hambre de mañana.” Literally, “bread today, hunger tomorrow.” What this saying expresses is that a quick and sloppy fix today can mean a lot of damage in the future. We save time now in the short term but will lose a lot more time down the road.

Furthermore, good Church management is pastoral service. Administration is a team effort, refers to other people, and affects a whole parish, diocese, or institution of evangelization. We are never alone. Dealing with paperwork is dealing with souls. “Your desk is an altar,” was an encouragement that St. Josemaria gave to people striving to sanctify their work. What he meant was that our work is offered up to God as a sacrifice united to the Eucharistic sacrifice of Jesus on the altar of the Mass. We celebrate Mass not only in Church but also in our work. What a joy it is to discover such a unity of life! We can find the God we love in all things. We can grow in love with all things we are called to do, also and perhaps in particular with those that do not particularly attract us or that go against the grain. A divided life, in contrast, would be a sad and unsatisfactory struggle against a burdensome obstacle to what our hearts desire.

c) ***Church Management is founded on the Incarnation***

Thirdly, and most importantly, all the above is founded on the Incarnation of the Word of God in

Jesus Christ. The Son of God chose to become true man, without stopping to be true God. In Christ, God has lastingly united human nature and all our activities, except sin, to himself. This is true even for marriage because Christ is married to the Church, and the Eucharist is his marital act. He gives us his body in love. All things human that Christ has assumed, he has redeemed. This is clearly the case with work. Jesus spent thirty years of his thirty-three years on earth living in his family and laboring as a wood worker. We have no Biblical account of the quality of his professional work, but we can have little doubt that the way he performed his public ministry followed the pattern of the virtues he put into practice in his former hidden life. From his public ministry we can gather the level of effort in his woodwork. At Cana, Jesus converted the water into hundreds of gallons of wine of the highest quality. He spent whole nights in prayer, was indefatigable healing the sick and preaching to the crowds. His healing miracles were immediate and perfect. He "invented" the incredible miracle of the Eucharist as a means to stay with us after he had to leave. He could have redeemed us with a decision of his divine will but preferred to shed the last drop of his blood. Everything he did was not only good but perfect. He loved us to perfection. The Church is the body of Christ. If the Church wants to imitate Christ in his human nature, or rather, if she credibly wants to present to the world the face of Christ, how must our Church management be? How well do we as priests and lay Church leaders need to know economics, finance, and business to be perfect in love in our administration of the material goods entrusted to us by the donations of the faithful?

2. How much technical perfection is required to be perfect in love and service?

To answer this question, a distinction is necessary. Priests and deacons are not managers but pastors and shepherds. In contrast, lay professionals who work in and for the Church can be managers, if they are aware of being *Church* managers, at the service of the Church's mission. They are not working in a for-profit enterprise, even though some activities owned by the Church might generate profits. In the end, every material good of the Church is destined to the Church's supernatural and spiritual mission. We have no lasting home on earth but are pilgrims who cannot carry bulky or heavy burdens that impede a fast step toward our heavenly destination. Sometimes, priests are too attracted to administrative tasks. These can become an escape from pastoral difficulties and doctrinal tensions or a band-aid for their personal doubts of faith. When their spiritual life cools off and slackens, priests, religious, and lay Church leaders can turn into lukewarm Church bureaucrats and live a form of Christianity that is little more than a façade without life or substance. A slight earthquake makes the façade collapse. Mother Teresa of Calcutta used to say that there are two major dangers for priests, sex and money, of which money was the more dangerous because its attraction grows with age, whereas that of sex, in general, diminishes. Spiritual lukewarmness is also called *acedia*, a kind of despair of ever achieving our spiritual aim, of living up to the high dignity of our calling to holiness as God's children. In such a state, a person turns away from the living waters of the Holy Spirit and instead of drinking from God, the pure wellspring of eternal life, tries to quench his thirst for happiness in the dirty puddles of carnal satisfaction that offer nothing but a distortion of happiness: pornography, alcohol, drugs, and above all money. Money apes God. It imitates his infinity (how much money is ever enough?) and wakens a feverish thirst for it in us.

Knowledge of economics, finance, and business should help priests, deacons, religious, and lay Church leaders acquire a healthy relationship to money as a means to achieve the spiritual and supernatural aims of the Church – nothing else. Money must serve. It is not an idol, a golden calf, as Pope Francis insistently reminds us. Material goods must be embedded in a correct hierarchy of values with God as the final cause. This hierarchy needs to be translated into practical everyday life. What does this mean for Church management and specifically for priests who, as we said at the beginning of this section, are not meant to be managers? Priests and deacons in pastoral ministry should possess the economic, financial, and business expertise in Church management that allows them to:

a) understand what lay experts and lay members of finance councils are telling them;
b) delegate tasks that need to be accomplished;
c) control what the employees dealing with money and other material goods are doing to fulfill their duties.

When priests do not understand what business or finance specialists are telling them, they can become defensive and withdrawn. They can be tempted to think that they lose authority by asking or showing their ignorance about basic things. But they can hardly be blamed for it. There is truly little, if any, formation in finance, business, and management in the seminary. How could they know? They are being sent into multi-million-dollar institutions (any average parish in the United States) without preparation in business skills. It is comparable to being asked to drive a car or fly a plane without a license, simply learning to do so by watching others.

I have tried to show how important economic, financial, and business knowledge is for Church management. I now turn to the question of what Christian humanism contributes to economic thought.

3. The contribution of Christian humanism to economic thought

Christian humanism focuses on the joy-bringing effects of Christian faith on human life, on earth.

There have been currents in Christianity in the past (and there still are) that were overly otherworldly, disdaining "the world" in general as fundamentally sinful, and condemning business, finance, and management in particular as dangerous. Christian humanism proposes Christian faith and spiritual life as paths to human flourishing on earth, not only in heaven. The socio-economic realities of our present fallen state help us flourish too. Government, laws, private property, business and commerce, money, military defense, and law enforcement are institutions that repress evil. However, this is not their only task. They are part of the natural order and can in themselves be perfective. All these institutions are not merely consequences of original sin in the post-lapsarian world, grudgingly accepted as necessary by Christians. Participating in them to build up this world does not separate a Christian from God, nor does it endanger his or her salvation. Sin separates from God and salvation, and sin lurks everywhere, even behind the walls of a convent. The world with the social, political, and economic institutions that defend and further the common good come from God. They are good unless we spoil them by sin. Working in and for them sanctifies us. Our mission is to preserve and to cleanse them from sin.

Except for the military and police, these institutions would also have existed in paradise: government and law are necessary for human flourishing before and after original sin, even though in paradise there would have been no subjection or domination because no coercion of recalcitrant sinners would have been needed. Property, exchange, and commerce are not a consequence of original sin either but are means to start and increase social friendship by sharing and exchanging the goods of God's creation in an encounter between persons.

The affirmation of the goodness of God's creation, healed and sanctified by the Incarnation of God in Jesus Christ, is the foundation of our form of humanism that is not identical with secular or "exclusive" humanism. Our humanism is Christian because it exceeds secular humanism. It does so because it is based on the conviction that God became human to renew us into our true humanity in conformity with Christ, the true image of God. Christian humanism does not only pursue immanent, terrestrial happiness, as secular humanism does, but leads to the identification of each one of us with Christ. This is a process from Joseph's workshop to the Cross and Resurrection through which the Christian participates in the freedom of the children of God.[4] Christian humanism, therefore, implies the notion of heroic love that is willing to renounce earthly success and wellbeing (the Cross) to achieve the greater transcendent goods (the Resurrection). In comparison to eternal life

[4] See J. Zimmermann, *Dietrich Bonhoeffer's Christian Humanism*, Oxford University Press, Oxford 2019, in particular chapter 1.

and heaven, all other goods pale. Nothing is worth losing heaven! It is better to suffer and die than to commit a mortal sin. Or, in a positive tone, all suffering is nothing and less than nothing in comparison with loving and enjoying God here on earth and eternally thereafter. Christian humanism is decidedly faith-based, transcendent, and supernatural. It is not a watered-down insipid form of "diet Christianity."

a) ***What is the main contribution of Christian faith to a humanist conception of the economy and finance?***

In *The Idea of a University*, St. John Henry Newman fights the compartmentalization of sciences. He insists on the unity of knowledge and the inclusion of theology in the university curriculum, and, conversely, the acceptance of science by theology.[5] His arguments are relevant to our subject because the main contribution of Christian humanism to economics, finance, business, and management is not specific moral injunctions or prescriptions but, more generally, an epistemological framework that includes God as a metaphysical backdrop and horizon of specialized knowledge in these fields. In a similar way Benedict XVI argued in his encyclical *Caritas in veritate*: "Open to the truth, from which-

[5] J.H. Newman, *The Idea of a University*, ed. H.B. Oesman, Ubi Caritas Press, San Diego CA 2017 [first Dublin, 1852], Part I, Discourses 3 and 4, 33-73.

ever branch of knowledge it comes, the Church's social doctrine receives it, assembles into a unity the fragments in which it is often found, and mediates it within the constantly changing life-patterns of the society of peoples and nations."[6] "Mediation" is an expression taken from hermeneutic philosophy. When we understand something, we unite our own perspective with the viewpoint of another person, perhaps a dead person whose thoughts we read. This merging of horizons mediates us into a greater unifying context, and this experience transforms us by expanding our own perspective on things. The tradition of Catholic social thought and Christian humanism in general supplies a framework or horizon of understanding. Such a framework need not be explicit and can stem from either the personal faith that guides the scientist in his or her research or the acceptance of God as a meta-idea, a postulate, or some other form of cultural assent. What I mean by this is the following.

No branch of the social sciences has God as its object but rather human behavior, which it either describes (positive social science) or prescribes (normative social science). Nevertheless, the idea of God and theology can be regulative also for them because God, religion, and faith shape our culture and influence the language and concepts in which scientists express their findings. Furthermore, research is guided by moral categories that are either

[6] Benedict XVI, *Caritas in veritate*, n. 9.

explicit or implicit. Finally, Christian humanism supplies a motivational horizon for research. These three reasons are interrelated, and I will try to explain them in greater detail and – hopefully – clarity in the next paragraphs.

aa. First, let us consider language and concepts. An economist writes:

> The central question in economics, at least since the time of Adam Smith, has been to explain why some people become rich while others don't. Smith's 1776 magnum opus, *An Inquiry into the Nature and Causes of the Wealth of Nations*, was one of the first attempts to answer this question. In Smith's account, the division of labor is the source of prosperity for the great masses of people. People get rich by specializing in producing those things they are good at and then trading with others who themselves have specialized in that which they are good at.[7]

This simple paragraph contains a series of culturally pre-determined concepts that are taken from and defined not by economics but by philosophy and by theology. Western philosophy developed from and alongside theology. I will pick out two of the concepts Lawson uses: "people" and "good." Who are people? Only humans? More importantly, what are people? Are people the same thing as a group of persons? Why are people so important that they should give rise to economics? Why do

[7] R.A. Lawson, "Economic Freedom, What Is It Good For?", <https://affiliate.wcu.edu/csfe/2019/04/22/economic-freedom-what-is-it-good-for-robert-a-lawson-ph-d/>.

they have a right to freedom? What is the “natural freedom” Adam Smith wishes to defend? Turning to the concept “good:” What does the economist mean with “producing those things they are good at”? Is he referring to their skills or their virtues? Is there a difference between the two? What does it mean to be good? What makes an economic good good? Is “producing” the same thing as “doing”? Does producing something good make me good at it or is more required?

Economics need not and should not answer these questions or study and define these concepts directly. However, economists use them and presuppose an intersubjective understanding of them, making them apt for communication. We should be aware that social sciences take their language from levels of thought epistemologically prior to empirical science. Sciences use concepts defined by prior, hierarchically antecedent wisdom. Christian humanism is a source of this wisdom, used and implied in economics and business.

bb. Second, economists and social scientists in general, in their research and teaching, are guided by moral categories when they choose their objects of study. Their research is somehow “relevant” to humans, otherwise it would neither be funded nor published. Take as an example, for instance, empirical research on the correlation between the incidence of rape and the liberalization of prostitution.[8] When economists study the impact of legalizing prostitution on the frequency of rape and other sexual violence in an empirical, descriptive, supposedly value neutral way, the question is, why prostitution and rape? Why not study the correlation between irrelevant questions like the correlation between buying a beer and sitting on a couch? The answer is that prostitution and rape are two humanly tantalizing subjects. They are morally (and legally) reproachable actions, rape more so than prostitution, and the study's result that rape decreases when prostitution is legalized, rightly is seen as a desirable outcome. Or take studies on human dignity of marginalized people in health care.[9] Why care about marginalized people? Why conduct a meta-study on empirical literature based on empirical data regarding the human dignity of marginalized persons? Because we have internalized moral convictions that society, to be a decent society, should treat the elderly, the poor, and suffering in a humane way. Our moral framework conditions our choice of objects considered worthy of research.

[8] See the study by P. Bisschop, S. Kastoryano, B. van der Klaauw, (2017), "Street Prostitution Zones and Crime," *American Economic Journal: Economic Policy,* 9(4): 28-63, <https://doi.org/10.1257/pol.20150299>.

[9] See, e.g., J. Schmidt, M. Trappenburg, E. Tonkens, (2021), "Social dignity for marginalized people in public healthcare: an interpretive review and building blocks for a non-ideal theory", *Medicine, Health Care und Philosophy*, (24): 85-97.

Furthermore, still in the section on moral categories, as Mary Hirschfeld has spelled out in detail, belief in God supplies a metaphysical backdrop for the ordering of economic goods to the last final good (God) that makes economic goods comprehensible as what they truly are: means that allow us to pursue perfection by knowing and loving God.[10] Without belief in God, inner worldly reality becomes the ultimate reality. Immanence replaces transcendence. Materialism supersedes spirituality. We see this happening in our saturated Western societies, dying a slow death of suffocation due to the mainstream culture of practical materialism. We live in a paradigm of accumulation of goods, in which, by default, we consider more to be better, without asking how much is enough. Christians, in contrast, aspire to a paradigm of perfection, asking what last good the intermediate goods (means) aim at and how they help us to reach our goal of knowing and loving God. Christian humanism is a constant reminder to keep our eyes on what really is worth the effort. Staying anchored in transcendence also protects our own dignity and identity as children of God. Without this anchor, the cultural mainstream can pull us into the current of redefining human personhood, human dignity, the place of the human being in the cosmos. It is difficult not

[10] See M. Hirschfeld, *Aquinas and the Market: Toward a Humane Economy*, Harvard University Press, Cambridge MA - London UK 2018, 118-160.

to be carried away by cultural redefinitions of human dignity without the Creator.

cc. Third, Christian humanism can supply a motivational horizon of scientific intellectual humility and charity. It would be false to affirm that Christians are humbler people simply by being Christians. Nevertheless, Jesus Christ has changed the world and the course of history. His teaching, foremost the Sermon on the Mount, and his death and passion out of love on the cross of shame, have impressed humility and charity on the hearts of his followers. In his Letter 118, addressed to a young scholar called Dioscorus, St. Augustine writes a small treatise on scientific epistemology. In it he applies humility to the science of his time. Augustine esteemed the Platonists over all other Antique schools, but he points out that they were not as efficient in supporting reason enlightened by truth as the other schools, notably the Epicureans and Stoics were in supporting their own errors. "For from them all there was then withheld that example of divine humility, which, in the fullness of time, was furnished by our Lord Jesus Christ, – that one example before which, even in the mind of the most headstrong and arrogant, all pride bends, breaks, and dies."[11] St. Augustine exhorts his reader

[11] St. Augustine, *Letter* 118, n. 17, ed. P. Schaff, *Nicene and Post-Nicene Fathers. Volume 1. The Confessions and Letters of Augustine, with a Sketch of His Life and Work*, Peabody MA, Hendrickson Publishers 2004 [reprint of the first edition in 1886], 444.

> to submit yourself with unreserved piety, and I wish you to prepare for yourself no other way of seizing and holding the truth than that which has been prepared by Him who, as God, saw the weakness of our goings. In that way the first part is humility; the second, humility; the third, humility: and this I would continue to repeat as often as you might ask direction, not that there are no other instructions which may be given, but because, unless humility precede, accompany, and follow every good action which we perform, being at once the object which we keep before our eyes, the support to which we cling, and the monitor by which we are restrained, pride wrests wholly from our hand any good work on which we are congratulating ourselves. All other vices are to be apprehended when we are doing wrong; but pride is to be feared even when we do right actions, lest those things which are done in a praiseworthy manner be spoiled by the desire for praise itself.[12]

Humble people are delightful to be around. Humility also makes economists (and professors in general) more palatable. Apart from being a personal virtue, however, humility is also an epistemic dimension. Social sciences work with models. Models reduce the complexity of reality to discover and test hypotheses. They are necessary tools for research. However, models also limit our scope of knowledge. Epistemic humility leads the scientist to recognize and accept the limits of their methodology and to stay aware that models cannot de-

[12] St. Augustine, *Letter* 118, n. 22, p. 445-6.

scribe more than what they have been designed to do. We all tend to absolutize our point of view. Humility counteracts this tendency.

A scientist's humility helps avoid vanity. Academic and in general intellectual life is prone to vanity. It is a competition in intelligence and knowledge, that is shown to others and recognized by a large community of scholars – a perfect setting for vanity. We can be better than our colleagues either by really being better or by putting them down, belittling their results, criticizing their publications unkindly, and holding them in contempt. Here there is a clear connection with intellectual charity: we can always find some truth and good intention even in opinions that we do not share. Every wrong answer is an answer to a justified question. If I do not agree with the answer, it is not enough to reject the wrong answer. I must strive to give a better answer to the correct question. Thankfully, the academic community is full of wonderful people so that the vices I have sketched are rare. Many of us serve as peer reviewers and all of us must go through peer evaluations of our publications. They are a wonderful school of humility and a service to others.

For every academic, especially for those in social sciences, humility is a call to accept the truth, to submit to facts and data, to inquire into reality and conduct serious surveys. Teachers of Catholic social thought and bishops too should be humble enough to listen to experts and insist on a thorough collection of data before emitting moral judgements, especially if they are negative or condemnatory.

b) *The specific contribution of Christian humanism through Catholic social thought and action*

Catholic social teaching, over the centuries, has parsed such deep theological reflections into a series of normative formulations that we consider to be the specific contribution of Christian humanism via the tradition of Catholic social thought. Catholic social thought uses a three-pronged approach by 1. proclaiming principles, 2. teaching norms or criteria, and 3. stimulating action in favor of the poor and marginalized. Principles are high-level, abstract enunciations about the way people and their life in society are. There is no clear universal consensus on what a principle is and how many there are, but there is a nucleus of four principles that are accepted: human dignity, the common good, solidarity, and subsidiarity. These concepts mirror the personal ontology of the human being (image of God and therefore dignity) and the social ontology of life together in a way that allows us to flourish (common good). This means that we are protected in our freedom and given the means to develop as an individual (subsidiarity) and as a society or group (solidarity). The principles of Catholic social thought are general and abstract. To be operational they need an intermediary level of regulative ideas. For instance, a business leader might know that she must respect the dignity of her employees. However, this does not answer the question whether in a given situation (e.g., one of financial distress), she should or should not fire an employee. For this, she needs a normative foundation and practical skills. Catholic social teaching has developed three norms or criteria referring to business, as well as many more specific exhortations and injunctions.[13] The three norms are:

I. Business is part of a greater moral whole. This is the reason the Church speaks about economic and social matters. The Church has no competence in matters that do not pertain to faith and morals but much of what we do in business does pertain to both faith and morality. Our theoretical conceptions of the essence and aims of business imply a vision of human beings and society. If, for instance, someone states that the only aim of business is profit maximization and that economics should refrain from value judgments, they have already made an implicit normative judgment about the nature of business that is of great practical relevance on the way managers behave. Christian humanism endorses an integrative vision of business and society. It does not uphold the separation of business and ethics. For Catholic social thought, ethics is an integrative part of the economy not an optional add-on that we can apply if we like.

II. The human person is at the center of the economy not profit maximization. At the outset of Catho-

[13] See M. Schlag, *The Business Francis Means: Understanding the Pope's Message on the Economy*, The Catholic University of America Press, Washington DC 2017.

lic social teaching at the end of the 19th century, this regulative idea's main field of application was the relationship of labor and capital. Labor, the work of human beings, is not to be considered a merchandise. Each worker is endowed with dignity and rights, among which are that to a just wage, safety at the workplace, rest, and limited working hours. Over and above these rights at work, a person has a right to work. The right to work is not a classical human right to freedom (e.g., to life, physical integrity, property) or an entitlement but consists in a societal commitment to foster entrepreneurship and to allow businesses to create jobs. The government cannot create jobs and prosperity. It uses the tax money taken from businesses. The government can create conditions in which businesses can operate well and thrive. As this conception became social reality, Catholic social teaching became increasingly worried about another form of exploitation: consumerism and practical materialism. Even though workers' rights continue to be a burning issue in Western countries as well as abroad, the focus now is more on the true value of material goods and their ordering toward God and spiritual goods. A consumer is a human person with a transcendent calling that goes beyond being a stable revenue source for businesses who try to increase their revenue by creating artificial needs, stimulating impulse buying, and awakening desires. In a short formula, Christian humanism envisions an economy that produces goods that are genuinely good, services that really serve the human person, and wealth that constitutes authentic, not fake value.

III. The common good takes precedence over individual interest. We are all born into pre-existing communities. None of us is isolated and we all need relations. However, relations are impossible without personal sacrifice. An egoist who only pursues his individual interests without caring for others will end up unhappy. In the Catholic tradition it is the common good that justifies private property, commerce and industry, the creation of wealth and prosperity. This brings into words the common experience that reaping the fruits of one's own efforts incentivizes greater personal investment and sacrifice. If I can reap what I sow, I will sow. If not, I will eat the grain instead of sowing it and move somewhere else. Investment and sacrifice, in turn, benefit the common good. All, particularly the poor, would be worse off if the talented withdrew from putting their goods to work. That is the core of Aquinas's argument in favor of property and business. The modern approach would be inverted. The individual subjective right to property comes first. Then we decide to create a commonwealth to protect our property, which is considered an absolute right.

4. Conclusions

In conclusion, the symbiotic relationship between Christian humanism and economic thought becomes evident as clerics gain insights into economics and business, and economists and businesspeople embrace the transcendent horizon provided by spiritual values. This interplay fosters a holistic understanding where the pursuit of material wealth is tempered by a profound appreciation for ethical considerations, shaping a more balanced and enlightened approach to economic endeavors.

ECONOMIC GROWTH: WHEN IS IT BALANCED AND SUSTAINABLE?

Joseph P. Kaboski

For any scholar it is a challenge to write about a specialized field to a general audience. Every discipline has its own terminology and concepts that themselves stem from the writers and discourse of its own intellectual history. This challenge is special in the case of economics because it plays such a vital role in our world that one ought not hide behind technical jargon. Moreover, everyone has some knowledge of and indeed personal experience within an economy. Economic words have their own meanings in general discourse, but these meanings are always less precise. Dialogue can be especially challenging when writing to an audience of ecclesiastics because the Church is in-the-world-but-not-of-the-world, whereas economics in both its substance and dominant ethics is decidedly worldly.

Yet, the need for dialogue is clear, and perhaps no other topic underscores this as much as economic growth. Economic growth – together with employment – has become a universally agreed upon goal among policy makers in every country. It is something assumed in wealthy economies and a much-desired goal among the poorer countries. And yet, for both Catholics and non-Catholics, the questions, of whether it is balanced among peoples and whether it is sustainable, become paramount questions in a world threatened by climate change and increasing polarization. There is a tension among three presumptions in the general population. The first is that economic growth is necessary, the second is that growth is either not beneficial to those who need it or unsustainable, and the third is that growth alone is not enough.

The words of Pope Francis epitomize this tension, insisting that sustainability and equity must be essential guiding principles of any growth. Rejecting the idea of unlimited growth and insisting on *sustainability*, he writes, "It is based on the lie that there is an infinite supply of the earth's goods, and this leads to the planet being squeezed dry beyond every limit. It is the false notion that "an infinite quantity of energy and resources are available, that it is possible to renew them quickly, and that the negative effects of the exploitation of the natural order can be easily absorbed." (LS, 106) Similarly, while accepting that growth is necessary, he insists that it needs to be *balanced* to include all people, "Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programs, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality." (EG, 204)[1] Once again, it is not only the Church that has these concerns. It is telling that in 2015, when the United Nations' "Millenium Development Goals" expired, they were replaced by the "Sustainable Development Goals", a broader list of development goals that included poverty, gender equity, and environmental sustainability among many such goals.

In this chapter, I will start with some necessary clarification of terminology, discuss the past empirics and current theories of growth, and finally address the extent to which and conditions under which growth is balanced, sustainable, and worthy of pursuit.

1. Terminology

The first step is to define what we mean by economic growth, balanced growth, and sustainable growth, respectively. Strictly speaking, *economic growth* at the level of the country refers to a growth in the productive capacity of a country or national income, typically measured by real gross domestic product (GDP) or gross national income (GNI), which equals the growth in the sum of the market value of all final goods and services produced and all earnings to both workers and owners of assets. "Market value" means that goods and services are valued at the prices that people paid for them.

[1] Francis, Apostolic Exhortation *Evangelii Gaudium*, 24 November 2013.

These values are “real” in the sense that they are net of a misleading measure of growth that could otherwise come from overall growth in prices, i.e., inflation. Typically, economic growth can come from two forces, a growth in the overall workforce or population, and a growth in average incomes (per worker or per capita). The latter is typically the primary focus because it relates more closely to overall living standards and economic welfare, and indeed economic growth in per capita terms is often shorthand for growth. But population growth is an important consideration too because it is often accused of undermining environmental sustainability in popular theories but plays a more nuanced role in the serious study of population.

The question of whether growth is *balanced* is an important question to growth economists, both in theory and empirically. Economists’ ideas of balanced growth from a mathematical perspective consists in a situation where all segments of the economy grow at a constant rate, so that key ratios remain constant. For example, balanced growth could have sectors of the economy growing at the same rate, or capital income/capita and labor income/capita growing at the same rates as well; the former grows because capital is accumulated at a rapid rate, while returns on capital (or interest rates) are relatively stable, the latter grows because wages and labor productivity grow over time. The Church surely views the issue of “balanced” from a justice perspective, of whether the increase in income is fair in that all segments of the economy benefit from growth. There is a particular concern for marginalized groups, the poor, the rural, the agrarian, etc. Indeed, the Church's concern with "balance" in the economy would largely be understood in economic terms as "inclusive growth"," where all populations benefit, or an even stricter criterion of "pro-poor growth," in which poor populations disproportionately benefit to reduce inequalities in the economy.

Lastly, the issue of sustainability is important. *Sustainability* could be viewed from (at least) two perspectives. Sustainable growth could mean growth that is in harmony with the natural environment, or even protecting and improving the environment, rather than harmful to it. A weaker criterion is that sustainable growth is growth that is not so harmful to the environment that it eliminates the possibility of continued growth. One can see from the above quotes of Pope Francis that he has both in mind when he cautions that our current growth is unsustainable.

2. What do we know about economic growth?

There is a lot we know about economic growth, and at the same time, many, many open questions. I will start by reviewing what we know.

The first thing we know about economic growth is that persistent growth in per capita income, the type that improves living standards, is a recent phenomenon. Looking back at history from the standpoint of the last 18th century, Thomas Malthus, the famous Anglican priest, and demographer/economist, observed the historical lack of growth in living standards. His theory posited that despite continual increases in mankind's capacity to produce, living standards for the working masses continually hover at a level barely satisfying subsistence. He blamed population growth, which increased the demand for food whenever the capacity to produce food increased, and he argued that the exponential nature of population growth would always be more powerful than any growth in capacity to feed the population.

Since then, a great deal of historical economic research has verified that Malthus' theory – both his predictions for living standards and the role of population growth in stabilizing income – had been overwhelmingly correct for thousands of years. Historians can measure living standards directly using detailed data on wages and prices, and indirectly using things like life expectancy and height, since health is impacted by income when people's primary expenses are food, clothing, and shelter. Living standards in 4th century Egypt were not too different from those in England in 1750, India in 1950, or Jerusalem at the time of Christ. European incomes were highest in the mid-14th century, just after great famines and the bubonic plague had wiped out much of the population of Europe.

All these time periods are quite different from the world we live in today, however, and it is an interesting irony of history that Malthus' predictions were beginning to fail precisely in the time (the end of the 18th century) and place (Manchester) that he wrote his famous work (published in 1799). Since then, the global population has grown over 8-fold and exponentially to its current level of nearly 8 billion people, far beyond even the most optimistic predictions among Malthus' followers for what would be "sustainable" by the earth. At the same time, however, our productive capacity for food, and income more generally, has grown even faster. Global income has increased roughly 120-fold over the same period. This rapid growth has led to a dramatic increase in material living standards for most of the world. For example, world income per capita has increased roughly 15-fold and food is also plentiful. Indeed, obesity has now become a larger health issue than hunger in most countries.

The second key point is that economic growth is the most powerful engine we know for increasing material living standards and lowering poverty. Indeed, the past 50 years have witnessed the most dramatic reduction in poverty that the world has ever known. The driving force has been the growth miracle economies of Asia, starting with the Asian Tigers of Hong Kong, Singapore, South Korea, and Taiwan in the 1960s, followed by countries like Indonesia, Malaysia, and Thailand in the 1970s, and China, India, and Vietnam in the 1980s and 1990s.

Consequently, the absolute number of people living in ultra-poverty (i.e., on less than roughly $2.25/day in real terms) has fallen from roughly 1.5 billion to roughly 700 million today with most of the reduction coming from these countries.

A third key point related to this is the tragic consequences of centrally planned economies for economic growth and poverty, especially in comparison to market-based economies. Multiple clear "natural experiments" abound. At the time of division of Korea, North Korea contained the industrial center of the country (Pyongyang), but South Korea pursued a market-based economy, whereas North Korea pursued central planning, and 65 years later, average incomes in South Korea are nearly 20 times higher. Consider the division of Taiwan and mainland China, where the former pursued a market-based economy after losing the civil war and fleeing to Taiwan. Average income in Taiwan grew much faster before China moved away from central planning and remains roughly three times as high today. Consider China before and after Mao, who was the architect of their central planning approach. In the 28 years under Mao from 1950 to 1978, average incomes failed to double, while in the 28 years after Mao it quadrupled. Again, this is growth that impacts poverty. Under "the Great Leap Forward," Mao's central planning attempt, to forcefully industrialize between 1958 and 1962, the Chinese economy collapsed with too few resources in agriculture. This man-made famine was disastrous and rivals the second World War in terms of its death toll. Similarly, North Korea has suffered repeated famines, and both famine and malnourishment remain pressing problems and risks for North Korea to this day.

A fourth key point is the form that growth takes, which is decidedly not balanced along many dimensions. Economies undergo what we call "structural transformation": agriculture shrinks as a share of the economy, while the service sector increases. The industrial sector (i.e., manufacturing, mining, construction) typically increases over a period of industrialization and then later declines as the economy deindustrializes. These patterns are not uniform across all economies, but they are quite pervasive and understandable. The first reason for this is a trend in relative demand: agriculture (e.g., food) is needed for survival and requires much of a nation's economic efforts at low incomes, but as countries get wealthier their demands become satiated and shift toward other goods. The second is a trend in supply: typically, productivity growth in agriculture and manufacturing is faster than in services. The technology we use to grow food is substantially different in the United States today than it was a century ago, but the technology for giving haircuts or trying lawsuits is largely unchanged. Hence, the relative price of services like haircuts, lawyers, and higher education, and healthcare rise relative to the prices of food, cars, and computers, and increasingly more resources are used to produce the former. Even within sectors, we see shifts, however: for example, higher education and healthcare are increasingly purchased as a country gets wealthier, while the share of transportation or retail services decline.

Moreover, when the share of agriculture does not shrink it is often because technology does not spread to this sector and many workers stay employed in subsistence agriculture using traditional methods. This leads to large income gaps between agricultural workers and industrial workers, rural workers, and urban workers, and within cities those who work in the formal, high productivity sector, and those who live in peri-urban slums and often work in the informal sector. Thus, the imbalances in economic growth can lead to genuine gaps in standards of living, especially when the economy doesn't respond flexibly to these forces of change.

A fourth key point is the driving engine of growth. What changed around 1800 was the advent of the Industrial Revolution, which started in England, spread then to Western Europe and North America in the 19th century, then in the 20th century increasingly to Southern and Eastern Europe, then Latin America, and East Asia, and is gradually spreading into Africa now in the 21st century. But how do economists understand the Industrial Revolution? Clearly, the start of the Revolution involved the use of machinery and power to mass produce goods using the factory system. But the idea that amassing capital alone is the engine of growth is a fallacy. An increase in capital without a corresponding increase in know-how leads to diminishing returns – each additional unit of capital leads to less and less additional output. Eventually, people would need to spend all their time making machines. The cost of producing capital exceeds the additional output that the capital provides, and so this type of growth is not sustainable because it quickly peters out.

Indeed, mass production requires many different smaller revolutions, like revolutions in transportation and shipping like canals, railroads, automobiles, aircraft to bring goods to markets and services, revolutions in telegraphs, telephones, and the internet to communicate, market, and manage supply chains. Revolutions in business and organizational techniques and finance. Revolutions in chemicals, metallurgy, materials science, medicine, and electronics to produce new goods and services. All of this requires innovation.

A core reason that innovation is such a strong engine for economic growth is because the ideas that come from innovation are *non-rival*. Capital and labor are rivals. My use of a laptop prevents you from simultaneously using it, and if I work on typing this paper, I cannot simultaneously be teaching my students. But your use of the knowledge in this chapter does not diminish my own knowledge, nor prevent me from using my knowledge. Indeed, the same knowledge can even spark new ideas in each of us simultaneously.

Moreover, we can also immediately see one of the central reasons that markets are so important for growth. Sometimes innovation happens accidentally, but generally it is intentional and in response not only to a perceived human need but a perceived ability to earn money from it. The existence of markets and profit motives therefore drive both the development of technologies (i.e., innovation) and the spread of innovative technologies. The cell phone is a clear recent example. The profit motive has led to its invention, rapid improvement (from flip phone to smart phone), and its spread across the globe. Samsung learned from Apple, who in turn learns from Samsung and other companies. And the pace of innovation and the spread of new technologies has increased. All of this happened at a rate much faster than for earlier innovations like the steam engine, railroad, and even electricity.

A fifth key point is that population has both positive and negative impacts on growth. Whereas Malthus saw population growth as a detriment, since more people simply leads to less rival resources (land, capital) per person, today's growth economists appreciate that larger populations lead to more innovators, more learning from one another, and faster rates of technological progress. Growth also depends on the degree to which ideas are shared, e.g., the openness of the economy to things like trade and foreign investments, and the level of education and technical training in an economy.

All of these are things that economists emphasize as important for growth.

3. Is growth sustainable?

With a better understanding of what economic growth is and the forces behind growth, we can now address the extent to which it is sustainable.

First, we can see that the idea that the finiteness of the material world necessarily limits growth is based on a misunderstanding of the economy as being made of material things. Certainly, there is a theoretical limit to the amount of material goods like food that we can grow or produce, regardless of innovation, since the matter in the universe is finite. Still, our discussion and understanding of economic growth implies important caveats to this claim. First, much of economic growth, especially as economies become wealthier and move away from agriculture in industry, is immaterial. The value of services produced is only a function of the productivity and labor required for them. Second, growth is the *value* of what is produced, and we might increasingly produce things of greater value. This could be true even for material goods. Truffles require less matter but are valued much more than potatoes. Many goods, like a book or computer, are valued for the immaterial ideas and technologies that are present in them. Few economists would argue that the material finitude of the universe limits growth conceptually, at least not the way we measure things.

Second, one can see that the above argument strongly hinges on the value people are willing to pay for various goods and services. Are truffles of more value than potatoes? They are certainly not more valuable based on nutritional content and are less able to sustain life. But on the margin, truffles are scarcer, and those who buy them are willing to pay more for them than for potatoes which are quite abundant. Yet, there is this general sense that the unbalanced nature of economic growth leaves us increasingly willing to spend on luxuries rather than necessities, which may be of less inherent value. Moreover, there is the issue of the many things for which we are willing to pay copious amounts of money, e.g., everything from abortions to cigarettes to high cholesterol foods, many are clearly harmful to our well-being. Willingness to pay may be the most reasonable rule of thumb by which to value goods and services, and I believe it is, but one can see the pitfalls in this approach.

Third, it is true that our measures of growth are flawed in that we do not properly account for the depletion of natural resources like non-renewables or clean air, even using the primitive prices/willingness to pay approach.

We can also evaluate the role of non-renewables in growth more generally. Sometimes the unsustainability of a reliance on non-renewables can be exaggerated because people ignore the power of innovation. In the middle of the 19th century, the economist Stanley Jevons warned that the coal mines would run out. As coal became scarcer, more coal was discovered, and the rising price of coal was an important incentive in this discovery. Moreover, innovation has led to newer sources of energy as the economy moved to oil and natural gas, and increasingly carbon-free sources like nuclear, hydroelectric, wind and solar. Over 160 years later, we still have coal and still rely on it. Even today in lower income countries, economic growth involves moving away from dirty firewood technology as a source of heat to relative clean energy sources.

I have emphasized the role of profit motives and technology, but I am weary of overemphasizing these. First, there are economic costs to both running out of renewables and to innovation, and these costs also involve substantial risk. To the extent that we rely on nonrenewables, we do so because doing so is deemed cheaper than innovating, so costs will increase as we deplete renewables, and they will do in uncertain fashion. We cannot be sure if and when renewables will run out, nor can we have certainty that our innovation efforts will be successful. Moreover, the carbon emissions from burning fossil fuels are the primary cause of climate change, and the costs of climate change are also still uncertain but estimated to be large and not easily or quickly reversible.

Yet there is a still more important reason that I should not overemphasize the role of profits and innovation. As Pope Francis writes:

> Their behavior shows that for them maximizing profits is enough. Yet by itself the market cannot guarantee integral human development and social inclusion. At the same time, we have "a sort of 'superdevelopment' of a wasteful and consumerist kind which forms an unacceptable contrast with the ongoing situations of dehumanizing deprivation," while we are all too slow in developing economic institutions and social initiatives which can give the poor regular access to basic resources. We fail to see the deepest roots of our present failures, which have to do with the direction, goals, meaning and social implications of technological and economic growth. (LS, 109)[2]

As Pope Francis correctly points out, the choice between the direction that technologies take is a moral choice and not a choice that can be left to market forces or profit motives. This moral imperative is never so clear as when it comes to climate change. As a discipline, economics agrees with the pope that profit motives can distort decisions, and this would be the case even if prices were to correctly reflect values. The reason is that without intervention, pollution itself is not priced or costly to the producer, and it can unfortunately be highly profitable. When only profits are considered, those making decisions can rely too much on non-renewables

[2] Francis, Encyclical Letter *Laudato si'*, 24 May 2015.

and pollute too much. Economists emphasize the inefficiencies, but Pope Francis also correctly points out the injustice of pollution and climate change as another dimension that needs to be addressed. The burden of pollution and climate change disproportionately impacts the poor, who generally live nearest to pollution outlets and whose livelihoods are more impacted by climate change because they live in areas that are already warmer and rely more heavily on agriculture. There are even islands that are projected to fully disappear because of rising sea levels from the polar ice caps melting as temperatures rise. With all this together, a *laissez faire* approach to climate change is indeed a dangerous approach.

The other forces behind economic growth are also at play in considering the impacts of growth on pollution. Although the unbalanced transition from agriculture to industry can be bad for the environment, the disproportionate growth of the service sector is environmentally friendly because services are not only less material intensive but also less energy intensive. Similarly, the increased urbanization that accompanies population growth is also environmentally friendly.

In light of broader pollution beyond carbon emissions, our view of growth's impact on the environment in the richest economies is more positive, even beneficial. For example, although the United States remains a high polluter, emissions of NOX, SO3, carbon monoxide, particulate matter, lead, and other poisons have all fallen over the past 50 years. Again, multiple forces are at play. First, services, clean air, clean water, and health more generally are luxury goods, so that willingness to spend on these things increases disproportionately as people become richer. Second, this increasing desire for a clean environment plays out in the political economy. Recognizing that market forces are insufficient to govern pollution, the United States established the Environmental Protection Agency in 1970 to regulate pollution. Since then, population has increased by over 50%, miles driven by over 200%, and gross domestic output by more than 250%, yet energy consumption has only increased 40% and aggregate emissions (other than CO2) have declined by 50%.[3]

This all happened through a combination of government regulations, innovation, and market forces. As gas prices rose, smaller and more fuel-efficient car technologies were developed and marketed. With government emissions testing, manufacturers introduced catalytic converters. Now we see electrical cars, which are subsidized initially, and they can be completely emission free when the electricity they use is generated using clean technologies. A combination of regulations and innovation have similarly led to the development of ener-

[3] Environmental Protection Agency, *Our Nation's Air: EPA Celebrates 50 Years*, 2020, <https://gispub.epa.gov/air/trendsreport/2020/#growth>.

gy-efficient LED light bulbs, lead-free gasoline and paints, and even cleaner incinerator emissions.

4. Can growth be balanced?

I have already touched on some ways in which the nature of the driving forces of growth are inherently imbalanced. Beyond this, are there other ways in which we might worry that growth can be unbalanced?

For example, if the incomes of the wealthy, i.e., those who own the bulk of the capital stock, were to grow at a rate faster than the incomes of workers, this would lead to increasing inequality and increasing wealth inequality. The well-known economist, Thomas Piketty, has argued that this will happen as long as the return on savings, r, exceeds the growth rate of wages, g.[4] Another example is if the incomes of rich countries were to grow faster than those of the poor this would lead to increasing inequality across nations.

What is the evidence of this? To start, the spread of the Industrial Revolution certainly caused great growth but also great divergence in incomes.[5] Global inequality increased substantially during the 19th century, for example. This was largely the

[4] See T. Piketty, *Capital in the Twenty-First Century*, Harvard University Press, Cambridge MA 2014.

[5] This is studied in depth by F. Bourguignon and C. Morrisson, "Inequality among World Citizens: 1820-1992", *The American Economic Review*, Vol. 92, No. 4. (Sep., 2002): 727-744.

result of the Industrial Revolution not occurring uniformly in all places. Those countries experiencing the Revolution grew rapidly, and those stuck in traditional agrarian or feudal production did not. Even within countries, there was great regional variation, and this caused the greatest increase in global inequality. In addition, there were capitalists that were increasingly wealthy, while the wages of workers rose much more slowly.

In the rich economies of the 20th century, growth was much more balanced along many dimensions with interest rates remaining relatively stable, wages increasing proportionately with the rest of the economy, and roughly two-thirds of income going to workers and one-third going to the owners of land and capital.[6] Moreover, the combination of the world wars and the Great Depression destroyed a great deal of old wealth. The wealth and wage distributions within these economies both narrowed in the first half of the 20th century, and inequality fell. Much has been attributed to policies like public education, minimum wages, unionization, and

[6] These long-appreciated patterns are known as Kaldor's stylized facts after Nicholas Kaldor (1961). "Chapter 10: Capital Accumulation and Economic Growth", in L. Friedrich – H. Douglas (eds.), *Capital Accumulation and Economic Growth*, MacMillan and Co. Ltd., New York NY, 177-222. Standard theories reproduce this and confound Piketty's theoretical claims, since they predict this stability even though the interest rate exceeds the growth in wages because capitalists do not save all of their income. The growth in assets equals the growth in wages leading to stability in these income shares.

progressive taxation, but it is difficult to pinpoint the precise roles these each played.

Over the past 40 years we have seen several new patterns of increasing inequality. First, there is a reversal and an expansion of the distribution of wealth. This expansion is driven not by the old historic wealthy families, but by new wealth and families arising. Although Piketty associates this widening distribution with the fall of capital taxation, the best evidence notices the rising inequality even among capitalists and therefore attributes it to increased variation in the rates of return among capital owners (e.g., Elon Musk's Tesla has had much higher growth returns than the Ford family's Ford Motor Company). Both Tesla and Ford are publicly traded, so open to anyone with wealth to buy, but some wealthy people are willing to bear more risk than others, and these either win or lose. Meanwhile, the retirement funds that most normal people hold are diversified across many, many assets, and so they grow at average rates of return.

Second, we have seen a decline in the incomes of less educated workers relative to more educated workers. This is attributed to both technological change (e.g., robotics) which favors high-skill workers but replaces low-skilled workers, and globalization and the new competition for work that less educated workers in advanced economies face from the poorer countries.

Third, the share of income going to workers has fallen globally, especially in the first decade of the

20th century. There are many potential culprits, including rising profit margins, rising concentration, rising power of firms over workers on various fronts, the falling price of capital equipment like computers, and globalization. The jury is still out as to what has caused this and whether it will continue.

Nevertheless, looking internationally, we have seen a convergence across nations since World War II as poor nations have caught up to wealthy nations. Again, the original divergence in the 19th century was caused by some countries entering the Industrial Revolution, while others did not, but in the 20th and 21st centuries, most countries entered the modern economy. Since growth is driven by technologies and ideas, the poor countries have had an advantage in catching up. It is much easier to adopt new existing technologies than to invent them on your own, and this has allowed many poor countries to grow rapidly. The more engaged economies are in the global economy, the more readily they can learn and adapt to these existing technologies and catch up. Those who have not are the ones stuck in subsistence farming and other traditional production and engaged not only in little global trade but little trade within their economies.

Moreover, it turns out that differential growth rates across countries are the most powerful forces in explaining global inequality. Whereas they previously led to divergence, they now lead to convergence. Hence, it certainly appears that growth can be balanced in this fashion.

However, there is an additional question of whether growth is balanced in the sense of being inclusive and/or pro-poor.

Again, thinking of the growth of countries, the general answer to the question is that the rising sea of growth tends to lift all boats, but there is a great deal of important nuance to this answer. First, the claim is not that growth increases *everyone's* incomes, *all the time*. Instead, what we observe is that over extended periods of time, the incomes of all segments of society tend to rise with growth. In countries that have grown, the poor today (e.g., the poorest 20% of society or even the homeless) are better off materially, healthier, and live longer than the poor were 50 years ago.

Second, there are episodes of growth, even rapid growth, in which poverty stubbornly persists or even increases. Not all growth is created the same. The nature of economic growth can lead to geographic disparities in growth. Agriculture requires land and so it entails more geographically dispersed production and living. The natural tendency of countries to transition out of agriculture as they grow can lead to concentrated regions of production and population, including increased urbanization. Moreover, the roles of ideas, interaction, markets, trade, and specialization make cities centers of innovation and growth, but this can leave rural areas behind. Conversely, natural resource booms can lead to high profits without the creation of very many high paying jobs, so they can concentrate income not only geographically but strongly among the owners of these resources. For example, in Angola, a large oil producer, rising oil prices in the 2000s yielded rapid growth and real income per capita doubled over this decade, but the fraction of people living in poverty was relatively stable over these years. When oil prices fell, the economy lost some of its earlier gains after 2014. By 2018, however, average real incomes were three times as high as they had been in 2000, but poverty was 50% higher than it had been in 2000, with nearly 1 in 3 people living below the ultra-poor line of $2.15/ day. The spatial patterns of growth can matter for whether growth is pro-poor more generally, as aggregate growth can be driven by some booming regions (often capital or coastal regions) while more peripheral regions get left behind. Unequal growth rates within a country can be a particularly big issue when mobility is low within the country, and investments, both public and private, are uneven. Angola's oil industry is heavily concentrated but much of the country remains in subsistence agriculture, and these regions benefit little from the oil industry and capital city. Finally, government policy can impact things as well.

These forces are at play in understanding differential experiences with poverty reduction during growth. Countries like Mali and Ethiopia have seen much more rapid drops in poverty than Angola, in part because the government has invested in poverty and food security programs. Neighboring countries and former Soviet republics, Armenia and Georgia have also grown rapidly in this century. But Armenia implemented a social safety net earlier than Georgia, and its poverty rates fell more rapidly. China's decline in poverty has been widespread across the country, despite much more rapid growth in the east and south of the country, because it has had economic policies targeting regional development and has invested heavily in infrastructure projects like public schools, high speed roads, and electricity grids throughout the country. Finally, corruption can be another source of inequity in growth. Its benefits are concentrated in the hands of few; private interests get in the way of policies that would better serve the common good. Corruption plays a significant role in Russia's poverty, and yet crony capitalism (thus, corruption) has not prevented dramatic poverty reduction in China. In fairness, our knowledge of growth is not so advanced that we can always be sure of which policies to pursue and when, and sometimes government policies, even well-intended policies, can do more harm than good.

5. Is growth good?

I started this chapter by stating that growth is a nearly universal goal among policy makers across the world, but perhaps the most fundamental question the Christian must ask is whether this ought to be the case. Growth can have ambiguous impacts on the environment and may or not be a balancing force in society. Empirically, long run economic growth and urbanization have accompanied a decline in religiosity across many societies. Is economic growth something good to pursue? As both societies and individuals, are we gaining the world, but losing our souls?

Again, the answer is necessarily nuanced. The first thing is the material goods of this world and even the immaterial economic goods (and services!) that we produce are at best only good instrumentally. Money and the things it can buy are good servants but poor masters. The ultimate good is a fullness of life, a life of virtue in communion with God and neighbor and in right relation with all of creation. Work plays a significant role in this good life, as through work, we express our love for others by using our gifts to serve God and neighbor. This may seem far afield from economic life, but as Christians we should strive to be conscious of this wider goal, discerning it in all our day-to-day actions. We must ask, as societies and individuals, the extent to which economic actions serve this goal. In many cases, the answer must be "no." There are goods we dare not consume, purchase, or produce, and technologies we ought not develop or utilize. Sometimes these answers must be not only individual decisions but societal decisions.

And yet in many situations, the benefits of broad economic growth toward this end are clear. We are not disembodied souls. Our bodies need nourishment, and although they can be exaggerated, striving for health is to pursue a natural good. For the poor across many centuries, the challenges of securing necessities like food, clothing, and shelter occupied much of our efforts. When infants do not die from a lack of health care, clean water, or food, this is undeniably good. In many parts of the world, such problems of scarcity are still relevant, and so, while discernment is still needed, growth for the poor and in poorer nations is overwhelmingly good. There can be great benefits of living day-to-day, including a recognition of our utter reliance on God, something reflected in the Lord's Prayer, but at the same time, securing these things can leave our spirits free to focus on the greater, spiritual goods that are more perfectly human.

Yet, the role of growth surely goes beyond necessities as well. Man is not merely a body but a rational, spirit as well, and building up societies through the art, literature, music, scientific knowledge, and invention. The Lord did not want us to be part of a stagnant world but "desired it to be lived in" (Is 45:18). Indeed, the command to till the soil and have dominion over the earth, is a command to use our gifts (and do so while respecting the earth!) Surely, many have gifts in these areas, and they are called to use them judiciously. The question to ask is not whether to do so, but how we should do so. As we expand our labor-saving technologies, physical work is becoming less necessary, but ought it still play a role? This is a relevant consideration in societies where obesity itself is an increasing problem. Combined time spent working whether market labor or in the household has trended down secularly in most countries. The imaginary future in the children's movie Wall-E, where people's sloth has become a prison for them and made them less authentically human is becoming less imaginary.

Now, artificial intelligence opens the new trend of replacing our mental work as well. How will we spend our time? Humor, beauty, and merriment are surely part of God's plan for sanctity, and so leisure no doubt plays a role, but just as "idle hands are the devil's workshop" (Proverbs, 16-27), idle minds face their own temptations. Drugs, the dark side of social media, depression are all common in leisure societies, while family meals and prayer do not seem to be priorities despite more available time. How we spend our time depends on our virtues and values. Rich societies are not stronger in the theological virtues, nor even in the natural virtues.[7] And yet, even the research of secular Nobel laureate economists is reaching a consensus on their importance. Angus Deaton, together with his wife, economist Anne Case, has demonstrated that deaths of despair, those stemming from drug and alcohol abuse and suicides have expanded, especially among the working class, despite economic

[7] Richer societies do tend to have lower crime and stronger rule of law, but such relationships are not automatic nor even necessarily causal. Reverse causality may be just as important.

growth.[8] The late Robert Fogel said that addressing the inequities in our society's distribution of spiritual goods is where the next great revolution for equality must occur.[9] James Heckman's research goes even further, identifying immaterial assets such as character formed in early childhood family relationships as being instrumental for understanding even material inequality and poverty.[10] However, families are not as easily redistributed as money, nor ought they be. These are the conclusions of secular, even agnostic, economists. Surely as Christians, we ought to be able to at least appreciate these insights. Returning to the last line of Pope Francis' quote above: "We fail to see the deepest roots of our present failures, which have to do with the direction, goals, meaning and social implications of technological and economic growth" (LS, 109).

6. Conclusions

There is not only temptation, however, but also opportunity. Whether we choose to do so, there is more time to spend with loved ones, including our parents, grandparents, children, and friends. There

[8] A. Case – A. Deaton, *Deaths of Despair and the Future of Capitalism*, Princeton University Press, Princeton NJ 2021.

[9] R.W. Fogel, *The Fourth Great Awakening & the Future of Egalitarianism*, University of Chicago Press, Chicago IL 2000.

[10] J.H. Heckman (2008), "Schools, Skills, and Synapses", *Economic Inquiry*, 46 (1): 289-324.

are real world problems like poverty and environmental degradation that need more of people's time and effort to address. New needs will also arise; as the population ages the "care economy" will surely grow. And there are new opportunities as well. For example, more time and access to information make lifelong learning a genuine option for people today. When traditional work of the body and mind is less necessary to provide for our bodily needs, how do we best use this newfound time to continue serving God and man? This is not a question that economists, businesspersons, and innovators are used to asking but it is what these market actors should be asking. It is the question we all should ask ourselves for our career choices, social lives, and private lives. We should be asking it increasingly, as these are the real areas for future growth!

GLOBALIZATION AND THE UNIVERSAL CHURCH

Philip Booth

In this chapter, we will examine what has been achieved in the modern era of globalization and why those achievements are important. This chapter will also examine some legitimate questions about globalization. Given that globalization has come under attack in recent years, it is important to address concerns about the phenomenon.

There will be a focus on the implications of globalization for material progress. This is not the only form of progress that is important for what Catholics describe as "integral human development." However, it was material poverty that was a major topic of the first social encyclical on the condition of the world's poorest peoples (*Populorum Progressio*) and which has been addressed in subsequent encyclicals. It is also the existence of material poverty that motivates Catholic aid agencies and dictates the shape of their advocacy work. So, when looking at globalization, it is right to examine the balance sheet and see what progress has been made.

1. Globalization is not always popular

An appreciation of the benefits of free trade, free exchange and globalization does not come naturally. The classical economists, however, showed how economic co-operation and exchange, rather than war and plunder, could promote harmony and prosperity. But various arguments are used in favor of economic isolation or, at least, greater self-sufficiency. For example, people as diverse as Donald Trump, Bernie Sanders, Pope Paul VI, and Pope Francis have said somewhat negative things about globalization. President Trump, for example, asserted: "You go to New England, Ohio, Pennsylvania …manufacturing is down 30, 40, sometimes 50 per cent. NAFTA is the worst trade deal maybe ever signed anywhere." And left-wing Democrat candidate Bernie Sanders has said: "I do not believe in unfettered free trade…We heard people tell us how many jobs would be created…you are now competing against people in Vietnam who make 56 cents an hour minimum wage." Though President Biden has not used the same rhetoric as ex-President Trump in criticizing globalization, his policies have been remarkably similar.

The Catholic Church has used more subtle arguments against an unquestioning advocacy of free trade. Pope Paul VI wrote in the papal encyclical *Populorum Progressio* in 1967: "trade relations can no longer be based solely on the principle of free, unchecked competition, for it very often creates an economic dictatorship."

In some sense, these sentiments are all quite similar – they are based on the assumption that, when trading parties with very different characteristics trade, one party loses and the other gains. Pope Paul VI was saying that the poor nations might lose from trade. Sanders and Trump are saying that the rich nations lose from globalization.

It is natural for the Church to focus on concerns about the poorest of the poor, and Pope Francis has continued with that theme. Pope Francis, in *Evangelii Guadium* exhorted us to say "no" to "an economy that kills." He also said in an interview: "I recognize that globalization has helped many people rise out of poverty, but it has also damned many others to starve to death. It is true that global wealth is growing in absolute terms, but inequalities have also grown, and new poverty arisen."

But not all Church commentary on globalization has been negative. John Paul II wrote in his encyclical *Centesimus Annus*: "Even in recent years it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that countries which did this have suffered stagnation and recession, while the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level."

This chapter will take a positive view of globalization. The concerns that Pope Francis raises will not be ignored: they will be addressed directly in the later part of the chapter. However, it will be suggested that, when it comes to meaningful measures of both poverty and inequality, globalization has led to great improvements – improvements beyond those that could have been predicted even by the most optimistic supporters of free trade at the time of the publication of *Populorum Progressio.*

2. The nature of trade and globalization

It is concerns about the impact of globalization on poor people in richer countries that have motivated the complaints about the phenomenon by Trump and Sanders. It is certainly true that the advantages of the most recent phase of globalization have not been as evident for richer countries – they are, after all, starting from a much higher base. Nevertheless, there have certainly been benefits. It is, on the other hand, concern about the plight of poor people in poor countries that has motivated the concerns of the Catholic Church. Here, however, the results of globalization have been more obviously positive. Before we examine this in more detail, it is helpful to have a working description of globalization.

Globalization manifests itself most obviously in the free movement of goods and services. It also manifests itself in the form of migration, though we will not consider this in detail. The UK, for example, imports and exports about $1trillion of goods and services a year – equivalent to about one-third of national income. The country exports higher education (foreign students come to the UK and pay for a university education), financial services, and so on. And it imports large volumes of manufactured goods.

Trade patterns tend to follow what is known as the principle of "comparative advantage." If a country could produce cars and shirts more efficiently than another country, it would not make sense to produce both, any more than it would make sense for a banker who was also a good house painter to paint people's houses and take time away from his highly paid alternative job. If one country is hugely more efficient in producing cars than another country, but only slightly more efficient in producing shirts, the first country should produce cars and trade them for shirts produced in the second country.

This principle of comparative advantage means that trade and globalization do not, in any meaningful sense, involve a competitive race to produce everything more efficiently. It involves co-operation whereby countries (and people and businesses within countries) produce what they are relatively best at and exchange with others who are relatively best at producing something else. In this sense, Bernie Sanders' analysis is incorrect. The US does not compete with Vietnam to produce shirts cheaply: it produces other things of much higher value, sells them abroad and then buys shirts from Vietnam.

It is worth noting that the modern phase of globalization has involved specialization within the process of production through the development of complex supply chains. This means businesses in different countries co-operate in producing specific products. If, for example, a consumer buys a shirt and it says “made in China” on the label, it is not as simple as that. The sewing machinery might have been made in South Korea or Japan, the dye might have been made in Germany, the cotton might come from Egypt, the shipping might be by a Greek firm, the finance for the shipping might be provided by a UK bank, the retailer and importer might be a US firm. The making of a simple shirt requires a collaborative effort across the world.

This development of supply chains has become ubiquitous in car production. Toyota has 50 overseas manufacturing operations in 28 countries outside Japan, and this excludes suppliers of parts not owned by Toyota. It then sells cars in 150 countries.

It is worth noting that people can be wary of the involvement of multinational corporations in global supply chains because of alleged bad workforce management and poor environmental practices. Of course, it is important that such practices should be admonished and the role of civil society groups in drawing attention to them is mentioned below. However, the evidence suggests that multinational corporations pay their workforces more than indigenous employers. In addition, because they are often operating in countries with poor governance whilst based in countries which have better standards of governance, multinational corporations can often provide more secure forms of employment and contract enforcement than domestic businesses. Multinational corporations also play a significant role in technology transfer and, in doing so, help promote "catch-up" growth in poor countries.

Globalization also manifests itself in phenomena such as the free movement of capital and, as noted above, the free movement of people. In the US, 13.5 per cent of the population is foreign born; in London, 40 per cent of the population is foreign born. This brings huge benefits for those migrating. In addition, as poorer countries often have a high ratio of labor to capital, access to investment funds via global capital markets can be important for development. Of course, there are challenges from both the free movement of people and capital. Governments and businesses in poorer countries may well borrow money and invest it in projects imprudently, and lenders may not treat those to whom they have lent money with appropriate respect. However, the process of development in poorer countries would be much slower if they did not have access to the capital necessary for investment.

3. Globalization is not a modern phenomenon

The modern era of globalization, which has developed over the last 40 years or so, is not the first era of globalization. Indeed, global trade and the movement of people could be regarded as natural extensions of everyday economic and business life in the absence of constraints imposed by governments and in the absence of war. There should be, it can be argued, a natural empathy with the phenomenon of globalization amongst Catholics and Christians more widely. The Catholic Church, after all, is structured as, and believes herself to be, the universal Church. Her mission is to make disciples of all nations. She has no boundaries. The Church also believes in forms of international governance and nested forms of governance with different layers having different responsibilities. If it is natural for Catholics to think about spreading the faith across borders using institutions that are not strongly rooted in a particular nation state, then it is hard to see the rationale for strictly regulating economic activity so that it only takes place within national boundaries.

Global trade marked the periods of the Roman Empire and the growth of Islam. Later, the Hanseatic League developed trading relationships covering an area extending from Novgorod in what is now Russia to Boston (Lincolnshire) in Britain. It was a highly ambitious and effective project aimed at reducing barriers to trade over land and by sea. This era of globalization was severely undermined by the reformation.

The last great era of globalization, before the current one, was ended by the First World War. Before the 1914-1918 conflict, it was possible to travel through nearly every country in the world without a passport as well as trade goods on non-discriminatory terms throughout the world. Capital could also flow freely.

These economic relationships transcended existing states. To a greater or lesser extent, these eras of globalization tended to be brought to a halt by war, disease, or religious turmoil. If we look at the "endgame" of the various periods of globalization, they do not provide a very good advertisement for economic nationalism and, perhaps, the current process of deglobalization is beginning to illustrate this point.

4. Economic progress in the modern era of globalization

The chapter began with some assertions about the economic implications of trade and globalization. In a later section, we will suggest that the data imply a strong relationship between globalization and improvements in welfare. In this section, we will show that, at the very least, there has been an unprecedented improvement in welfare during the modern era of globalization without demonstrating a causal relationship. Certainly, there is no evidence to suggest that globalization has been damaging for economic welfare.

In 1820, 80 per cent of the world's population lived on less than $1.90 a day (adjusted for inflation and differences in purchasing power).[1] This is a widely used figure for the "absolute poverty line" which, on average, is just sufficient income to buy

[1] Most of the data in this chapter is taken from the "Our World in Data" website: <https://ourworldindata.org/>.

the basics on which to live. The proportion in absolute poverty fell very slowly in the next 160 years and was still over 45 per cent in 1980. There then started a substantial and rapid fall, coincidental with the development of the modern era of globalization. By 2000, the proportion of the world's population below the absolute poverty line was 26 per cent and, by 2018, just over 8 per cent. Of course, it is a much smaller proportion of the much larger world population who live without the basics. We are living in a world that feeds billions more people today than in 1980. There has never been such progress in human history.

Other measures suggest staggering improvements in basic measures of human welfare over the last 40 years. These include literacy, maternal mortality, the degree of hunger experienced by those who have insufficient nutrition and even, surprisingly, death rates from environmental harms. Some representative figures are shown in Table 1.

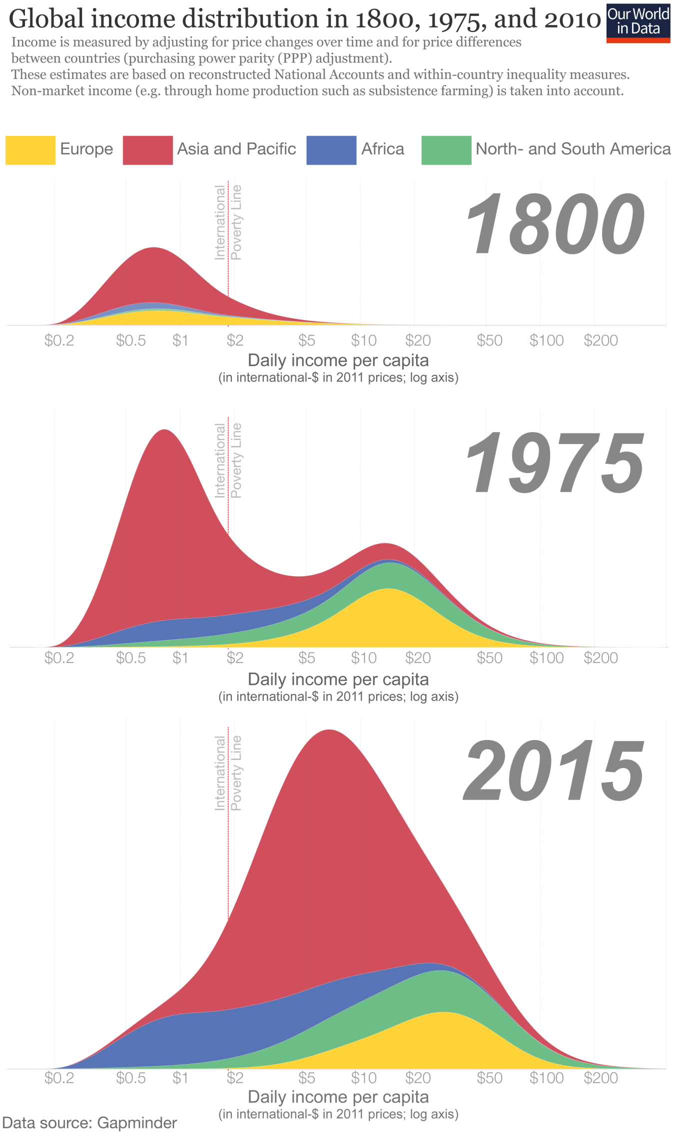
These data suggest enormous improvements in basic measures of human welfare and such sustained improvements are unprecedented. These data are not "cherry picked": they are genuinely representative. The death rates from environmental harms might be surprising. However, most indicators of damage to people from the environment are improving. As people become richer, they can afford technologies that cause far less health danger, use more effective building techniques, and so on.

Table 1:
Improvements in welfare from 1990 to the current time

	1990 or earliest date with consistent data	**2000**	**Latest date with consistent data**
Literacy rate	68% (1980)	81%	87% (2019)
Maternal mortality rate per 100,000 live births	385	341	216 (2015)
Food deficit kilocalories per person	172	135	88 (2016)
Death rates from air pollution per 100,000, age standardised	156	132	86 (2019)

The most notable change in the last 40 years is the dramatic fall in inequality. The world is much more equal than it was in 1980. Indeed, it could reasonably be suggested that the fall in inequality that has happened could not have been envisaged at the time of the publication of *Populorum Progessio,* the Church's first encyclical on the development of poor countries, in 1967. It would also be reasonable to say that the fall in inequality in the last 40 years or so is the first meaningful fall in inequality that has happened in history.

Figure 1: Global income distribution
Source: Our World in Data



The world is becoming more equal because poorer countries have begun to catch up with richer ones. Rich countries are not getting richer very fast, but poor countries are.

Figure 1 shows the distribution of world incomes in 1800, 1970 and 2015. The top graph shows the world's income distribution in 1800. The absolute poverty line ($1.90) is indicated by the red line. Nearly everybody in the world was desperately poor and earned around $1.90 a day or less. Around half the world's population was on the edge of starvation, one bad harvest away from severe risk of death.

The late Professor Angus Maddison of Groningen University has estimated that, at around the time of Christ's birth, average per capita income in the world was about $500 per year. Nothing much changed before the twentieth century. All-in-all, the world was both fairly equal and very poor.

The second graph shows the world's income distribution in 1975. This was only a few years after the publication of *Populorum Progressio.* At that time, we used to talk about the "Third World" and the "First World" which can be seen by the two peaks on the graph (with the "Second World" being the communist bloc). From the figure, we can see why. The 1975 graph looks like the income distribution of two different planets merged.

If we fast forward to 2015, we can see that the world is much more equal. The world's income distribution has the same shape as that in 1800. However, most of the world's population has pulled itself over the poverty line by 2015. Most people have enough to live on and a bit left over to buy consumer durables and to save or invest. The rich world has not, in fact, got much richer: the rich world is almost stagnating. But the poor have caught up.

Indeed, the fall in global inequality in the last 40 years has been stunning. Global inequality is now at its lowest level in 150 years. However, it should be borne in mind that, 150 years ago, inequality was only low in the trivial sense of all people being equally poor.

5. Globalization and poverty reduction – is it a coincidence?

It is exceedingly difficult to say definitively that this rise in global welfare, especially benefiting previously poor countries, has been caused by globalization, though it has been coincident with the development of the phenomenon. However, it is certainly the case that poverty has reduced more dramatically in those countries that have been least protectionist and in those that have embraced globalization to the greatest extent. We can see this relationship both within continents if, for example, we compare Brazil with Chile, Vietnam with Bangladesh, or Ethiopia with Botswana. We can also observe this relationship between continents. Various indices rank countries by how protectionist they are, looking at export constraints, tariffs, quotas and other trade regulations.[2] On average, sub-Saharan African countries are far more protectionist than Asia-Pacific countries. The fall in the number of people in absolute poverty in Asia-Pacific has been hugely greater than that in sub-Saharan Africa where nearly 40 per cent of people remain in absolute poverty. The average African country is as protectionist as the countries around the 80th percentile in the league table of countries ranked by their level of protectionism. In other words, if the countries of the world were divided into five divisions, according to their degree of openness, the average African country would be around the bottom of the fourth or top of the fifth division (and the African countries would populate those fourth and fifth divisions). On the other hand, the average Asia-Pacific country is as protectionist as those countries that are around the 55th percentile of countries ranked by their level of protectionism. In other words, the average Asian-Pacific country would be in the third division – around average in the world.

However, it cannot be said that, if a country simply removes all its barriers to trade and does nothing else, it will eliminate poverty. A country with poor governance, little protection of private property, dysfunctional court systems, elevated levels of violence and endemic corruption, for example, would struggle to develop, whatever its trade pol-

[2] In this and subsequent paragraphs, the Heritage Foundation Index of Economic Freedom has been used: <https://www.heritage.org/index/explore>.

icy. Albania is one of the most open economies in Europe as measured by trade freedom, but other aspects of good governance are not as well developed and there are high levels of poverty. It can be said, however, that, all other things equal, participation in global trade promotes economic growth, even if there would be higher levels of welfare still if complementary policies were followed.

There is also robust evidence that an elevated level of government regulation promotes corruption, as government officials can demand bribes to allow parties to avoid regulation. So, a reduction in trade regulation can, in fact, help create an environment in which complementary policies can be followed.[3]

It is reasonable to conclude that participation in the process of globalization has been a significant contributor to falling poverty, improved measures of welfare more generally and the huge fall in global inequality in the last 40 years. It should be noted that trade is especially important for small countries. Trade allows a country to take advantage of specialization. This is much more important for a small country than for a larger country. Although increased integration with the world economy would be important to, for example, India, it is possible to imagine that country producing agricultural and manufacturing goods and services and

[3] See, for example: <https://documents1.worldbank.org/curated/en/296861582037503905/pdf/Does-Greater-Regulatory-Burden-Lead-to-More-Corruption-Evidence-Using-Firm-Level-Survey-Data-for-Developing-Countries.pdf>.

benefiting from trade within the country – if internal economic and political policies were more conducive to internal trade. Removing external trade barriers would help improve economic welfare further, and it may help encourage complementary reforms. However, for a smaller country, such as Sri Lanka, participating in the process of globalization is even more vital.

To conclude, Pope John Paul II was correct when he noted, in *Centesimus Annus*: "the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level." But he was also correct when noting: "Economic activity, especially the activity of a market economy, cannot be conducted in an institutional, juridical, or political vacuum. On the contrary, it presupposes sure guarantees of individual freedom and private property, as well as a stable currency and efficient public services. Hence the principal task of the State is to guarantee this security, so that those who work and produce can enjoy the fruits of their labors and thus feel encouraged to work efficiently and honestly." Permitting free trade and international economic relationships is one aspect of the development of a free and well-governed economy.

6. Should new dimensions of inequality concern us?

In *Caritas in veritate,* Pope Benedict stated: "The processes of globalization, suitably understood and directed, open up the unprecedented possibility of large-scale redistribution of wealth on a worldwide scale; if badly directed, however, they can lead to an increase in poverty and inequality, and could even trigger a global crisis." And, in his apostolic exhortation, *Evangelii Gaudium,* Pope Francis described inequality as "increasingly evident" (52).

Catholic Church documents are not wrong when they point to increases in inequality across some dimensions. However, it can certainly be argued that the analysis above relates to the most important dimensions of poverty and inequality. The Church thinks in global terms. Recent Catholic social teaching documents, since the publication of *Populorum Progressio* in 1967 have all addressed the plight of the poorest people in the world. The fact that global inequality has fallen so much because so many desperately poor people are better off is a cause for celebration. However, it is worth noting some other aspects of inequality which certainly should not be ignored.

Firstly, inequality is much more visible today, not least because of globalization and improved technology. This is true at a local and global level. We have the technology to transmit pictures instantly across the world which demonstrate the poverty in which so many people still live. This was impossible, even in 1980. We can also see human rights abuses and inhumane working conditions more easily. At the same time, globalization makes it easier to act against injustice – including action at the level of civil society. As Pope Francis noted in his 2023 Apostolic Exhortation, *Laudate Deum,* “In the medium-term, globalization favors spontaneous cultural interchanges, greater mutual knowledge, and processes of integration of peoples, which end up provoking a multilateralism “from below” and not simply one determined by the elites of power. The demands that rise up from below throughout the world, where activists from very different countries help and support one another, can end up pressuring the sources of power.” (38) We have certainly seen action to tackle the visible causes of injustice over the last 40 years. This has included campaigns designed to improve the condition of workers in supply chains.

In addition, it is also true that inequality within many countries has increased, even if global inequality has decreased. It is possible for inequality within every country in the world to increase (though this has not happened) whilst global inequality decreases as long as the poorer countries are growing much faster than rich countries. And, when countries liberalize their markets, inequality often does increase within countries. It is inevitable, if we start with an equality of misery, that some people will get rich quicker than others when a country begins to prosper. But this tendency does not continue forever without limit. Vietnam, the Philippines, and China, for example, are three countries that have reduced absolute poverty dramatically in recent years. In all three countries, inequality shows no clear trend, and, in the Philippines, it has declined.

It is true that, on average, richer countries have become more unequal in the last 40 years, though, again, the picture is mixed. In the US and, unsurprisingly, in former communist countries, inequality has increased. But, in the UK, inequality is at its lowest level since the mid-1980s.

One group has made substantial gains in the last 40 years – the top one per cent and this deserves more discussion.

As a result of globalization, some people, from sportsmen and women to musicians, to entrepreneurs, have unprecedented opportunities to benefit from marketing their skills to a global market. This, together with developments in technology, allows them to leverage their skills internationally and become rich. If we think of sports stars as a particular example, top footballers in the 1960s would have been able to market their skills to a live audience and, possibly, a national television audience. Today, sports stars can market their skills to global television and social media audiences whose experience is much improved by technology. Ultimately, much of the value of the television rights arising from the subscriptions of the viewers and from advertising revenues can be "captured" by the sports stars themselves. Entrepreneurs can market valuable products to a worldwide customer base. Even if companies such as Microsoft capture a tiny proportion of the value of each sale as profit, given the enormous potential customer base the owners and developers of the products can become very wealthy. Currently, about 1.4 billion people or businesses use a Microsoft product or service.

Not everybody can obtain such substantial gains from globalization. But those who can market products to every corner of the world can become rich. It should be noted that the idea that some people become extraordinarily rich through globalization whilst the poor become somewhat richer is not 'trickle down economics' – a phrase used in some Vatican documents. It is not that the people of India become a little bit richer because of the huge wealth of Bill Gates. It is the other way round. Bill Gates has successfully marketed products that benefit vast numbers of people, including previously poor people in India, and, as a result of taking a tiny fraction of the value he created, he has become spectacularly rich.

It is important to consider whether this should concern us as Christians. If people are becoming richer because they are involved in corrupt activities – whether in business or government – this should be a major concern. However, those who become rich from marketing goods and services that others wish to buy are not doing anything that is intrinsically reprehensible though they do have a serious moral responsibility.

Riches must be used appropriately. As Ambrose of Milan said: "For a possession ought to belong to the possessor, not the possessor to the possession.

Whosoever therefore does not use his patrimony as a possession, who does not know how to give and distribute to the poor, he is a servant of his wealth, not its master." In other words, the rich have a serious responsibility towards the poor. We should not assume this responsibility should only be exercised via taxation and redistribution through the state's mechanism. Still less should we suggest that globalization is intrinsically problematic and should be inhibited because some people become very rich. As was written in *Rerum Novarum* (22)*:*

> "Therefore, those whom fortune favors are warned that riches do not bring freedom from sorrow and are of no avail for eternal happiness...a most strict account must be given to the Supreme Judge for all we possess. The chief and most excellent rule for the right use of money is one the heathen philosophers hinted at, but which the Church has traced out clearly, and has not only made known to men's minds, but has impressed upon their lives. It rests on the principle that it is one thing to have a right to the possession of money and another to have a right to use money as one wills...But if the question be asked: How must one's possessions be used? – the Church replies without hesitation in the words of the same holy Doctor: "Man should not consider his material possessions as his own, but as common to all, so as to share them without hesitation when others are in need...But, when what necessity demands has been supplied, and one's standing fairly taken thought for, it becomes a duty to give to the indigent out of what remains over. "Of that which remaineth, give alms." It is a duty, not of justice (save

> in extreme cases), but of Christian charity – a duty not enforced by human law. But the laws and judgments of men must yield place to the laws and judgments of Christ the true God, who in many ways urges on His followers the practice of almsgiving – 'It is more blessed to give than to receive"; and who will count a kindness done or refused to the poor as done or refused to Himself…"

Many rich people give large sums to help the needy – both when measured in absolute terms and relative to their income. This is to be applauded. However, in the modern age, when we often assume in the West that redistribution of income is the responsibility of the state, it is important that Christians everywhere are reminded of their grave responsibilities to the poor. This includes those who become rich through globalization.

7. The homogenization of culture?

Pope Francis's Apostolic Exhortation, *Evangelii Gaudium* noted: "In many countries globalization has meant a hastened deterioration of their own cultural roots and the invasion of ways of thinking and acting proper to other cultures which are economically advanced but ethically debilitated." (62) It then mentioned that African Bishops had pointed out that their countries were at risk of becoming cogs in a giant wheel. This concern was also raised in Pope Francis's encyclical, *Fratelli tutti.* He said that one model of globalization "consciously aims at a one-dimensional uniformity and seeks to eliminate all differences and traditions in a superficial quest for unity…." In his more recent apostolic exhortation, as has been noted above, Pope Francis mentioned the globalization of culture from a more positive perspective.

The concern that globalization can erode and homogenize culture is an important challenge. In the process of globalization, the undermining of those traditions that are important for promoting a good life can come from the world of politics (for example, through international organizations, such as the United Nations imposing secular values), from commerce or from the cultural sphere itself (for example, the arts, including music).

The Catholic Church has long supported international institutions as a form of governance, accepting that the role of the political system in promoting the common good has a global dimension. In *Fratelli tutti,* Pope Francis re-affirmed that support whilst warning about the agendas of international bodies being co-opted by major powers and being used to impose particular cultures. Both the United Nations Human Rights Committee and the World Health Organization, for example, promote a "human right" to abortion despite this not being part of the UN Declaration of Human Rights.[4] A recent United Nations report on the application of the Convention of the Rights of the Child in the UK condemned the independence of faith schools

[4] See: <https://www.who.int/health-topics/abortion#tab=tab_1>.

in that country as well condemning non-secular approaches to sex education. It suggested that children of any age should be able to withdraw from religious education in school without parental consent. This is despite the fact that the UN Universal Declaration of Human Rights promotes parental autonomy in education and the UN Convention on the Rights of the Child provides for parental authority over children in this matter.

These problems of Western secular ways coming to dominate traditional cultures through the exercise of political and economic power are genuine. However, globalization can enrich cultures too. And not all traditions are noble. It may seem a trivial example, but those readers familiar with England, will be grateful for the enriching of the dreary and unhealthy British food culture by globalization. Even a dish as supposedly British as fish and chips was introduced in the 1860s by immigrants because of the combining of Jewish, Iberian, Polish and Belgian influences.

As human persons, guided by reason to promote what is genuinely good, we can combine influences from diverse cultures to enrich our societies. Of course, the Catholic Church herself, from her foundation, has as its *raison d'etre* the changing of and enriching of culture by taking the Gospel to the ends of the earth.

Keeping the above points in mind, the response to the challenge of cultural homogenization along secular lines can come from several directions.

Firstly, the Church herself must proclaim her moral teaching in all the countries of the world and resist relativism and materialism. She must also promote institutions in economic life, education and healthcare provision which strengthen her mission and enrich culture. Secondly, all citizens are responsible for promoting government and civil society institutions conducive to the living of a good life. The pursuit of ideologies by the bureaucracies of international bodies is symptomatic of a "principal-agent" problem. The structure of these international bodies makes it difficult to hold them to account. It is vital that political authorities play their full part in ensuring that supranational bodies do not become captured by bureaucracies that have strongly secular ways of thinking. Perhaps most pertinently, it is worth noting that not participating in the process of globalization or promoting protectionism is likely to be an ineffective way of preserving Christian cultures and may well lead to other dangers and promote a form of insularity and corruption within national economic life.

8. Did the pandemic change the arguments surrounding globalization?

Many commentators questioned globalization following the pandemic. It was argued that the pandemic demonstrated that countries needed to ensure that they could produce the necessary responses, such as protective equipment and vaccines, so that the needs of their populations could be put first.

This argument is weak. Firstly, when the supply of certain items is under pressure, what is needed is a diversity of supply chains so that, if the pandemic affects one area of the world much more than another, supply can be switched, or one item replaced by a similar item. This is even true of specialized equipment, such as so-called “PPE” and technical equipment. By way of example, in the US, during the pandemic, the rate of mask use increased 200-fold and the need for respirators increased 17-fold. This level of provision could not have been satisfied domestically whatever domestic production capacity might have been before the pandemic. Much of US industry was also shut down. Because of globalization, countries such as the US were able to import these products from Asia where the virus was less prevalent or developed at a different rate.

During the pandemic, globalization also allowed producers to combine the specialisms of different countries in the production of goods and services. The development of the Biontech vaccine is a good example of this. In many senses, this was a triumph for globalization produced by a German company, founded by Turks with an office in Cambridge UK, funded by US and Japanese capital. The vaccine was produced in Germany (and many other countries) using Canadian technology.

During the covid crisis, Pope Francis, and many others, criticized the protection of intellectual property that often-prevented poorer countries obtaining access to vaccines. This concern applies to other areas too. How intellectual property should be protected to promote the common good is widely disputed by ethicists and economists. Such issues should certainly be reconsidered and addressed, but criticism of the protection of intellectual property should not be regarded as criticisms of globalization as such.

9. Poorer people in richer countries

There are some genuine concerns about the impact of globalization on poorer people in richer countries. Firstly, there is the question of whether migration reduces the wages of native workers. Secondly, there are concerns about businesses in developed countries that must compete against cheaper producers in poorer countries.

Migration tends to benefit those on the move hugely. Some people in the receiving country gain because migrants often undertake complementary jobs which companies and government service providers can find difficult to fill with native workers. On balance, the evidence suggests that migration might suppress wages in some local labor markets slightly. However, any costs to locals are outweighed by the benefits to the migrants themselves – and, it can be argued, the long-term benefits arising from the enriching of local business culture with new ideas and forms of entrepreneurship[5].

What about workers in industries that have been undercut by imports? In the long term, economists tend to argue that, if a foreign country (such as India or China) starts to produce goods (such as cars or steel) and undercuts businesses in countries that were previously dominant in the domestic country, the domestic country benefits, on balance, from cheaper cars or steel. It should then allow economic resources to move towards the production of goods and services that are relatively more valuable in world markets.

Whilst this may happen in the long term, domestic workers may suffer unemployment as the economy transitions. If such unemployment becomes embedded, skills can deteriorate, and local recessions can then be enduring. Economists, such as David Autor, have observed this phenomenon in the so-called rust belts of the US. However, few economists would propose that "deglobalization" can solve these problems. Even if the US, for example, protected its own domestic markets, this would not help it recover international markets dominated by new producers. In addition, protectionism would raise costs for US consumers, as well as damaging poorer

[5] To return to the example used earlier, migrants opened the first fish and chip shop in 1860. By 1927, there were 35,000 fish and chip shops, providing services, employment and profits for their entrepreneurial owners, most of which will have been native British people.

countries that were trying to develop economically. A more sensitive approach would be regulatory, welfare, training and education policies that encourage mobility, employment, and entrepreneurship.

10. Conclusions

The chapter has painted a picture of a world that has benefited from globalization. Globalization now appears to be in retreat. At the very least, it has stalled. Many measures of globalization started to flatline after the financial crisis of 2008-09. The election of President Trump in the US and the continuation of his policies by President Biden, together with the reaction of other countries and trade blocs, led to a significant increase in protectionist measures globally. The covid-10 pandemic and the invasion of Ukraine have also exacerbated the situation.

Whatever the challenges of globalization, it is difficult to see how problems can be resolved by protectionism and disengaging from programs of international co-operation. Surely, that can only raise tensions and undermine the progress that has been made when it comes to a wide range of measures of economic welfare.

As globalization stalls, the number of people living in extreme poverty appears to be rising again. This cannot necessarily be blamed on deglobalization. As has been noted above, human flourishing requires complementary policies of peace and good governance and there are ominous signs in this respect too. Deaths arising from armed conflict are at a 28-year high; the number of democracies is in decline; and measures of economic freedom in the world are also falling. Globalization involves peaceful economic exchange and co-operation amongst peoples across borders. It can be a force for good in many respects.

It is a matter of concern that economic co-operation, democracy, and freedom now seem to be in retreat. Perhaps those who criticize globalization should ask themselves whether there are realistic alternatives, though we should, of course, always attempt to ensure that globalization promotes human dignity and the common good. The balance sheet, however, is positive. There is little doubt that free trade has improved the living standards of hundreds of millions of extremely poor people. Indeed, it could be argued that, when it comes to economic policy, globalization is the 'preferential option for the poor' – even if it has also made some people extraordinarily rich. We should work through economic and cultural spheres to ensure that globalization does not lead to exploitation – just as we should within our domestic economies. And we should ensure that international institutions genuinely promote the common good and not the interests of an elite. Genuine concerns about globalization should be taken seriously, but it is difficult to see that any of the problematic side effects of globalization can be resolved through protectionism. Indeed, if anything, we should redouble our efforts to promote global economic co-operation if we are to start to make inroads into poverty again.

ECONOMIC SYSTEMS IN HISTORICAL PERSPECTIVE. PLURALISM AND UNITY IN THE MAKING OF THE GLOBAL ECONOMY

Giovanni Farese

An economic system, or economic order, is a system of allocation of resources, production, and distribution of goods and services within a society. It is never independent from the constitutional and political system of a given society, and is therefore not self-sufficient, nor is it independent of its history. On the contrary, it is path-dependent, with present restraints and future possibilities to some extent shaped by its past history. The future of economic systems as that of history, however, remains open.

In this chapter, we aim at providing a short sketch of the evolution of economic systems from the first industrial revolution up to today. There is not, nor has there ever been in history, one single economic system. Book IV of Adam Smith's *The Wealth of Nations*, published in 1776, which traditionally marks the beginning of modern political economy, is titled "Of systems of political economy", and one reads: "The different progress of opulence in different ages and nations has given occasion to two different systems of political oeconomy

[sic], with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture". One century later, Friedrich Engels and Karl Marx famously described the transition throughout history of four economic systems or what they called "modes of production," from slavery to feudalism, from capitalism to socialism, each one being composed of forces of production (the "structure," in their words) and relations of production (the superstructure). Economic systems are plural, in time and space. In 1944, in his *The Great Transformation*, Karl Polanyi identified three different modes of allocation or principles of exchange throughout history: reciprocity, redistribution, and market exchange. They actually co-exist in modern economies and societies, as Pope Benedict XVI emphasized in his encyclical letter *Caritas in veritate* (2009) in which he mentioned the role of gift and the coexistence of the private, the public and the non-profit sector.

To begin, it is important to remember that economic systems can be, and are, different in many respects. A number of factors shape them. The following list is orientative. *One*, the endowment of resources (China is the largest producer of rice; India of sugar; Brazil of coffee; Ivory Coast of cacao; Chile of copper; Indonesia of nickel; Mexico of silver; Thailand of rubber; the US of natural gas). *Two*, education (literacy rate is 40% in Burkina Faso, 59% in Pakistan, 73% in Morocco, 80% in Cambodia, to name a few). *Three*, the dependence on trade (trade is 96% of Vietnam's GDP, 56% of the Netherlands', 12% of Argentina's, 5% of Cuba's). *Four*, demography and demographic trends (India and China both have over a billion people, while the Vatican City State only has about one thousand people; and yet, the fastest growing countries in terms of natality rates are Niger, Somalia, Chad, and Mali). *Five*, geo-politics, sometimes defying geography itself (China often partners with the "Global South," while Japan is part of the "West"). *Six*, financial institutions and markets (listed companies at the NYSE are over two thousand; but only two hundred at the Moscow Exchange). *Seven*, the general level of development (Norway, Ireland and Switzerland have the highest human development index). *Eight*, the peculiar mix of the "visible" and of the "invisible hand," that is the role of the market and of the State, or, in other words, government intervention in the economy. *Nine*, the constitutional and political setting. *Ten*, the role of religion. *Eleven*, technological progress. *Twelve*, the relative weight of agriculture, industry, and services (54,3% of Sierra Leone's GDP relies on agriculture, 25% of Afghanistan's, 1% of Israel's, and 0% of Singapore's). *Thirteen*, the size of the country (though smaller countries like Luxembourg, Qatar, Singapore play important economic roles for various reasons). *Fourteen*, the size of the market, which is also dependent on the internal demand. These and other factors interact in peculiar ways.

In other words, economic systems are plural. But at the same time, one should not forget that the world is now interconnected, it is "one". Therefore, there is pluralism but also unity. Thus, in looking at the evolution of economic systems, we will take into consideration the movement towards deeper and larger forms of international and supranational economic integration that in the past two centuries has constantly re-shaped economic systems at the national level. Economic systems are now shaped by globalization as much as they are by domestic factors. As early as 1963, pope John XXIII wrote in his encyclical letter *Pacem in Terris* that no polity could at that point in history pursue its goals alone, since different degrees of prosperity were a part and a reflection of the degree of prosperity of all polities.

1. From the American Revolution to WWI

The year 1776 not only conventionally marks the beginning of modern economic thought with the publication of *The Wealth of Nations* by Adam Smith. It is also the year of the American Declaration of Independence which signals a turning point in modern political, but also economic, history. By recognizing the principle of equality of all people (which unfortunately only later came to include enslaved people) and of "life, liberty and the pursuit of happiness" as inalienable rights of human beings, North America formally adopted what Daron

Acemoglu and James A. Robinson would call "inclusive institutions", i.e. institutions that allow and encourage participation by the people in economic activities on the basis of their preferences and talents – as opposed to so-called "extractive institutions", where a small elite has all the power and the benefits by exploiting the rest of the population, a system that had long prevailed in the feudal age and continued to prevail in much of the American continent (South of the US), even after the revolutions of the early 1800.[1] With the French Revolution of 1789 (*liberté, égalité, fraternité*), the general economic environment of many European countries and of the US converged on the ideas of freedom and of equality before the law, while they continued to diverge from the rest of the world, including the colonial world ruled by the Europeans, where robbery and slavery continued to be components of the global workings of capitalism well into 1800.

The American and the European economic systems were nonetheless different in many respects. One crucial difference, already highlighted by Alexis de Tocqueville in his *Democracy in America* published in 1835, was that in the US demand for labor was abundant while supply of labor was scarce, which made a stronger case for "inclusive institutions" and for higher wages in order to at-

[1] See D. Acemoglu – J.A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Currency, New York NY 2013.

tract immigrant's labor (which in turn became an incentive to substitute labor with machines, that is, faster technological innovation); in Europe, on the contrary, land was scarce while labor was abundant, which made the case for lower wages as compared to the US and less incentives to substitute labor with machines, that is, slower technological progress. Apart from differences, both the American and European economic system were based on the accumulation of capital (capitalism), increasing economic and political freedom, especially after 1848, the circulation of goods and people, the division of labor, the introduction of innovations (the industrial revolutions) as the engines of growth. The economic and technological supremacy of Europe and of the US over the rest of the world slowly but steadily turned the capitalistic system into the economic norm at the global level throughout the long nineteenth century up to WWI. There were, of course differences, and lags between industrializing countries, with so-called "first comers" like the United Kingdom, and "second comers" like Italy, Japan or Russia. In this latter case, for instance, serfdom was only abolished in 1861.

An interesting case among "second comers", in a world otherwise ruled by the West, was Japan. After two centuries of seclusion from the rest of the world, and after the shock of the "unequal treaties" imposed by Western powers in 1850s-1860s– i.e. treaties also imposed on China after the first opium war of 1842 that contained one-sided terms like giving up tariff autonomy, granting extraterritorial privileges to foreign citizens, opening ports to trade – with the Meiji Revolution of 1868 Japan started a process of broad and long-term economic transformation inspired by the principle of "wakoku yosai", or "Japanese spirit and Western technology", adapting, imitating, innovating Western institutions, processes, and products.

And yet, even if the capitalistic system was becoming the norm for, and spreading its influence over, most of the surface of the world as far as the Far East – but also in Africa and Sub-Saharan Africa, especially after the Berlin Conference (or Congo Conference) of 1884-1885 regulating the European colonization and trade in the continent – it was at the same time beginning to show cracks at home and abroad, in particular regarding the human cost for the life of workers and of their families, as well as for society as a whole, with rising inequalities and economic and social instability. In 1848, the *Communist Manifesto* by Friedrich Engels and Karl Marx set the premises and the stage, for the time being in ideal terms only, for an alternative economic system, i.e. socialism, which would later ramify into democratic socialism (that is, government planning *with* democracy and private property) and revolutionary socialism (government planning *without* democracy and without private property). In 1891, while firmly condemning socialism and re-affirming the value of private property (thus following the tradition of thought initiated many centuries before by the Aquinas), the human suffering generated by toil and some of the extreme forms of capitalistic exploitation were recognized by Pope Leo XIII in the encyclical letter *Rerum Novarum*, which focused on the social problems of the day, i.e. the permanent (and apparently intractable) conflict between capital and labor. It started a tradition of Catholic social thought that would contribute to the reform of capitalism.

As a matter of fact, at the beginning of the twentieth century, with the extension of political and voting rights, some of the most economically advanced countries began to experiment forms of social legislation (to limit, protect or ban altogether child work, for instance, or to introduce pension schemes) to try and democratically reform capitalism *from within*, i.e. avoiding a revolution. But the persistence of the colonial system in many parts of the world was in striking contradiction with these new practices and reforms.

2. From WWI to WWII

WWI introduced permanent and structural changes in the economic systems.

First, conflict was, for many countries, an accelerator of the industrialization process, as economies needed to generate the output needed by the war.

Second, and partly because of this, the emergence of "big government", that is, larger forms of government intervention in the economy, not only as tax collector, but also as producer.

Third, and perhaps most importantly in terms of comparative economic systems, because it was during the war, in 1917, that the October Revolution erupted in Russia, where the Bolshevik Party seized power, overthrowing the Czarist empire and establishing the first communist regime of the history, with communism becoming, as a consequence, one of the defining feature of what would be known as the "short century" (i.e. the twentieth century, a century essentially defined, according to a certain interpretation, by the rise and fall of communism, 1917-1991), with global implications also for the history of economic systems.

Fourth, not less importantly, because the principle of self-determination of the people, and the right to determine their future, was voiced during the war (especially by US President Woodrow Wilson) and because, even if it did not immediately have practical implications outside Europe, it nonetheless became a fundamental reference for anti-colonial movements, which began to develop in Africa and Asia, binding the common issues of faraway places such as India and South-Africa, as epitomized, for instance, by Gandhi.

Fifth, because the Paris peace conference of 1919 gave birth to both the League of Nations and the Bureau International de Travail (the International Labour Organization from 1946) which began to address not only the need of deeper cooperation, but also, specifically, of a macroeconomic governance for transnational problems, such as those of labor or migration, or war debt and war reparations. It is worth noting that at the peak of its membership, that is in the mid-1930s, the League, which never included the US, had 58 members, in a world that had about 75 sovereign states. The first international financial institution, the Bank of International Settlements, was founded in 1930 as a result of WWI (as it initially dealt with war reparations) but also, crucially, of a partial process of unification of the world economy.

As a result of the third factor, in particular, that is the October Revolution of 1917 and the birth of the Soviet Union in 1922, two main economic systems now confronted each other. On the one hand, stood capitalism, the old nineteenth-century like capitalism, however partly reformed through social legislation and through international cooperation; on the other one, stood communism. The former essentially rested on the pillars of economic and political freedom and of private property. The latter, on the so-called "dictatorship of the proletariat" and State ownership of all economic activities. The contrast became starker after the death of Lenin in 1924 and the rise of Stalin. With Russia's first (1928-1932) and second five-year plan (1933-1937), both focusing on developing heavy industry and collectivizing agriculture at the cost of a drastic fall in consumer goods, the contrast between capitalism and communism clearly became the contrast between a market economy driven by the interaction of the private and public sector (with a price mechanism defined by the demand and the supply, enabling the circulation of information within the economic system), on one hand, and a command or planned economy driven by the public sector (where prices are fixed by a central authority and therefore cannot convey specific information to economic agents, stifling entrepreneurship and innovation), on the other. For some, communism was bound to fail from the start. But, for the time being capitalism had a challenger. A genuine interest developed then for the Russian experiment, even among those who harshly criticized communism but recognized the flaws of capitalism, like British economist John Maynard Keynes, as one reads in his *A Short view of Russia* published in 1925.

The economic crisis of 1929 – and the Great depression following in the 1930s – were a turning point in the twentieth century. The crisis hit the economic "core" (Europe, Japan, the US) but also the so-called "periphery" (including Latin America, for instance, where countries like Argentina had comparatively been rather prosperous up to that time), increasing the economic and political divergence between the West and the Rest. For some, it was a crisis (yet another one of the recurring crises) "in" the capitalistic economic system; for others it was a crisis – perhaps *the* final crisis – of "the" system. Ultimately, it generated a major reform within capitalism itself, with the "the end of laissez-faire" (as anticipated in the title of yet another essay by Keynes published as early as 1926). The reform was both in ideas and policy. In ideas, the major contribution came from Keynes himself, whose *General Theory of Employment, Interest and Money* (1936) argued that the capitalistic system was not self-adjusting and that therefore unemployment would not be automatically absorbed as classical theory upheld, not without the help of monetary or fiscal policy.

In policy, it came from Franklin Delano Roosevelt's New Deal (started in 1933), a vast recovery program based on government intervention in what nonetheless remained a fully-fledged market economy. Roosevelt sought to fight unemployment by "putting people to work" via public works (First Inaugural Address, 1933) while seeing "one third of a nation ill-housed, ill-clad, ill-nourished" (Second Inaugural Address, 1937). The New Deal also introduced reforms in the banking and financial sectors. The New Deal later inspired postwar development and recovery programs across the world, in many cases centered around the experience of the Tennessee Valley Authority, from Ivory Coast to India to Italy.

As Keynes wrote in an open letter to FDR published on The New York Times on December 31, 1933, "if you fail, rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out". Communism ("revolution", in Keynes' words) was not the only economic system now challenging capitalism; there were also Fascism and Nazism ("orthodoxy"), where big businesses co-existed and coalesced with dictatorship and deep forms of State intervention in the economy at the expense of the great mass of the people and of workers in particular. Then, in 1939, came WWII. It was also a result of the lack of international coordination and of the spread, in the 1930s, of the so-called "beggar thy neighbor policies", i.e. competitive devaluations and trade protectionism that aimed at supporting the domestic economy but eventually resulted in a deeper crisis, with a generalized fall in output and in trade, whose cost was bore not only by the most advanced areas but also, in tighter forms, by the less advanced ones.

It is important to remember that Pope Pius XI had reminded in his encyclical letter *Quadragesimo anno* (1931) – which, according to Joseph Schumpeter, covered all the most pressing economic problems of the day – that "free competition, while justified and certainly useful provided it is kept within certain limits, clearly cannot direct economic life". In the text, the Pope also condemned the "concentration of power and might, the characteristic mark of contemporary economic life", seen as fruit of an "unlimited freedom of struggle among competitors". Economic wars indeed contributed to the outbreak of World War Two.

In 1941, the US joined forces with the Allies, including the USSR, to fight Nazi Germany and its partners. In the war period, important foundations and principles for the postwar economic system were set up. In 1941, FDR gave an address, known as the Four Freedoms Speech, in which he advocated for the freedom of speech, freedom of worship, freedom from want, freedom from fear "everywhere in the world". In 1942, the British economist William Beveridge presented to the British government the so-called "Beveridge Report", which laid down the foundations of what would be the postwar "welfare state", granting access to public goods (health, education, mobility) to all citizens by setting a standard of living "below which no one should be allowed to fall". The Report would enormously contribute to shaping democratic capitalism.

There were also two other developments, this time at the international level. The first one was the conference convened by the US and the Allies in Hot Springs, Arkansas, on Food and Agriculture (out of which the Food and Agricultural Organization would be born in 1945, within the system of agencies of the United Nations, also born in 1945). The second one was the economic and monetary conference convened in Bretton Woods, New Hampshire, in 1944 by the US and the Allies to set up the monetary framework and the institutions for postwar economic cooperation and revival of trade, namely the International Monetary Fund and the International Bank for Reconstruction and Development (now the World Bank Group). It is worth noting that 28 out of the 44 members of the conference were non-Western: 4 were Africans, 5 were Asians, and 19 Central and South Americans. A larger portion of the world was now coming together.

3. The Cold War, decolonization, and the postwar expansion

After the end of Second World War, the emergence of the Cold War between the US and the USSR and their respective allies, the birth of the People's Republic of China, and the broad process of decolonization (broadly speaking, from India in 1947 to Angola in 1975) split the world in two, three and more, also in terms of economic systems and of growth trajectories. The so-called "first world" was the affluent and underpopulated one, if compared to other areas. It was the rich world. Economically, it was the world of free market and of market economy, with varying degrees of government intervention and with more or less developed welfare states. Politically, it was the world of liberal democracy. It was the geopolitical West led by the US, tied by economic agreements such as GATT (the General Agreement on Tariffs and Trade, 1947, aiming at trade liberalization) and military alliances such as NATO (North Atlantic Treaty Organization, 1949, aiming at mutual defense). Western Europe also experienced stricter integration within the EEC.

The “second world” was the communist bloc of the so-called “real socialism”. Economically, it was the world of “command” or “planned economy”. Politically, it was the world of socialist democracies and of dictatorships, with varying degrees of interference by the USSR. Geopolitically, it was the East, or better Central and Eastern European countries under the control of USSR, tied by both economic (the COMECON, the Council of Mutual Economic Assistance, 1949) and military agreements (the Warsaw Pact, 1955).

Crucially, Germany was split between the two worlds, with the Federal Republic of Germany in the West, and the Democratic Republic of Germany in the East. The Berlin Wall (set up in 1961) epitomized the division. While West Germany was experiencing, just like Italy and Japan, its postwar economic miracle, the East was economically lagging, suffering not only economic hardship but also lack of freedom.

With decolonization, another bloc emerged. It was French economist Alfred Sauvy who, in 1952, coined the expression “third World” in reference to countries which were “non-aligned” with either the communist bloc or the capitalistic one during the Cold War, from Egypt to Indonesia to name two of the biggest. Politically, this third bloc was highly heterogenous. Economically, the economic systems of the “third world” were based on a different mix of nationalism and socialism, with different combinations of the principles and practices of the market economy and of the planned economy (often with a private sector open to export, and a public sector engrossed by nationalization in banking, energy, and transport). It was the economically underdeveloped world, and the overpopulated one. It was sometimes rich in natural resources, but poor in the institutional environment, often prey of foreign interests and of small domestic elites. It was, largely speaking, the South of the World, including the newly independent African countries emerging from the process of decolonization. In 1960, 17 sovereign states emerged in Africa. In 1964, the G77 was founded as a coalition of developing countries (they are now 134) aiming at promoting a new international economic order in order to deal with the new reality emerging from decolonization.

These events, and those triggered by the establishment of agencies such as FAO and the World Bank, contributed to the birth of a new set of problems addressed by a new branch of economics, i.e. "development economics". Development became the word of the day. In 1967, in his encyclical letter *Populorum Progressio* Pope Paul VI focused on the needs and prospects of the vast majority of the world emerging from decolonization. "Development – he famously wrote – is the new name for peace".

The postwar expansion, driven largely by trade liberalization, was also characterized by different degrees of openness to trade, in Europe and elsewhere. While East Asian Countries like South

Korea and Taiwan pursued an export-oriented industrialization (EOI) that produced a stronger economic performance, others, for instance in Latin America, including Argentina and Brazil, opted for an import-substituting industrialization (ISI), that ended up in comparably weaker economic performance that only in part modernized and transformed their economic structure and society. Once again, institutional but also geopolitical factors, as well as "path-dependency", contributed in generating different outcomes among "third comers" in the industrialization process, from Brazil to Portugal to India to South Korea.

The oil crisis of 1973 interrupted the postwar expansion, and, with it, the industrialization, the general modernization, and the transformation of the economy and of society. In different degrees and forms these processes had invested many parts of the world, including, however partially, Africa itself, with the exception of the countries of the so-called Fourth World, which continued to lag behind or fall apart. To confront the crisis, a G6, later G7, was first convened in 1975 as the group of the industrially advanced economies of the West. As a consequence of the crisis, participation in larger groupings began to influence more and more the workings of the economic systems at home. In less developed countries and in the developing world in general, output either halved or stalled after the crisis. The fall in the demand of natural resources and raw materials, the peak in inflation, and the subsequent rise in interest rates at the turn of the decade hit their economies while their external debt in many cases skyrocketed. The postwar "Keynesian Consensus" based on government intervention made way to a new consensus, the so-called "Washington Consensus", promoted by the IMF and the World Bank (the one-time Keynesian, but now grown as orthodox institutions) often independently of the economic specificities of the economic systems. There was also, as a result of the crisis, a relative shift of power and wealth towards oil producing countries, in particular those of the Persian Gulf, reshaping global finance and politics. Finally, new environmental issues and the idea of "limits to growth" began to emerge along the decade, though they continued to be treated as "externalities" by economic theory. The picture is partly different today, but in the meantime half a century passed.

With the end of the Cold War in 1989, the re-unification of Germany, and the fall of the USSR in 1991, capitalism and liberal democracies emerged as the only viable solution and system for prosperity and stability. Capitalism had proved to be more efficient and more respectful of human freedom than communism. John Paul II marked it in his encyclical letter *Centesimus Annus* (1991), praising free markets as "the most efficient instrument for utilizing resources and effectively responding to needs". For many, it looked like "the end of history". The "second world" had economically collapsed, and the rise of new giants like China and India was, for the time being, hard to predict. Capitalism had won. But one thing was overlooked: the capitalistic system that had won the battle against communism was not the laissez-faire capitalism that had prevailed in the 1800s and, through various convulsions, up to the crisis of 1929. Postwar capitalism had in fact been an internationally coordinated and domestically reformed capitalism, a "democratic capitalism", enhanced by new ideas and policies introduced by Beveridge (the welfare state, the progressive taxation to finance it), by Keynes (full employment), by trade unions, and, crucially, also by the fear of communism, that generated the impulse to reduce inequality or remove the obstacles to the inequality of opportunities. But the irony of History was that Communism collapsed when democratic capitalism was challenged by its neo-liberal variation, i.e. a return to the ideas and policies that had prevailed before the crisis of 1929.

Capitalist economies were now looking backward, reversing some of their most advanced policies in the name of competitiveness – a competitiveness that was increasingly eroded by the emergence of newly industrialized countries with comparably lower wages, extensive use of natural resources, and little or no social legislation in the context of an incipient globalization. The crisis of the 1970s had caused the crisis of the postwar intellectual and political consensus. Now balanced budgets, liberalizations, privatizations, free capital flows (that had been put under control in the postwar period) became the new credo and the new recipe for growth. The idea of having "less State and more markets" not only contributed to a revival of economic individualism and retreat from the public sphere but also a new distributional conflict between capital and labor, with shares of the former over national income on the rise and the latter in decline.

4. A new and better world?

After the end of the Cold War, economic and financial globalization, and openness to it, emerged as the defining and unifying global trend. The post-Communist world slowly but steadily transitioned towards the market economy. The birth of the World Trade Organization (WTO, 1995) and the accession to it of the People's Republic of China (2001) marked a new era. An apparent "unipolar" world led by the US quickly gave way to a multipolar world in which the US, China, and the European Union (EU, born in 1992) exchanged and integrated in new ways. Yet, the pivot of the world was shifting from the Atlantic to the Pacific, with countries overlooking the "Pacific rim" coming to the fore (APEC, or Asia-Pacific Economic Cooperation was established in 1989). In broad terms, globalization generated a "trilemma" between democracy, full openness to globalization, and national sovereignty – a trilemma that affected all economies joining it, independently of their economic systems: countries could not have at the same time all three, but only two of these features; or better, varying degrees of all three but never all three in their fullness.

However, the Great Recession of 2008 weakened the economies and the status of the advanced economies of the world, starting from the US, even if its economy recovered quickly showing strength and resilience thanks both to its private and public sector, and a good mix of fiscal and monetary policy. The European project, that had flourished in the postwar period, struggled to adjust to a new reality – also because it lacks a central fiscal capacity to address shocks – and has failed, so far, to progress towards political integration. The crisis, once again, reshaped in many ways the international order. In 2009, the first meeting of the G20 took place, with the participation of G7 countries but also other countries, such as Australia, Mexico, Indonesia, South Korea, Turkey and others (in 2023, the African Union was invited).

Since the ascent to power of Xi Jinping (2012), China has affirmed its role as the inescapable factor in nearly all economic matters. It was the result of almost thirty years of uninterrupted growth following the policy of "opening and reform" initiated by Deng Xiaoping in 1978 which contributed to the establishment of what was later called a "socialist market economy", in which the Communist Party ultimately holds the key of an otherwise capitalistic system, especially in coastal China. In the early 2010s, Chinese investment abroad (outward) outpaced foreign direct investment in China (inward) signaling China's new status as a global power. In 2010, Brazil, China, India, Russia and South Africa grouped for the first time under the acronym BRICS, a highly heterogenous group both economically and politically, determined to alter the balance of power in the world economy. In 2023, the group announced an enlargement to six countries by 2024, with the addition of Iran, Saudi Arabia, the United Arab Emirates, Egypt, Ethiopia, and Argentina. Not all of them are market economies in the Western sense, with their relative strength often coming from the market power of few State-owned companies and of Sovereign Wealth Funds on the global markets.

Participation in globalization contributed to economic growth in many parts of the world, reducing inequality among countries, but it ultimately increasing inequality within countries, with a minority of the population taking most of its benefits, especially (but not only) in non-democratic settings. The middle class that in the postwar had flourished in the West reduced its ranks because of increasing inequalities.

Globalization and the participation in global supply chains changed – to a certain degree, more than the nature of economic systems at home – the life of millions of people. Bangladesh, Hungary, Mexico, Poland, Romania, and Vietnam are some of the countries that have seen trade more than double as a proportion of their economies since

1990. But for some eighty other countries including Chile, Egypt and many others trade barely budged or actually shrank as a percentage of GDP. New fault lines emerged, along with new forms of destitution, of enslaved labor, of poverty, also in the so-called developed world.

As a result, a new kind of international and national disorder with newly entangled economic, environmental, ethical, political, social problems has emerged. As Pope Francis put it in its encyclical letter *Laudato Si'* (2015), "the financial crisis of 2007-08 provided an opportunity to develop a new economy, more attentive to ethical principles, and new ways of regulating speculative financial practices and virtual wealth. But the response to the crisis did not include rethinking the outdated criteria which continue to rule the world". A global conscience is perhaps looming with ecological preoccupations now at the forefront of both corporate and political agenda around the world. But the financing of so-called ecological transition and the restructuring of economic systems in ways that keep them prosperous remain open challenges.

In recent years, fragmentation has characterized the global economy especially after the pandemic (2020) and the aggression of Ukraine by Russia (2022), with the "weaponization" of energy, the return of inflation after the years of the so-called Great Moderation in prices, as well as new economic and financial sanctions. It is still unclear where these developments are leading the world, if anywhere. But a rebalancing in global politics is clearly taking place, economically from the West to the East and demographically from the North to the South of the world, as lower fertility and lower economic growth now characterizes the advanced economies. Moreover, China is also beginning to slow down, with India seemingly on the rise, with rates of growth of GDP that double those of China. New lines of division seem to be emerging between Europe and US on one side, and China on the other, while multi-alignment prevails over non-alignment in the new "Global South", as is the case of regional powers like India, South Africa, Turkey and others.

Yet, globalization is not over. A kind of re-globalization process is taking place with political and security concerns that were long abandoned over the past thirty years. Regionalization, a long-time driver of globalization, is in fact bound to continue in Africa (with its African Continental Freed Trade Area, 2018), in Asia (with various grouping including ASEAN, set up in 1967, and recently the Regional Comprehensive Economic Partnership, 2022), in Europe (with the EU, 1992), in Latin America (with Mercosur, 1991), in North America (with Nafta, 1994, now USMCA, 2018). The emergence of trans-national problems is also giving new impulse to federalist or supranational ideas at the international level, which nonetheless co-exist with nativist and populist regressions. Anyway, economic systems will more and more shaped by participation to higher forms of economic organization. For instance, the recent Partnership for Atlantic Cooperation (September 2022), signed by 32 countries overlooking the Atlantic Ocean – North and South – opens new paths for collaboration well beyond the Atlantic Ocean, i.e. between the North and the South of the world.

Globalisation will continue to shape economic systems. Yet, it is at the political national level that the roots of current challenges lie. Openness to a new and more humane globalization should be paralleled by emphasis on domestic policies aiming at the provision of those public goods that allow to take care of "shared prosperity", that is, caring about the poorest and vulnerable 40 per cent in a country, however rich it may be. Only this will create the conditions for the support of the public opinion to openness with its benefits. No reasonable policy can in fact in the long term be pursued if politicians respond to a fragile, and more easily manipulated, citizenship. A new policy for public goods requires higher public investment in already highly indebted economies, both in the North and in the South of the World. Debt is squeezing some countries (today, Ghana is descending into another debt crisis and its 17th restructuring program with the IMF). It is not going to be an easy fix. When it comes to public goods, one thing is sure: strict fiscal discipline can lead to the end of democratic capitalism (and democracy as such) as we know it.

5. Conclusions

There is still a significant amount of work that needs to be done to build more humane economies and societies everywhere in the world. Ever-present destructive forces, both old and new, can always affect good governance, and in particular challenge us with capture, corruption and exclusion. Some 2.6 billion people have gained access to improved drinking water since 1990. However, 663 million people across the world still do not have access to improved drinking water. Climate change, deforestation, land and water grabbing are in many parts of the world changing the material basis of local communities whose economic systems are excluded by the benefits of the play of the global economy but still paying the cost of it.

Concern for our common home, migrations, intellectual and technological exchange, long-distance infrastructural projects, as well as bold new political visions, will, however, continue to unite the world, even at a moment in which political divisions, at home and abroad, cast shadows over the coming future.

MARKETS AND PRICES: ARE THEY ALWAYS EFFICIENT?

BRIAN GRIFFITHS

The straightforward answer to this question is no. Free markets based on voluntary exchange with flexible prices are not always the most efficient. However, as a way of creating prosperity for all and not just an elite, as in feudalism and state communism, market economies are far more effective than any other economic system that has been tried.

A market economy is an extraordinary phenomenon. Each day I can go to my local shopping center which contains supermarkets, clothing stores, a chemist, hairdressers, ice-cream stores, McDonald's, restaurants, a bookshop, shoe shops, a flower stall and in each case choose from a broad range of items. This is not because the government organized it this way. All the firms are privately owned and depend on being profitable. It is simply the spontaneous nature of a market economy which coordinates the diverse interests of billions of different people.

I shall try to answer the question by breaking it down into three separate parts. Why do market economies succeed in producing prosperity? Under what conditions do they fail? How should governments respond in the face of market failure?

1. Why do free markets create prosperity?

The success of market economies in creating prosperity is well documented by historical evidence: similarly, the failure of attempts to create prosperity using alternative approaches such as state planning is equally well documented. The standard of living of the average family in Europe was little different in 1700 AD from 400 AD. The millennium of Christendom did little to relieve poverty and raise the standard of living of people, which remained low. The period since the mid-eighteenth century has seen an extraordinary increase in the standard of living of people in Europe, the US and the world. From an economic perspective one way of viewing the twentieth century is as an extended contest between Marxist economies based on state ownership of the means of production, state planning and state price controls and market economies based on private ownership, free enterprise and flexible market determined prices. The Soviet Union, Eastern Block European countries, China, North Korea were part of the former category: the US, Western Europe, Commonwealth countries were in the latter. The fall of the Berlin Wall in November 1989 symbolized the end of the contest and a clear result.

One further piece of evidence of the success of market economies is the contrast in economic performance during the post-1945 years between East and West Germany, North and South Korea, Hong Kong, and China. In each of these three contrasts, the geography, natural resources, and cultural background of the countries concerned was not meaningfully different yet the difference in prosperity is striking. Market economies decisively outperformed state-controlled economies. Similarly, the history of China is instructive. Following Deng Xiaoping's economic reforms beginning in 1978 which established free enterprise and a market-oriented economy, the Chinese economy grew for three decades at an annual rate of 9.4 per cent resulting in over 800 million people lifting themselves out of poverty.

There are three factors which make for the success of market economies.

One is flexible prices. Prices provide fresh information constantly to both consumers and producers, informing and incentivizing them to change their behavior. Assume an increase in the demand for eating out at restaurants. Owners of restaurants will discover an increase in advanced bookings. They find they have to turn away those who have not booked. Other restaurants will find themselves in the same position. They discover they can increase their profitability by raising prices. As the profitability of restaurants increases, some restauranteurs will extend their facilities, open new restaurants and entrepreneurs who once thought of opening a restaurant may now decide to take the plunge. The end result is that an increase in demand for eating out will lead to an increase in the number of people served, an increase in the number of restaurants and an increase in the prices charged for meals. The increase in the price of meals will also have an impact on the prices of food which they buy; meat, fish, vegetables as well as wine.

Markets will also respond to supply side changes. If demand remains unchanged an unexpected increase in energy or wage costs will incentivize restaurant owners to look harder for cost savings which however may still not be enough to prevent them from having to raise prices to cover increased costs.

More generally, flexible prices provide a coordinating mechanism which brings together the decisions of millions of people – consumers, businesses, 'middlemen', speculators, investors – which until AI (outcome unknown) no computer or planning agency could ever rival: something Adam Smith famously described as the "invisible hand" of market forces.

A second feature of a market economy is competition. A market economy is inherently competitive and dynamic regardless of whether there are few or many firms in the industry. Firms will compete and struggle against each other in hiring people, the range of products and services they offer and the prices at which they sell. "The competitive market is constantly in flux and adapting to changing technological, economic and myriad other factors".[1] The only exception is a monopoly in which

[1] F.A. Hayek, *1980's Unemployment and the Unions (Hobart Papers)*, 2nd edn, Institute of Economic Affairs, London 1987.

there is a sole owner of resources. The reason competition is a constant feature of market economies is that it is in the interest of existing firms to seek out ways of improving their service to the customer and of ways of reducing their costs in order to do so. In a market economy firms have the freedom to change how they do business or venture into other areas. Contrast this with an economy in which firms are state-owned with prices fixed by the state. Firms have no incentive to compete with each other. People running firms have no incentive to seek out new ways of doing business. Entrepreneurship is actually frowned on.

One issue which has confused the meaning of competition is the idea of "perfect competition." The concept of perfect competition is that 'real' or 'true' competition can only exist if certain conditions are fulfilled. If they are not fulfilled, that is sufficient evidence that 'real' competition does not exist. The conditions for perfect competition are exceptionally stringent. There must be many firms, not one of which can exert influence over price. The product or service must be homogeneous such as commodities wheat, soya beans or natural gas. There must be freedom of entry into the industry for any potential suppliers. Most importantly there must be perfect and complete knowledge on the part of existing and potential suppliers of the circumstances and the decisions of all other firms in the market, as well as of potential firms who may consider entering the sector. This is an extraordinary requirement and its weaknesses have been spelt out in detail by Professor Hayek and other members of the Austrian School of economics.[2]

The third element of free markets is the role of enterprise and the entrepreneur. In most economic textbooks and university courses the explanation of how markets work is to examine equilibrium outcomes. In equilibrium the price of a good or service will ensure the quantity demanded of a product or service will be just equal to the amount supplied. Changes in factors such as the income or wealth of consumers, the prices of products which are close substitutes, higher energy costs, or increases in the wages of staff, will lead to a new equilibrium of prices and quantities. What the traditional textbook neo-classical approach does not do is focus on the process by which we move from one equilibrium outcome to another.

As a consequence, little emphasis is placed on the role of the entrepreneur. Entrepreneurs are considered a special class of businesspeople who are typically backed by venture capital or private equity, and who set up businesses themselves or invest with others in new ventures. Entrepreneurship is particularly associated with ideas and inventions, some generated by universities, which then become innovations backed by private investors and

[2] F.A. Hayek, *Competition as a Discovery Procedure*, Moses Institute 2002.

finally, if successful, public companies launched on the public markets.

The insight of the Austrian school of economics – von Mises, Hayek, Schumpeter and more recently Kirzner – is that every businessperson, whether owner of a corner store or CEO of Apple, is a potential entrepreneur. Always thinking of new ways to cut their costs, expand their product and service range, hire the best staff. Even if there are few or many suppliers, firms will invariably be alert to new developments.

However, entrepreneurs are not just people who create new products in university research laboratories and finance them by venture capital. Enterprising behavior is the driving force in all markets, not just some. Schumpeter described the constant competitive upheaval which follows from the advent of new commodities, innovative technologies, new sources of supply, new types of organization as “the perennial gale of creative destruction”.

The success of market economies therefore is due to three factors: the information the price system transmits to buyers and sellers, the competition which exists between firms as they seek new ways of reducing costs and improving the service they offer and the role of entrepreneurs who are prepared to take risks and when the changes are significant enough change the landscape of a business.

Additional to the economic arguments for the success of markets I would like to add two further points from a Christian perspective.

Adam Smith is widely considered the father of the modern market economy and in the twentieth century von Hayek, von Mises and Milton Friedman followed in his footsteps. All of them championed an economic order which was part of a far greater vision for a society than just the economy. For Smith it was 'the natural system of liberty' and for Hayek 'the spontaneous extended human order created by a competitive market.' A free-market economy cannot exist without private property rights, the rule of law, and the opportunity for people to set up businesses. Over the past two and a half centuries those who have argued for free markets have done so within the context of a political and social order based on liberty and the dignity of the human person which are pre-requisites for human flourishing.

The second point is that underlying this approach is a certain anthropology, a perspective on what it is to be a human person. Smith observed that "the propensity to truck, barter and exchange one thing for another" was a characteristic of human nature, so that "every man … lives by exchanging, or becomes in some measure a merchant" and that "the desire to better our condition comes with us from the womb and never leaves us till we go to the grave." Hayek although agnostic in the matter of faith nevertheless argued that Western civilisation has developed in large part from those groups of people who conformed to "certain traditional and largely *moral principles*" which enabled them to respond to the divine creation mandate "be fruitful, and multiply, and replenish the earth, and subdue it."[3] Implicit in the mandate is a theology of work and environmental responsibility.

2. Why do markets fail?

We need to precise about what we mean by market failure. Professional economists analyze markets within the discipline of economic science. The benefits of a free-market economy are that goods and services are produced at least cost and sold to consumers at lowest prices. A spike in market prices because of a bad harvest, flooding or terrorism in the Red Sea is not a sign of market failure. It is simply the consequence of buyers and sellers adjusting their behavior to new information. Corporate scandals such as Enron, Volkswagen, Lehman Brothers and FTX were not market failures but the consequences of unethical failures.

Market failure occurs for a number of reasons.

One is when the costs of producing a good or service fails to reflect the actual cost of its production. For example, farmers use fertilizers and chemicals to enhance the productivity of their land. Due to rain these chemicals contaminate rivers and seas, killing fish and making swimming for humans unhealthy. When farmers sell their crops, the prices they charge cover all their internal costs but not

[3] Gen 1:28, King James Bible.

these external costs, which are typically referred to as 'externalities', 'spillover effects' or social costs.

In recent years, this issue has become a major global concern because of carbon emissions' impact on climate change. While this is a contested issue the scientific evidence seems to be clear that carbon dioxide (CO_2) emissions are the most significant cause of global warming. Global warming leads to climate change and by far the largest contribution to climate change comes from the use of fossil fuels (coal, oil, and gas) in manufacturing, industry (cement, iron, steel, electronics, plastics, and chemicals), transportation and agriculture due mainly to the use of chemical fertilizers, pesticides, and animal waste. Global gas emissions trap the sun's heat, lead to global warming, and affect climate change which then poses a risk to the planet. This is a classic case of negative externalities or 'spillover effects' produced by free markets.

A second example of market failure is the problem of public goods. This first struck me when I thought about the houses my grandfather built near the place in which I was born. The houses were detached, well designed and well-built with a magnificent view of a large estuary and a farm at the end of the road. However, the road itself was a dirt road, full of potholes and a very uneven surface. I remember asking my father why this was so, and the answer was that the residents could not agree on building a private road and paying for it. This is a classic example of a public good which is of value to all the residents except that they could not agree among themselves to pay for the construction of the road. The rights of the road were collectively owned and demanded a collective decision, but agreement could not be reached.

A third kind of market failure is monopoly or near monopoly, where one firm or a cartel of firms or states (OPEC oil producing countries) are the only suppliers of a particular good or service, for which there is no close substitute and are protected in the short term from the possibility of others entering. This gives these firms the power to raise prices above the competitive free market price by restricting the supply of the product or service to the market.

Pure monopolies are rare. Milton Friedman once claimed that the only pure monopoly to survive in the twentieth century was the De Beers diamond monopoly. For monopolies to survive they typically need the backing of governments: either by the state owning the company, not allowing foreign producers to compete in the domestic market or failing to take initiatives to deal with the problem.

Monopolies are rare and exist only if they are state owned, state protected by restricting foreign competition or allowed to continue by the government. AT&T, the US telephone company (the Bell System) although privately owned had the backing of the government until it was broken up in 1984 because it controlled too much of the market: regional telecommunications, long distance telecommunications and telecom equipment. In the UK following the Second World War companies which supplied electricity, gas and water were purchased by the government and given monopoly status. They survived as monopolies because they were backed by the government and did not face foreign competition until the 1980's when they were privatized. For a company to retain a monopoly or near-monopoly power, protection from foreign competition is essential. UK banks and the UK stock market were protected in this way, but the system was finally changed with Big Bang in 1986.

The extent of the social cost of monopolies through reducing output and raising prices is a contested issue. The evidence once seemed to suggest that the social costs of monopoly were small.[4] Professor George Stigler, Nobel laureate and one of the leading members of the Chicago School of Economics argued that the quest for efficiency is pervasive in economic life and that monopolists as well as competitive firms will seek to produce their output at least cost. In fact, he argued as a matter of logic and casual empiricism it is virtually impossible to eliminate competition from economic life. If a firm has a monopoly position, it will create an incentive for rivals to challenge it, which in turn will erode its monopoly profits.[5]

[4] A.C. Harberger (1954), "Monopoly and Resource Allocation", *American Economic Review*, 44 (2): 77-87.

[5] G.J. Stigler, *Memoirs of an Unregulated Economist*, Basic Books, New York NY 1988.

We should certainly not underestimate the extent of current global competition. It is evident among the leading tech companies,[6] globally systemic international banks, oil and gas companies, steel companies and so on. However, in the US, UK and EU competition authorities accept that markets are broadly competitive, but still have concerns that in specific areas large companies (especially tech) can use their status to avoid disclosure of certain practices as well as tie-in customers by excluding access to competitors. Alleged inefficiencies can be created because of adversarial relationships within near-monopolies which reduce productivity, a tendency to allow costs to increase and the way in which near-monopolies restrict competition from low-cost substitutes.[7] A near "pure" monopoly is defined by UK regulators as one firm having a market share in excess of 90%, while a "working" monopoly is any firm with more than 25% share of the market.

Oligopolies, defined as a small number of companies who dominate an industry, might exist for a time but rivals will enter and undercut them. In the 1950's General Motors, Ford and Chrysler dominated the US car market but in the next decade European and Japanese firms entered the market.

[6] The acronym FAANG stands for Facebook (now Meta), Amazon, Apple, Netflix and Google, the top performing tech stocks in the US market as well as Microsoft.

[7] J.A. Schmitz, Federal Reserve Bank of Minneapolis, *The Cost of Monopoly: A New View*, July 12, 2016.

Today the Japanese firms' share of the market has grown to 40%.

The literature by non-economists extending back to the nineteenth century who have attacked market capitalism and the concepts of profit, competition, individualism and inequality is immense. More recently the attack has focused on the values and extent of what has been called market fundamentalism. Almost everything today can be bought and sold. The problem with markets is not just the possibility that they may generate a culture of greed in our society but the fact that market values and a business way of thinking have invaded the public domain in areas such as health, education, prisons, policing, and social care. The charge according to the Harvard philosopher Michael Sandel is that "we drifted from *having* a market economy to *being* a market society" with the result that "our politics is overheated because it is mostly vacant, empty of moral and spiritual content.[8]"

This is a serious charge but beyond the scope of this paper. The relationship between a market economy and the prevailing culture of a society is complex as the contrast between the nineteenth century and twenty first century market economies in Britain suggest. From a Christian perspective what is paramount is that economic life must never be judged solely in economic terms: it is part of a

[8] M.J. Sandel, *What Money Can't Buy. The Moral Limits of Markets, Allen Lane*, London 2012, 10, 13.

far larger perspective and must ultimately be evaluated within a Christian world view or *weltanschauung*.

It may seem odd for some people that I have not so far mentioned what is possibly the greatest failure of free market economies since the Wall Street crash of 1929, namely the financial crisis of 2008-9. This nearly led to the collapse of the global financial system. We were just a hair's breadth away from banks closing their doors, credit cards being useless and cash, 'hole in the wall' or ATM machines being empty and triggering another Great Depression of the magnitude of the nineteenth thirties. Governments in Europe and the US spent billions of dollars bailing out banks which had gone bust and arm-twisting other banks to take over failed institutions. Taxpayers were left to pick up the bill.

The reason I have not explored this issue is that it is a huge subject and one in which I have been involved throughout my professional career first as an academic, then as a member of the Court of the Bank of England and then adviser to Mrs. Thatcher, and finally board member of Goldman Sachs International. My own conclusion is that it is simply not possible to guarantee a stable banking system, which is a fractional reserve banking system. By that I mean one in which banks hold risky assets, whose value will change from day to day, and against which customer deposits can be withdrawn at a moment's notice. The only stable banking system would be one in which the assets of banks were the holding of notes and coins and deposits at the central bank (Bank of England, the US Federal Reserve, European Central Bank). This approach was put forward as the Chicago plan in 1933 in the US and backed by distinguished economists such as Henry Simons, Paul Douglas and Frank Knight. Later in the decade similar proposals were made by Irving Fisher of Yale.

3. How should government respond to market failure?

Most governments consider they should get involved because the market will not of itself take care of these problems. In the case of carbon emissions and in a world in which there is global economic growth, the growing scarcity of fossil fuels will lead to higher prices which will spur entrepreneurs to look for cheaper alternatives such as wind, solar, wave and hydrogen. Already the relative costs of some of these alternatives have fallen dramatically as their contribution as sources of energy has grown.

Those who believe government should take a more proactive approach are concerned at the length of time such an adjustment without government intervention would involve. One possibility in terms of the spillover effects of greenhouse gases is to impose a carbon tax. The government would impose a tax on companies at a rate per ton of their greenhouse gas emissions. In the UK a version of this tax was introduced on the electricity power producing companies to reduce the amount of coal in electricity generation. The electricity generating companies could then pass the tax on to consumers in the form of higher tax bills. The policy has had considerable success in reducing CO_2 emissions.

Using the principle that polluters should pay, some countries such as members of the EU and the UK have set up a 'cap and trade' system which utilizes market-based incentives. A government authority sets a cap or limit on the total of greenhouse gases which can be emitted by companies within a given time period. Each company is allocated a number of free emission allowances which gives them the right to emit a certain number of tons of CO_2 or its equivalent. Companies can use these allowances to cover their emissions. However, they are also free to sell allowances if they do not wish to use all which they have been allocated. They are also free to buy unused allowances from other firms. Each year the cap or total amount of emissions is reduced to meet the national climate target.

A similar principle is being adopted in fisheries (called 'catch shares') which has worked around the world since it was developed in the 1970's in Australia, New Zealand and Iceland. The concept is straightforward. First, there must be a body which sets a limit on how much fish can be caught per year and in subsequent years to maintain sustainability. Then a guaranteed percentage of the total catch is allocated to individual fishers or groups of fishers. If the fish population of the area increases so will the amount which fishers are allowed to catch. This is one example of a more general approach to the successful self-organization by groups to solve public choice problems for which Elinor Ostrom spent her academic career investigating and for which she received the Nobel Prize. Her contribution was to understand the principles which underlie the success of community self-regulation as an alternative to either central government control or privatisation.

4. Rent ceilings and minimum wages

In parliamentary democracies governments are inevitably presented from time to time with 'crises'. The problems are invariably amplified by news and social media which lead governments to decide that they must respond. This calls for an immediate policy announcement and one way to respond is by setting prices: in some cases, price ceilings are imposed below the market price of a good or service and in other cases price floors are introduced below which prices cannot fall. The classic examples of intervention have been ceilings placed on the rents of privately owned accommodation and a national minimum wage set above the market rate, which all employers must pay. The one is to help support low-income families have access to housing and the other to set a minimum income floor for workers in low-income jobs.

The value of economics in cases such as these is to offer a word of caution. The intention by politicians is invariably laudatory: to help tenants when rents rise suddenly because of scarcity or to support low-income workers who have difficulty supporting a family. But they quickly come up against the "unintended consequences" which follow and which work against the very objectives they were trying to achieve in the first place.

Rent controls and minimum wages are policies which have been introduced in many countries. Rent controls are widespread. About 50% of German families rent and in Berlin the number has reached 85%. In San Francisco rent controls have covered most of the city since 1994. In New York rent controls have been in existence since the 1940's. In the UK rent controls were first introduced in 1915 and only ended in 1988.

If rent controls are imposed, there will be an excess of demand for accommodation over the stock of properties available for people to rent. What will happen? Some landlords will feel the return on the investment is not worth the bother and withdraw their properties from the market. People wishing to rent flats will find that landlords will demand extra payments such as payment of an initial deposit, or 'f and f' (an amount of money for furniture and fittings), or 'key' money. Landlords may decide to switch to short lets on Airbnb. Rent controls will discourage homebuilders from constructing new homes and give landlords reduced incentives to keep properties suitably maintained.

The exploitation and intimidation of tenants by unscrupulous landlords was taken to such extreme in the 1950's in Notting Hill London by Peter Rachman, that 'Rachmanism' as a word entered the Oxford English dictionary as a synonym for the exploitation and intimidation of tenants. The problem with rent control is that it tends to be introduced as an immediate quick-fix solution to rising popular demand. Governments take quick action to remedy a crisis. However, the 'crisis' is typically a sign of a more general weakness in the government's housing policy which is not working. In the short-term it would be far better for the government to subsidize tenants who have found themselves without access to funds or to introduce measures to increase the stock of accommodation for rent rather than impose rent ceilings which reduce the supply of rented accommodation.

Shifting our focus to minimum wages, most people who work in the UK and are over 23 years of age are entitled to get paid a National Living Wage and people of school leaving age are entitled to be paid the National Minimum Wage. These are minimum hourly rates that employers must legally pay workers in the UK. This applies to full-time and part-time workers, casual workers, people on zero hours contracts and agency workers. It was first introduced in 1998. Nearly half of all minimum wage employment is in just three occupation groups: retail, hospitality and cleaning and accounts for 4.9 per cent of all workers.

The traditional view among economists has been that imposing a national minimum wage would lead to rising unemployment. Much research has been conducted on this subject, and the evidence suggests that despite minimum wage increases in many countries, there is little evidence that unemployment in low paid work has increased as a result. Rather employers have absorbed minimum wage increases by a combination of higher prices, reduced profits, or increased staff productivity: retail stores insert check out points rather than service counters employing staff, substituting capital for labor.

When first introduced the government took the advice of the Low Pay Commission at the level at which the minimum wage should be set. In 2019, however, the government set a target to raise the National Living Wage to two thirds of the median hourly earnings by October 2024. Because of the need to maintain differentials in recruiting and retaining staff the impact of the increase on a firm may be much greater than the increase in the minimum wage itself. Already firms in the hospitality industry are closing branches because of rising costs.

One way for firms to increase staff productivity is to take advantage of the 'gig' economy, which is based on more flexible, temporary, freelance job contracts. A McKinsey survey in 2022 (*Ameri-*

can Opportunity Survey) found that 36 per cent of employed respondents identified as independent workers. In the UK a study by the Universities of Bristol, Cambridge and Oxford on the gig economy[9] found that 52 per cent of gig workers were doing jobs such as food delivery, data entry and running taxi services but and this is the extraordinary finding, they all were all being paid below the national minimum wage. At present because of the increased flexibility of the gig economy it seems to be providing a way to circumvent national minimum wages.

5. Conclusions

In summary we can say that:

- free market economies are successful in creating prosperity and employment: market prices provide new information and incentives to both consumers and producers to change behavior; competition produces least cost production because of the constant alertness of business and entrepreneurs to new opportunities.
- markets fail: they cannot by themselves solve the problem of public goods, avoid producing spillover effects or engaging in anti-competitive behavior.

[9] B. Burchell, A. Wood, N. Martindake, *Gig Rights & Gig Wrongs Initial Findings from the Gig Rights Project: Labour Rights, Co-Determination, Collectivism and Job Quality in the UK Gig Economy*, May 2023, Social Science Research Network.

– rule one of government responses is "do no harm"; abolish government protection of monopolies and restrictive practices, allow foreign competition to enter the domestic market and use taxes to reduce social costs.

A market economy not only allocates resources to various sectors of the economy by producing goods and services, but it also results in a particular distribution of income. The most effective way for governments to change income distribution is by imposing taxes which do not blunt the marginal incentives of employees, businesses, and entrepreneurs to create wealth.

A final question: why should Bishops and Clergy concern themselves with these issues?

First, because the flock they seek to shepherd care deeply about them.

Second, because the world still listens to the Church.

A papal encyclical or a bishop's report makes news. Responsible commentators and editors write about it. It sets an agenda for public conversation. It shows the relevance of theology and a Christian world view to contemporary issues. It can influence political thinking and government policy. Clergy have greater credibility if they know at least some of the economic pitfalls to avoid and preferable ways of encouraging enterprise.

Third, because some knowledge of how a market economy functions helps clergy recognize the difference between economic ideology and empirically based economic observations. Christians must reject economic ideology whether of the left or the right because it is invariably based on an inadequate view of creation and what it means to be human. One outstanding source of a distinctive Christian worldview of economic life which rejects both Marxism and libertarianism, is to be found in the papal encyclicals of John Paul II and Benedict XVI: *Centesimus Annus* and *Caritas in veritate.*

EXTERNALITIES AND THE ROLE OF PUBLIC POLICIES

Richard Turnbull

When should a government, or other institutional authority (for example, a central bank) intervene in the economy?

The answer to the question is less straightforward than one might imagine and raises several important principles about economics, values, society and, indeed, theology.

There are several reasons a government or other authority might choose to intervene to regulate an economy. Firstly, governments might seek to directly control prices (for example, rent controls or energy price caps). Secondly, intervention that aims to regulate, for example, a monopoly or oligopolistic industry, seeking to protect the consumer through the imposition of service standards or enforcement of competition through the lowering of barriers to entry. Thirdly, regulatory intervention designed to achieve socially desirable aims, such as fines for pollution or taxation to discourage consumption of undesirable goods or even broader aims around the redistribution of wealth and reductions of inequalities. Fourthly, policy interventions around interest rates or other aspects of monetary policy.

These diverse types of regulatory interventions have differing outcomes. Most economic decisions involve trade-offs between competing goods or desirable outcomes. There may also be unintended consequences from policy decisions. For example, rent control may lead to a reduction in the supply of rental housing or a fall in the quality of the housing stock. Many media reports on economic issues fail to give sufficient weight to these realities.

This chapter considers the economic reasons for government intervention, its consequences, and limits. We will also consider approaches within markets as well as external to markets. From a theological perspective we will reflect on the proper role and limits of government, property rights, the nature of the human person, rights, responsibilities and the common good.

1. Externalities and market failure

The basic economic reason for any form of government intervention is when there is market failure. The principle behind what is known as classical economics is that there is an equilibrium of demand, supply, and price at which the market clears. This is achieved by individuals acting rationally and in their own self-interest. The paradox inherent in Adam Smith's "invisible hand" is that this leads also to the welfare of all, the common good. We achieve public good through the efficient allocation of scarce resources. The model depends on certain assumptions, perfect information, no barriers to entry and many similar-sized suppliers, which may or may not be true in the real world. For example, if a supplier charges too high a price, the classical model works on the assumption that a competitor can easily enter the market which then, through competition, lowers the price for the consumer. However, if entry into the market (say the energy market) is highly capital intensive, or requires a government license, then this represents a significant barrier to entry and prevents competition and equilibrium pricing. The result is inefficiency and disequilibrium which leads to distortions of price, supply, and demand. This can, in some circumstances, lead to market failure.

Market failure is defined as the inefficient distribution of goods and services in a free market resulting in disequilibrium. This might be because the price is too high so nobody will buy the product, or too low (not reflecting the costs to society) or even zero, so the product is essentially free. Suppliers may be unwilling to supply at the market price or do so only partially. Market failure can take several forms.

a) ***Externalities***

This is the situation where consumption may have unintended, and unpriced, consequences outside of the market. The most common example is pollution. The consumption of a product might lead to pollution from a factory discharging into a river, or from the production of substantial amounts of carbon, which is a cost to society, but not to the individual consumer. The individual may make a rational choice to consume, but in this instance, due to the unpriced cost to society, the common good is not achieved. In principle an externality can be either positive or negative. For example, encouraging good architectural design in housing benefits an individual and the wider community.

b) ***Public goods***

These are sometimes known as "free goods" although that is something of a misnomer. The key terminology in defining a public good is non-excludable and non-rival. The classic example is a streetlight or the light from a lighthouse. It is non-excludable in that an individual cannot pay for its' use to the exclusion of anyone else; all can see and use the light. The light is also non-rival in the sense that my consumption of light from the lighthouse does not deplete the supply in any way (100% of the light is still available) and hence does not limit the consumption by anyone else. In these circumstances the market does not function. Why pay anything?

c) ***Dominant power in the market***

The market assumes many suppliers and consumers. The market also works, as noted, assuming there are minimal entry barriers. Hence, if one firm charges a price more than the market can bear, this encourages new firms to enter the market to provide competition. However, if the market is dominated by a single supplier (monopoly) the firm can charge whatever price it wishes as there is no market equilibrium, and the consumer has no option but to take or leave the price. A comparable situation occurs with just a few firms in the market (oligopoly) when there is the tendency for collusion around price.

d) ***Information failure***

The market assumes that consumers are fully aware of price information on which they can base rational decisions. However, this may not be the case. This can lead to a distortion of price mechanisms with over or underpaying or the non-disclosure of price-sensitive information. For example, in the sale and purchase of a car failure to disclosure a mechanical fault which would affect price is an example of information failure leading to market failure.

By way of concrete examples, we will take the issues of externalities and market regulation in respect of monopoly or oligopoly.

The challenges of environmental sustainability, pollution, climate change and threatened biodiversity are contemporary examples of how markets fail because of inability or failure to take account of all costs. These costs are indirect. For example, pollution may contaminate water supplies or the discharge of pollutants into the atmosphere affect air quality. This has negative consequences on society's health and leads to increased costs to society through increased health care costs as well as negative social consequences in respect of poorer quality of life. The polluter avoids these indirect costs and hence the market fails by allocating resources at less than full cost. Taken a step further, activities which increase the discharge of greenhouse gasses or carbon leading to climate change which has negative impacts on the wider community, including the global community, result in a potentially disastrous mismatch of costs and benefits. The methods available to deal with these externalities include internalizing the costs (fines for polluting, tax on emissions) or, more positively, encouraging positive activities (subsidizing production and consumption of electric vehicles or renewable energy). The government is likely to intervene in these circumstances but as we will see later in the chapter this is no guarantee of correcting the market failure and there are more fruitful opportunities within the market.

In respect of regulation, an example might be the regulation of the domestic energy sector. In the UK there are a small number of large suppliers (oligopoly). This domination by a few companies tends to be anti-competitive. Partially this is because barriers to entry are exceedingly high, requiring large amounts of capital. The consequence of this is that innovation and creativity suffer as there is no competitive incentive, prices for the consumer will remain higher than is necessary, and the consumer may receive poor levels of service with only limited capacity to switch supplier. In this instance of market failure, the government is likely to seek to use regulation to seek to improve outcomes. The government appoints a regulator, in this case the Office of Gas and Electricity Markets (Ofgem), established by Act of Parliament. The regulator states its own purposes to be as follows:[1]

i. working with government, industry, and consumer groups to deliver a net-zero economy, at the lowest cost to consumers;

ii stamping out sharp and bad practice, ensuring fair treatment for all consumers especially the vulnerable;

iii enabling competition and innovation, which drives down prices and results in new products and services for consumers.

You can see how this type of regulatory intervention seeks to deal with some of the consequences of market failure in this sector.

How might we make sense of the concepts of market failure from a theological perspective? The market represents God's provision for the flourishing of humanity and the efficient production of goods and services. Both Catholic and Protestant traditions reflect this teaching. The created order in Genesis sets the framework. In Genesis 2:15 we read that Adam was placed into Eden to both work the garden and keep it. We see here the twin principles

[1] <https://www.ofgem.gov.uk/about-us/our-role-and-responsibilities>.

of innovation and creativity in creating goods and service for human flourishing and the concept of stewardship. John Calvin (1509-1564), the Christian reformer, noted that humans were created for the express purpose of work. Catholic teaching from Pope Leo XIII's *Rerum Norum* (1891), Pope John Paul II's, *Centesimus Annus* (1991) to Pope Benedict XVI's, *Caritas in veritate* (2009) and the Pontifical Council on Justice and Peace's *Vocation of the Business Leader* (2012), all affirm the principle of private property and a market economy. This is the proper place for economic activity, creativity and innovation which reflects the very character of God.

Christian teaching, however, also recognizes the problems and limits of markets. The entry of sin into the world results in imperfection in both markets and individual actors within markets. Catholic social teaching uses the principles of solidarity and subsidiarity as a framework through which we can respond to market failure. The recognition of the crucial importance to society of dealing effectively with environmental externalities are recognized in *Caritas in veritate* and Pope Francis's *Laudato Si'* (2015). Catholic teaching argues that the costs of environmental degradation should be borne by those that incur them, not others, a recognition of the economic problem of externalities. The principle of solidarity unites humanity in its desire for the common good, the flourishing of all people, and with a common concern for the poor and vulnerable – often the victims of climate change brought about by environmental externalities. The concept of subsidiarity recognizes that private property is a bedrock of a free society and can contribute to the protection of forests and fisheries by encouraging responsible ownership, and the voluntary principle (an idea with a long history in both Catholic and Protestant traditions), that not all can be achieved by the state.

In other words, Christian teaching affirms the principles of the market set out in the creation order but recognizes the failures which can arise within the market. There is a proper role for government (to which we will shortly turn) but the creation principles will seek to ensure a continued role for the market and for private property as appropriate loci for solutions to externalities and market failures, alongside government.

Christian teaching in a fallen world recognizes the realities of trade-offs. In this, Christian theology reflects economics. The fall has introduced scarcity and externalities into markets. Choices must be made, trade-offs managed and the proper role of, and limits to, government intervention recognized.

2. The role of government and regulation

Both economists and theologians recognize a proper role for government in economic intervention to correct market failure. Theologians are also able to remind economists of the limits. In this section we will firstly consider the economic rationale for the role of government and secondly what Christian theology has to say about the proper role of government.

Even economists who would be regarded as advocates of a free market, such as Milton Friedman,[2] recognize a role for government. Economists see a role for government in several ways.

a) *Rule-maker and umpire*

Freedoms in the market are sometimes competing. For example, the freedom to establish a business and the freedom to operate as a bank. The first is widely protected and the latter tightly regulated with licensing and capital adequacy requirements. A further example might be the tension between the freedom to fix the price of sale of a good or service and the freedom of companies to enter into price fixing agreements to the detriment of the consumer. Government has a role in setting the rules of operation in the market, acting as arbiter of conflicting interests and ensuring appropriate rules of protection.

b) *Definition and enforcement of property rights*

Economics and property rights are integrated. We have already noted the importance of property rights in Christian teaching. Economics depends

[2] See, for example, M. Friedman, *Capitalism and Freedom, fortieth anniversary edition*, University of Chicago Press, Chicago IL 2002.

upon rights of property enforceable by freely agreed upon and negotiated contracts. However, many property rights require precise legal definitions. For example, if mineral deposits such as oil and gas are discovered under land do they belong to the landowner (United States) or constitute a separate right of property (United Kingdom)? In addition, patents, trademarks, and other forms of license seek to protect intellectual property. The proper definition and enforcement of property rights is an essential economic role for government.

c) ***Provision of a stable monetary framework***

In recent years we have seen extremely low interest rates followed by rapidly rising ones. Although banks and financial institutions have freedom to set whatever interest rates, they wish they are normally constrained by some form of base rate set by the government or a central bank such as the Bank of England or Federal Reserve. The rate set may reflect market conditions but also wider government objectives such as the control of inflation. Some debate may ensue over the boundaries and limits of such intervention, but the provision of a stable monetary environment is broadly accepted as a governmental responsibility.

d) ***Regulation of monopoly***

Does a single or a very small number of companies in a sector serve the consumer and society well? The answer is normally negative because this scenario would enable monopolistic pricing, monopolistic profits and lack of choice and competition. Governments normally take regulatory action to prevent the domination of one or a few firms in a particular sector. For example, in the UK there is the Competition and Markets Authority designed to regulate mergers which have the potential to reduce competition and act against cartels, price-fixing, anti-competitive behavior, and unfair trade practices. In the US similar arrangements are put in place through anti-trust legislation and the Federal Trade Commission. A more difficult situation arises in the case of a state monopoly, when the state either owns the means of production in an industry or is the sole provider of a service (for example, the National Health Service in the UK). Monopoly power in the hands of the state reflects many of the same problems as private monopoly with the added complexity of the power of the state.

e) ***Provision of "public goods"***

We have already mentioned the principle of public goods in considering market failure. However, by way of summary, there is wide acceptance of the role of government in providing goods of public benefit which the market does not effectively provide. The most obvious example is defense. Everyone benefits from defense and hence there is no incentive for the market to provide (the free-rider problem). One person's "consumption" of the good does not prevent other's gaining the benefit at the same time. We discussed other examples earlier, but the principle is that government provides public goods. There are, however, grey areas (for example, the use of road pricing) and debate over the extent of governmental provision (for example, in health care).

f) *Compensating for impact of externalities*

We noted earlier that externalities were an example of market failure in respect of the failure of the market to account for all costs. The government usually intervenes in some manner to compensate for these costs. There are four types of government response. First, the use of taxation. For example, a tax on tobacco products to compensate for the health ill-effects, or a tax on cars entering cities to discourage pollution. Second, subsidizing positive externalities to encourage their use or production. An example here might be subsidizing aspects of skills training or public transportation. Third, regulation such as environmental standards in production. Fourth, behavioral and nudge theories, for example, education programs concerning the ill effects of obesity or tobacco.

As Milton Friedman put it

> "…the organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts volun-

> tarily entered into, the definition of the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework."

Christian theology has long considered the proper role of civil government, but it does not tell us what rate of interest should be set by the government or central bank, or whether we should adopt particular taxes or subsidies. There was, nevertheless, some tension in Calvin's Geneva between Calvin himself and the city council over the rate of interest which illustrates that tensions between competing authorities are not new. The Bible (see, for example, Romans 13) talks about respect for the governing authorities, the state's role in law and order and the rightful payment of taxes – although the Bible knows nothing of progressive taxation, another reminder of the Christian view of limited government.

Theology does set out some principles around the role of government which at least act as a constraint or boundary. In addition to that the growth of government expenditure and the modern assumption that the answer to every question involves the state or an increased role for the state has resulted in some distinctly negative consequences with the crowding out of the voluntary sector not least in the provision of health, education and social welfare. This tension is reflected in both Catholic and Protestant teaching and is a reminder that there are limits to the role of the state.

Most Christian theology of the role of government begins with the idea that the citizen belongs in two kingdom's – the spiritual and the temporal. Debate around the proper role of government centers around the relationship between the two kingdoms. At one extreme is the complete separation of the two kingdoms (government is evil and unnecessary and to be shunned) and at the other some sort of theocracy (no distinction at all between the two kingdoms).

The classic Protestant view of the state is that the role is a negative one, to prevent sin and evil through defense and good order, enabling the citizen to live in peace and tranquillity in the temporal kingdom, but little more. Excessive intervention of the temporal state was often seen as a usurping of God's sovereignty and proper role.

John Calvin (1509-1563) reflected this view of the role of the state but allowed some space for a more nuanced and positive view. In his *Commentary on Romans* Calvin argues both positive and negative reasons for civil government "to provide for the tranquillity of the good and to restrain the waywardness of the wicked."[3] Calvin also argues that humanity should cherish and preserve society. Calvin expands his thinking in Chapter 20 of Book IV of the *Institutes of the Christian Religion*, the

[3] See W.R. Stevenson, "Calvin and Political Issues," in *The Cambridge Companion to John Calvin*, ed: Donald K. McKim, Cambridge University Press, Cambridge 2004, 174.

last chapter of his work, where, alongside a role in maintaining doctrine and worship, he argues that the role of civil government is also to enable us to live together in an ordered society in peace and tranquillity. Calvin's approach is more nuanced than either a rejection of the role of the state (that, in his view, was the error of the anabaptists) or a deification of the state as the provider of social welfare and benefits, which obscures personal responsibility and accountability before God.

Perhaps the key point in understanding the Christian view of government is that the state has a proper role, in welfare and in economics, but not to the exclusion of our personal responsibility and accountability and certainly not to take-over functions that do not rightfully belong to the state. Certainly, later Christian thinkers were also skeptical around the growth of the state and the danger of interventionist overreach. An example here is Abraham Kuyper (1837-1920), who founded the Free University of Amsterdam and served as the Prime Minister of the Netherlands from 1901-1905. He understood the world as divided into spheres, each of which is independent and has its own rights and prerogatives, each sphere being under the sovereignty of God. These spheres included business, science, arts and the family but these elements of society do not owe their existence to the superiority of the state, rather to God, who is also sovereign over the state itself.

The state, argues Kuyper, should not intrude upon the prerogatives of the other spheres. Indeed, the danger is that the state grows and crowds out the other elements of society. The role of the state is to avoid social conflict (by preserving the sovereignty of each sphere), defend the weak, and maintain the overall unity of society.

How might we apply this to the economic sphere? A Christian view of government will certainly see a role for the proper provision and oversight of a legal framework which enables the good ordering of economic life. Government, however, should not extend itself into thinking it can control, command, or direct the market which God has provided for human flourishing. Naturally, there will be political debate about the exact boundaries, but Christians will be wary of a tax burden that removes excessive sums from family and civil society and crowds out the voluntary principle.

Friedman, who was writing from an economic rather than theological perspective, advocated two broad principles that are in accord with the Christian teaching set out above. First, government must be limited, its principal economic role is to ensure competitive markets, enforce contracts, encourage enterprise, and provide a stable monetary and fiscal framework. The second principle is that government power should be dispersed rather than centralized and encourage the institutions of civil society and individual responsibility.

3. The limits of government regulation: government failure

We have considered the case when markets might fail. The usual response to such market failure is usually then either government intervention in, or regulation of, the market. However, we should not fall into the trap of presuming that these interventions are of necessity capable of solving a market problem.

As well as the Christian teaching around the limits of government we might find such interventionist or regulatory activity ineffective; in other words, as well as market failure we must account for the possibility of government failure. The unintended consequences of government intervention may result in a worse outcome than the market failure itself. To adopt the more technical definitions government or regulatory interventions may lead to an inefficient allocation of resources resulting in a decline in economic welfare or utility. In other words, a worse outcome. Why might this be the case? There are several factors which can contribute to government failure.

a) *Distorted price signaling leading to sub-optimal outcomes*

An example here would be the setting of a minimum wage by government (the price of labor) to seek to correct the problem of low wages in the economy. This might result in increased unemployment due to the price of labor being held artificially high.

b) ***Conflicting objectives and short-term decision-making***

Governments also suffer from less than perfect information whether about future costs on a large infrastructure project or anticipated demand. In addition, government decision-making is often shaped by short-term electoral cycles rather than long-term utility.

c) ***Excessive administrative costs or bureaucracy***

Governments tend towards centralization, and this can have the consequence of inflated costs of administration and bureaucracy. We might see this in the administration and collection of taxes, for example, or subsidies, or basic inefficiency in service provision which artificially increases costs and reduces economic welfare.

The imposition of price controls in the private rental market is an example of where government intervention to correct market failure can itself fail, resulting in government failure and an overall loss of economic welfare. Government restrictions on the amount of rent that can be charged in the private rental property market are a common form of government intervention. Rent controls are usually introduced for valid social reasons. Housing is seen as a basic human right and if there is a mismatch between the supply of rental properties and the price at which the more vulnerable members of society can afford housing then government intervention in the market seems a natural step. This regulatory approach might be a price ceiling (a maximum rent) or limits on increases. There are, however, several negative consequences:

i. reduction in the supply of rental properties as landlords withdraw from the market unwilling to supply property at the regulated price;
ii. increased levels of disrepair and hence long-term reduction in the quality of the housing stock as landlords are unwilling or unable to properly fund maintenance;
iii. distortions caused by inefficient or even biased allocation of scare property with multiple claimants;
iv. the cost of poorer quality properties may fall less (if at all) and hence help the poorest least compared to luxury properties.

There are other aspects of government regulatory intervention that can be used in this market including secure tenancies and restricting evictions.

There is a dilemma and part of economics is to recognize dilemmas, a point we will return to subsequently. There are examples of poor housing stock, lack of repairs, exploitative landlords and excessive rent. The Government's desire to act for the common good of society is perfectly reasonable. However, as we have sought to illustrate, we too often get trapped in assumptions about the utility of price and non-price controls which may not be borne out by the reality. There are potential market mechanisms (for example, penalty clauses for non-repair) that could incentivize landlords to maintain their stock. The point of this example is not to deny market problems, but rather to draw attention to the limits of government interventions.

Regulatory intervention has also been a common response by government in financial markets, not least since market failure in financial markets can have catastrophic consequences. In the light of the financial crisis of 2008, Andy Haldane, who was at the time Executive Director, Financial Stability, at the Bank of England, and subsequently a deputy-governor of the Bank, gave a speech at the Federal Reserve Bank of Kansas's economic policy symposium at Jackson Hole, Wyoming in 2012 entitled *The Dog and the Frisbee.*[4] His essential argument is that catching a crisis is difficult, just like catching a frisbee. He argued that the characteristics of dogs which are successful frisbee catchers are simplicity, agility, and speed. This, he notes, is the opposite of the direction of travel of financial regulation, the very regulation that missed the crisis. Haldane argues that it is possible that increasingly complex financial regulation might not just be more costly and cumbersome but be sub-optimal in terms of

[4] A.G. Haldane, "The Dog and the Frisbee", <https://www.bis.org/review/r120905a.pdf>.

the very objectives of the regulation itself. Haldane refers to the banking industry's financial regulatory framework as laid out in the Basel Accords. The first agreement, Basel 1 (1988), ran to just 30 pages, Basel II (2004) occupied 347 pages and Basel III (2010) encompassed 616 pages. In the US the Dodd-Frank Act, the federal regulatory response to the financial crisis of 2008, itself occupied 848 pages and required 400 additional pieces of rulemaking by regulatory agencies.

Well-intentioned regulation can end up unwieldy, ineffective and develop a life of its own. Since 1979 the number of financial regulators has risen by over 40-fold. The number of people employed in the UK financial services sector in the period has risen only fractionally. Haldane draws, tongue in cheek, a picture of a steadily rising regulatory tower, with new floors and extra filing cabinets constantly needed to house the rapid expansion in regulation and reporting. He summarizes as follows:[5]

> "Ever-expanding numbers of regulators will not solve this problem – if anything, that may cause average levels of experience to fall, not rise. Nor will ever-expanding amounts of regulatory reporting – if anything, that breeds more complexity, not less. A strong case can be made for a reversal of the historical trajectory in which "more is more". This strategy has comprehensively, and repeatedly, failed the crisis test. This calls for a different supervisory

[5] Haldane, Dog and Frisbee, 17.

> direction of travel. Practically, that may mean fewer (perhaps far fewer), more (ideally much more) experienced supervisors, operating to a smaller, less detailed rulebook. That would reduce the risk of self-defeating defensive supervisory actions. It would mean being brave enough to allow less to deliver more."

Regulation, however, well-intentioned, is a double-edged sword and the intelligent observer of faith will note that neither market nor government are guarantees of the common good, but a social contract fit for the twenty-first century is likely to acknowledge a role for both. Government has a role but there are many options available within the mechanisms of the market which can provide effective solutions to market failure and externalities, even more so than government regulation.

4. Market solutions to externalities

Christian theology teaches a dual responsibility embedded in the principles of creation. The first of those is the responsibility to work in God's economy, combining raw materials for wealth and value creation. We see these principles set out in Gen 2:15 where humanity is commanded to both 'work' and 'keep' the garden. The second is the responsibility to steward the earth. We noted earlier some of the important teaching in both Catholic and Protestant traditions reflecting this dual responsibility. There are several relevant encyclicals including *Populorum Progressio* (1967), *Centesimus Annus* (1991) and

Laudato si' (2015). This is why in the *Vocation of the Business Leader*, published in 2012 by the Pontifical Council on Justice and Peace, it is stated that:[6]

> "Business leaders are called to conceive of and develop goods and services for customers and communities through a form of market economy."

In the Protestant tradition, Martin Luther (1483-1546) noted that humanity was created for work prior to the fall, John Calvin (1509-1564) that the earth was leased to mankind (implying both cultivation and stewardship) and Abraham Kuyper (1837-1920) that the common means of provision for humanity are latent within the created order.

Consequently, in both Christian and economic theory, we should expect to find many of the solutions to the problems of externalities, pollution, climate, carbon and so on within rather than external to the market mechanism. This does not mean there is no role for government but a reminder that innovation, creativity, entrepreneurship and risk-management are essential features of the market mechanism which can be harnessed for the common good. In this section we consider two examples.

The production of greenhouse gases (principally carbon dioxide) as a by-product of industrial activity is a significant example of a negative externality in current economic production and activity. The consequence is global warming of the planet including the oceans with significant implications for

[6] Pontifical Council on Justice and Peace, *Vocation of the Business Leader*, 2012.

both human and marine life. Governments often seek to regulate through systems of taxes and fines. The principle of carbon capture and carbon trading is a market-based mechanism that seeks to ensure that the costs of production reflect the full cost of carbon emissions. There are, however, several issues to consider:

i. establishing an appropriate price for carbon;
ii. maintaining the principle of the polluter paying the cost of the externality;
iii. establishing an effective cap and trade scheme.

Price signaling is one of the most important parts of the market mechanism. The price of carbon, for example, needs to accurately reflect the cost. Carbon pricing is a market mechanism which ensures that the polluter pays for the cost of greenhouse gases either through taxation or via a scheme of tradeable permits, usually known as emissions trading or, for shorthand, cap and trade. The price mechanism must be robust, not only to reflect the actual cost, but also to incentivize carbon reduction and, indeed, carbon innovation. If the price is too low, then either taxation or carbon trading may be ineffective in achieving the goal of reduced emissions.

A robust, properly implemented cap and trade framework can have significant benefits to the long-term goal of carbon reduction including incentivizing investment and innovation, reducing pollutants, generating revenue, and reducing levels and disincentives of taxation.

5. How does cap and trade work?

For this chapter's purposes, we will describe the basics of such schemes and then draw attention to some complex areas. An emissions cap is set by the government reflecting the wider public policy objectives to achieve carbon reductions. Emissions allowances or credits are made available that are consistent with that overall cap. A producer emitting greenhouse gases in their production processes needs to hold an allowance or credit to cover their emissions. In principle, the producer pays for the right to pollute within an overall cap. It is easy to see in this framework the importance of the price mechanism. Properly priced, the polluter pays the cost. Too low and there is insufficient incentive to reduce emissions. Too high and there is potential uncertainty, withdrawal from markets, unemployment, inflation, and increased consumer costs. We are, once again, back to the principle of a trade-off. If a producer can reduce their carbon emissions (through innovation or behavior change) at lower cost than the credit or permit, they can trade and sell the excess. Consequently, a market is created. The price allows companies in need of a greater share of the allowances to buy them, which increases their own costs and hence further incentivizes them to reduce emissions and costs, but over a longer timescale and does not result in any overall increase in the emissions cap. The issues which arise are:

i. Should emissions allowances or credits be allocated by government or auctioned?
ii. How should governments use any revenue?
iii. Should there be one uniform carbon price and market globally or local markets?

It is beyond our scope to discuss these aspects in detail which reflect some of the complexities of carbon cap and trade. However, carbon pricing ensures that at least some of the cost of pollution is borne by the current generation, the polluter, and all the costs are not simply shifted to future generations hence leading to greater inter-generational fairness.

A current example of a carbon market is the EU emissions trading scheme. This scheme covers energy, manufacturing and air transport across the EU and EEA/EFTA, accounting for around 40% of EU carbon emissions. Maritime transport will be added in 2024. The cap is expressed in terms of emission allowances which give the right to emit one ton of carbon dioxide. Each year companies must surrender enough allowances to fully account for their emissions or face fines. Companies buy the allowances, some are allocated for free, and they are tradeable as needed. If a company reduces its emissions, they can either keep the allowances for future use or sell them. The declining cap offers companies certainty about the scarcity of allowances long term and ensures that the allowances have a tradeable value. Since 2005 the scheme has resulted in a reduction of carbon emissions by 37%. One problem was the collapse of the price of carbon during the economic crisis. The consequence was that the price signaling of the market was insufficient to promote reductions in emissions. One outcome was that the UK introduced a carbon floor with a minimum price. At the EU level, the funds raised from the initiative were used to fund a carbon innovation fund and reduce national budgets.

The second example is the principle of catch-share in sustainable management of fisheries. This brings together the market mechanisms and property rights in an approach which attempts to reverse the trajectory of declining fish stocks caused by overfishing and the impact on fisheries of climate change through warming oceans.

The traditional approach to fishery management is characterized by the designation of certain periods (from a few days to several weeks) during which fishing is permitted. This incentivizes catching the maximum amount in the available period, with fines for non-compliance, but without regard to the overall health of the fishery and fish stock.

The move to a property rights market mechanism significantly increases and incentivizes the motivation of fishers to act as responsible stewards of the oceans. This is achieved by granting to individual fishers a share of the catch as a property right. This represents a long-term ownership stake in the overall fishery (as a percentage), an "asset" that can be passed on or sold. As the fishery grows through sustainable methods (now incentivized through the rights of property) so does the financial value of its stake and also the annual profits.

The method works as follows. The right to fish is not restricted to certain time periods but each fisher can determine when to fish based on weather and market conditions, for example, when the price of fish is high. In this way, the fisher maximizes his profits without damage to the fishery's sustainability. The prospect of growth in value as the fishery grows provides an incentive to manage the fishery responsibly.

The catch-shares approach has already been highly effective in both the US and Europe. In the former overfishing has declined by some 60% since 2000, jobs are more stable and secure, and revenue has increased. In Europe, the Environmental Defense Fund has partnered with Swedish fishery organizations to introduce a system based on individual transferable quotas. Individual fishers have a secure share of quota within the system which enables planning and fishing in the most favorable conditions. Transfers and sales of quota are permitted which enables an individual to cover any over quota catch by swapping or trading quota through a digital tool. Trading is permitted only on an annual basis, which prevents the consolidation of quota rights into the hands of a few large businesses creating an oligopolistic situation. This then protects the rights of smaller, coastal fishers, protecting both jobs and communities.

The point for the purposes of this chapter is to recognize the place in which God's provision of market mechanisms are part of the solution to environmental problems and that this is sometimes overlooked by an over-confidence in the role of government towards which the Christian will have a more skeptical attitude.

6. Conclusions

How might we draw our observations together?

First, economics and theology belong together. In our discussions of externalities and public policies we should recognize that both the market and responses to market failure are shaped by theological considerations.

Secondly, there is a proper role for government in responding to market failure. However, it is essential that we remember that government can also fail, either failing to achieve its own public policy objectives or leading to unintended consequences. Christian theology has long thought about the proper role of government and has viewed that role as real but limited.

Thirdly, one of the major failures in the public understanding of economics is that neither government nor the wider public have a proper appreciation of the crucial importance of trade-offs in public economic policy. Many economic choices involve decisions between competing goods. In a fallen world with scarce resources this is unsurprising. We cannot consider in isolation even choices in areas such as sustainability and climate, dealing with pollution or other climate-related issues. There are trade-offs, and we must consider the relative benefits and values of different options.

Fourthly, there is sometimes a tendency to overlook the capability of the market itself to respond creatively to the problems originally created by market failure. Indeed, an over-reliance on government to provide the answers generates the additional problem of moral hazard – players in the market do not undertake desirable activities for the common good because they lack the incentive to do so if the risks are effectively covered by government. This then leads again to a loss of overall welfare for society.

MONEY, FINANCE AND BANKING: CAN THEY BE ETHICAL?

Carlo Bellavite Pellegrini
Andrea Roncella

This chapter aims to address three questions: what is money, what is finance, and what is banking? In developing the answers from a technical point of view, we will try to highlight how behind the functioning of these instruments lies a broader question that concerns not so much technique as ethics. For this reason, the last section of the chapter will be devoted to trying to explain how ethical reflection can contribute to a better implementation of these activities. To quote Benedict XVI:

> "We have all witnessed the way in which progress, in the wrong hands, can become and has indeed become a terrifying progress in evil. If technical progress is not matched by corresponding progress in man's ethical formation, in man's inner growth, then it is not progress at all, but a threat for man and for the world."[1]

However much these activities may transform and become more technologically significant, they can never be considered neutral. This chapter seeks to assert that finance (in its most generic possible

[1] Benedict XVI, Encyclical Letter *Spe salvi*, 30 November 2007, n. 22.

sense) is never neutral, but always oriented toward either good or evil.

1. Money

"Money" is often alluded to subtly and with restraint, frequently opting for terms like 'resources,' 'funds,' or 'liquidity' to sidestep the potential coarseness linked to the word "money." Similarly, the act of physically transferring cash has lost its societal refinement, with a preference for electronic transactions such as credit card usage or mobile payments. Nevertheless, it is imperative to acknowledge that money plays an indispensable role in both economic endeavors and, with few exceptions, in our day-to-day lives. Without financial means, the essential transactions that sustain even basic necessities would be unattainable. In the absence of such transactions, human existence would regress to a more primitive state, stifling the complete expression of human potential. This prompts the question: why is there such hesitancy and modesty surrounding a component of human existence as vital as money? Upon closer scrutiny, the issue seems to revolve not around the concept of money itself, but rather the underlying motivations and intentions associated with its utilization. From a *cash flow* perspective, whether it involves bequeathing a substantial inheritance to a beloved pet cat or contributing an equivalent sum towards the construction of a hospital, both actions are essentially equivalent. What sets them apart are the underlying intentions: the 'why,' 'what for,' and 'for whom.' It is the purpose that bestows significance upon the tool.

Thus, money is a set of possibilities; it appears as the best symbol of our free control of time, and the interest rate appears as the tool for the reduction of any risk associated with the future's uncertainty. The notion of currency as a pure source of possibilities at one's disposal, that is, as a pure instrument of power, is a temptation that human beings have faced since ancient times. Since its beginning, the Church has warned us of the risk of becoming enslaved to the desire for the things of this world, and the money intended as a source of possibilities may become the only good, or rather the uniform form of the desire for limitlessness.

Contemporary currency, whether national or international, is *fiat* money, that is, a currency with no relation to gold, and which does not derive its value from gold, since it is, as they say, created *ex nihilo*. This has been the case since 1971, that is, since the U.S. dollar, the currency that exercised the role of international currency after World War II, ceased to be convertible into gold.

From an economic point of view, currency performs three functions: 1) As unit of account, it is used to evenly compare the value of widely differing products and services, thus facilitating economic decisions and contractual agreements. 2) As reserve value, it allows the portion of income that is not immediately used to consume goods and services to be shifted over time. In other words, it allows a share of current income to be stored (saved) to be spent in the future. 3) As a means of payment, it can be exchanged instantaneously for goods and services: the buyer delivers currency to the seller and in this way frees himself from any obligation to the latter, who, by accepting it, recognizes its value.

However, many aspects coexist in the birth of money that go far beyond the three classical functions. On the faces of the characters on coins from classical antiquity to the present day there is much more than a mark of recognition. There are the faces of the Caesars on the obverse and many depictions of Rome on the reverse. They are the signs and symbols of power. An immense power!

Some evidence for this can be found in the Gospel of Luke 20:21-26 about the tribute to Caesar, and more specifically, when Jesus explicitly asks, "Show me a money: whose image and inscription does it bear?" They answered, "Caesar's".[2] Not surprisingly, one of the first subjects in Roman history whose face appears on an obverse of a coin is Julius Caesar, the man whose very name is the symbol of power.

Those who wield this power, therefore, have a great responsibility. In this sense, it is interesting to

[2] At that time, the Roman emperor, was Tiberius Claudius Nero, successor to Augustus and first-born son of Livia Drusilla Claudia.

note what Carlo Azeglio Ciampi, former President of the Italian Republic and one of the architects of the European single currency project, said in a private conversation, "The euro is a peace project, even before it is a currency. We decided to bring forward the single currency when at least one third of Europeans, then still alive, had experienced, as adults, the horrors of World War II. Never again war in Europe, never again!".[3]

2. Finance

When we mention finance today, we are not just talking about money; we are referring to financial capitalism as it has progressed in the Western world. The financial sector has experienced substantial growth in recent decades, mostly driven by globalization and technological development. In financial capitalism, financial assets become exceedingly significant, to the extent that they dictate the overall performance of the economy. This phenomenon, commonly referred to as "financialization" as such, is neither bad nor good. However, if we observe this process in greater detail, we can find challenging facets.[4]

The first approach characterizes financialization as a system of wealth accumulation, which pertains

[3] See C.B. Pellegrini, *Tra cielo e terra. Economia e finanza nella Bibbia*, EGEA, Milano 2021.

[4] See P.H. Dembinski, "Finance: Servant or Deceiver?", in *Observatoire de la Finance*, 2009.

to the correlation between the diminishing profitability of manufacturing industries and the escalating involvement of non-financial enterprises in financial activities. Scholars in this domain argue that non-financial corporations increasingly generate profits from financial undertakings, while also directing a growing portion of their earnings towards the financial sector through interest payments, dividends, and stock buybacks. Consequently, this diverts capital away from productive investments.

The second perspective focuses on the financialization of contemporary corporations. Scholars attribute this shift to the ascendancy of shareholder value as the primary guiding principle of corporate conduct. According to these academics, shareholder value is not a neutral concept, but rather an ideological framework that legitimizes a profound redistribution of wealth and influence among shareholders, managers, and workers. Empirical investigations in this realm encompass executive compensation practices, corporate restructuring, shareholder activism, and other behaviors exhibited by investors.

A third strand of research delves into the financialization of everyday life. This approach recognizes the diverse ways in which finance has become intertwined with everyday practices. The integration of finance into daily life has been made feasible by the democratization of financial products and services, which have become accessible to a broad segment of the population.[5] Studies within this domain have examined initiatives and programs aimed at involving low-income and middle-class households in financial markets through their participation in pension plans, home mortgages, and other widely marketed financial products. Concurrent with the financialization of daily life is a shift towards financial markets as providers of essential services, replacing traditional sources such as the welfare state, employers, or savings accounts. Due to the democratization of finance, there has been an increase in financial transactions and a greater convergence between finance and the various stages of an individual's life. Moreover, new technologies, like digital payments, triggered a more inclusive perspective in the spheres of payments for all those who are excluded, for different reasons, from the traditional banking system.

To try to bring order to the myriad activities taking place in the financial sector, we can summarize the main functions fulfilled by it as: 1) promoting savings for families and businesses; 2) allocating resources (through fixed income, credit and equity markets), achieved by matching savers (with surplus funds) and entrepreneurs (with funding deficits, but innovative ideas); 3) risk management, through tools (such as future and options) that enable the distribution of risk over time and space,

[5] See R.J. Shiller, *Finance and the Good Society*, Princeton University Press, Princeton PJ 2013.

thereby ensuring broader access to credit; 4) allowing payment systems, employing technologies that facilitate payment transactions, making them increasingly reliable, transparent and more inclusive; 5) creating information on future market developments (mainly through derivative instruments).[6]

All financial institutions, no matter how complex and technical they may appear, should always be able to align with at least one of these functions. Conversely, when the connection with one of these purposes is severed, there is a risk of creating a self-referential tool with no clear purpose, which, as such, may avoid setting any limits on its activities. It may also happen that some financial instruments originally designed to fulfill one of the aforementioned functions become "corrupted" over time by those who use them. This implies that their use is distorted, with adverse consequences (externalities) for the system they were originally intended to serve. In this sense, financial agents bear the responsibility of vigilantly overseeing the use of instruments that, when used properly – that is, in alignment with their intended purpose – contribute to the common good, but when misused, result in harm to society.

This narrative can be applied to describe the evolution of many financial products and instruments,

[6] These tasks involve individuals, corporations, and governments, in order to raise the financial resources they need. We thus speak of personal finance, corporate finance, and public finance.

initially created to play a positive role, but later serving as a means to exacerbate instability and unjust inequalities. Consider the case of mortgage securitization processes at the root of the financial crisis in 2007, or derivatives like credit default swaps, or leverage buyout operations from private equity's funds.

The list is long, and the utilization of these instruments depends on both the morality of the financial agents who manage them and the rules of the game. These two components influence each other, for better or worse. This is the most important lesson we can draw from the global financial crisis. Believing that the problems of finance can be resolved with a list of good intentions is naive if we do not also consider the need to address incentives, institutions and corporate governance. Thinking about creating "perfect structures" risks forgetting that promoting the common good requires a transformation of the hearts of individuals.

3. Banking

Banks serve as crucial financial institutions that channel millions of people's savings into credit for economic investments. They predominantly acquire substantial funds from deposits, which, as debts of a bank, are expected to possess a clear and secure value, widely accepted as equivalent to cash. While this authority over others' investments can lead to temptations for misuse, small businesses and borrowers who rely on banks for credit depend on the bankers' ability to uphold depositors' trust. Yet, small depositors cannot be expected to conduct all the necessary monitoring to ensure the trustworthiness of their banks. Consequently, public regulation of banks is essential to sustain stable trust in credit channels vital to society.

Examining the outputs and inputs of a bank, its primary outputs, or products, are debt contracts, primarily in the form of IOUs (I Owe You) payable to the bank. Concurrently, the major inputs are also contracts, mainly in the form of IOUs payable to depositors. Not commonly realized, when individuals deposit their paychecks in a bank, they are essentially lending money to the bank. This unique business model, where both inputs and outputs are loans, inherently involves instability and risk. Banks face challenges in balancing the act of borrowing money from depositors and lending it to debtors, as the certainty of debt repayment cannot be predicted. Unforeseen circumstances may lead even the most honest borrower to default, risking the loss of depositors' funds.

Additionally, the difficulty in precisely matching the durations of contracts with depositors and debtors poses a challenge, known as *maturity mismatch*. Banks face the risk of a mass withdrawal by worried depositors, even if the bank is not insolvent, potentially causing a shortage of cash to meet withdrawal demands. The banking literature terms these issues as *credit risk* and *liquidity risk*, and the solution involves creating cushions in the balance sheet.

Equity capital, the first type of cushion, represents a sum invested in the bank by stockholders, providing the ability to repay deposits in full even if some debtors default. The second cushion is cash assets, as banks hold reserves rather than lending out every penny they possess. The size of these cushions depends on the bank's size, with larger banks requiring more significant capital and cash buffers to operate prudently. Thus, the logic of banking entails raising deposits and equity capital to finance operations, lending resources to reliable parties, and preserving some assets as cash. As long as depositors and equity capital suppliers continue to fund the bank, and the banker maintains adequate buffers, the risk of loan default remains manageable, enabling the operation of a secure, sound, and profitable enterprise. [7] But this is easier said than done.

The onset of the financial crisis in 2007 underscored that changes in the operational strategies of banks played a pivotal role in reducing lending standards and amplifying the overall risk within the financial system. After the crisis, many ana-

[7] On the importance of this issue, we suggest A. Admati – M. Hellwig, *The Bankers' New Clothes. What's Wrong with Banking and What to Do about It*, Princeton University Press, Princeton PJ 2014. See also C.W. Calomiris – S. Haber, *Fragile by Design. The Political Origins of Banking Crises and Scarce Credit*, Princeton University Press, Princeton PJ 2015.

lysts immediately attributed the turmoil to recent alterations in banking regulations, particularly the Gramm–Leach–Bliley (GLB) Act of 1999, which allowed banks to engage more extensively in activities beyond traditional banking, including investment banking, venture capital, security brokerage, insurance underwriting, and asset securitization, overcoming the Glass-Steagall Act of 1934. Critics argued that bank supervisors had been negligent or unprepared to manage the challenges arising from the deregulated financial markets. In contrast, the earliest scholarly investigations into the matter arrived at the conclusion that the causes and characteristics of the financial weaknesses exhibited by banks during the financial crisis bore similarities to those seen in banks that had previously failed or performed poorly in banking recessions predating the enactment of the GLB Act.

It is unquestioned, however, that the years before the global financial crisis had seen numerous banks shifting away from the conventional approach of accumulating deposits to fund loans that would be retained until maturity on their financial records. This approach, known as the "Originate to Hold" (OtH) model, gave way to a novel business model oriented towards market dynamics – the "Originate to Distribute" (OtD) model. Under this latter model, banks originate loans with the intention of packaging and selling them as securities on financial markets. The degree to which banks deviated from their traditional business model emerged as a new facet of risk, which credit rating agencies might potentially consider when evaluating risks. Since banks have less *skin in the game* in this new business model, a greater sense of responsibility is required when putting complex financial instruments into the market.

4. Money, finance, banking: can they be ethical?

In the wave of general indignation that followed the 2007 global financial crisis, one of the most strident voices concerned precisely the ethics, or rather its absence from the financial agents.[8] An agreement with regard to the roots of this grave lack has not yet been achieved, with opinions divided between those who argue that its origin should be sought, for example, in the new system of incentives that threatened the traditional values of financial institutions,[9] in the type of education offered in the business schools,[10] or in the widespread incompetence of the various parties involved.[11] However, it is undisputed that this greater awareness of the

[8] See for example: The Economist (2013). "A Crisis of Culture. Valuing Ethics and Knowledge in Financial Services", in *The Economist.*

[9] See M.A. Santoro – R.J. Strauss, *Wall street values: business ethics and the global financial crisis*, Cambridge University Press, Cambridge 2012.

[10] L. Zingales (2015), "Presidential address: Does finance benefit society?", in *The Journal of Finance*, 70(4): 1327-1363.

[11] B. De Bruin, *Ethics and the global financial crisis*, Cambridge University Press, Cambridge 2015.

importance of ethics allowed for a better understanding of economic and financial events.

Ethics, then. But what kind of ethics for finance? Let's reject immediately the misconception that the financial realities described above are inherently neutral. While this assertion may hold true in a realm of purely abstract ideas, once these concepts materialize, they consistently harbor an ethical dimension, even if frequently left implicit. Rather, the pertinent question should become: what ethical framework should be employed in defining these instruments or in putting them into practice?

A considerable number of the identified tools are presently used with criteria that can, to some extent, be linked to utilitarianism, an ethics oriented towards optimizing a specific utility function. For the purpose of this text, we shall set aside the debate regarding whether the object of this function pertains to pleasure, financial gain, or personal advancement, as that is not the focal point of our discussion. The inherent predicament with the utilitarian approach lies in its individualistic perspective, wherein any cost-benefit analysis centers around the individual. We argue that this approach inevitably undergoes distortions, leading to a gradual deterioration of the tools in question and of the agents who operate in this sector. The reason lies in the fact that if the exclusive consideration under analysis is that of the individual subject, the other – who each of these tools connects me to – is, at best, perceived as a means to an end.

Ethicists, on their side, commonly express a prevailing apprehension about finance, attributing systemic issues that appear prominent enough to taint virtuous living. This unease may account for the predominant normative orientation within the field of Finance Ethics thus far.[12] Establishing rules is unquestionably the initial measure to rectify moral shortcomings. Structural reforms are imperative, such as restricting financial institutions from consistently profiting from client losses and redirecting their focus towards client service as the primary revenue source, rather than engaging extensively in proprietary business.

While rules are indispensable, an appeal for virtues is also warranted. This approach, which has its roots in the classical thought of Plato and Aristotle, was revived after a long absence from the public discourse thanks to the works of philosophers such as Elizabeth Anscombe and Alasdair MacIntyre. A key characteristic of this approach lies in changing the observation point when assessing an action. Both deontology and utilitarianism adopt an approach called, the 'third person', where an external observer asks about the legitimacy/utility of a certain action. Conversely, virtue ethics' perspective is that of the 'first person', who when faced with an ethical dilemma asks, "what kind of person do I want to be?" and "what does a good life consist

[12] See for instance J.R. Boatright, *Ethics in Finance*, Wiley-Blackwell, Malden-Oxford 2014.

of?". By adopting this approach, we claim that it allows for a richer comprehension of human behavior, one capable of considering the principles, intentions and consequences of a certain action, and one that embraces a holistic perception of an agent, that is, of a person who performs different roles in the search for the good life.

Financial instruments and products then, when approached with justice, trust and responsibility among operators and clients, can undoubtedly serve as conduits for common good. Consequently, a call arises for an ethics that positions the common good at its core – an ethics capable of connecting the individual, with aspirations emanating from their dignity and freedom, to the flourishing of the community. This ethical framework aims at the comprehensive development of human beings, recognizing relationships as integral to their thriving. We posit that this ethics finds its roots in classical philosophical thought, as well as in the traditions of thought drawn upon the Sacred Scripture. Throughout history, these strands have coalesced into Catholic Social Teaching.

In this sense, an important intellectual contribution occurred with the publication of "*Oeconomicae et pecuniariae quaestiones*" in 2018 by the Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development. This document, while acknowledging immoral practices in the financial world, explicitly recognizes a legitimate vocation for people involved in financial professions. It emphasizes that financial activity should primarily serve the real economy, create value using morally acceptable means, and facilitate the responsible circulation of wealth and, in more general terms, implementing a policy of inclusiveness capable of removing from poverty increasing fractions of population, specifically in emerging countries.

5. Conclusions

We contend that there exists a virtuous way to engage in the financial world, rooted in the acknowledgement that finance should be a means to an end rather than an end in itself. For Christians engaged in finance, the potential for leading a virtuous life serves as an encouragement to evangelize their professional sphere, purifying the system of its sinful elements through three pivotal actions: proclaiming values (or practical truths), presenting exemplary practices (virtues, best practices), and establishing institutions.[13]

With a lucid comprehension of the underlying purposes and, consequently, the articulation of these intentions, an open and unrestricted discourse concerning money becomes feasible. This discourse can encompass discussions on the intricate relationship between money, labor, tangible economic activities, accountability and risk.

[13] M. Schlag, *The Business Francis Means. Understanding the Pope's Message on the Economy*, The Catholic University of America Press, Washington DC 2017.

BUSINESS ETHICS FOR ECCLESIASTICS: A VIRTUE ETHICS PERSPECTIVE

Marta Rocchi

Business ethics literature is extremely abundant. The mainstream textbooks used in higher education reflect a variety of perspectives, approaches, and methodologies.[1] These works demonstrate the extent of the discipline, and how the multifaceted reality of business has different ethical aspects and implications. The variety of approaches to ethics, which implicitly or explicitly underpin these contributions, constitutes both a wealth and a challenge: for a non-expert reader, navigating the complexity of both business and ethics is not an easy task, and there is a need for an interdisciplinary compass to tap into this literature. Some contributions have a more deontological lens, others take a consequen-

[1] A. Crane, D. Matten, S. Glozer, L.J. Spence, *Business Ethics: Managing Corporate Citizenship and Sustainability in the Age of Globalization*. 5th ed., Oxford University Press, Oxford 2019; O.C. Ferrell, J. Fraedrich, Linda Ferrell, *Business Ethics: Ethical Decision Making and Cases*. 12th ed. Cengage Learning, Boston MA 2019; A.T. Lawrence, J. Weber, V.D. Hill, D.M. Wasieleski, *Business and Society: Stakeholders, Ethics, Public Policy*. 17th ed., McGraw Hill Education, New York NY 2023; D. Melé, *Business Ethics in Action: Managing Human Excellence in Organizations*. 2nd ed., Red Globe Press, London 2019.

tialist stance, and others are more in line with an ethics of virtue or an ethics of care: depending on the question we want ethics to answer, issues are evaluated in different ways.[2]

While business ethics literature takes into consideration the vast realm of business applied to different corporate and non-corporate contexts, more can be done to specifically examine frequent ethical issues occurring in business in the context of Church management. This is a less explored area, even if it presents its own challenges and specificity. For this reason, this chapter aims to describe some frequent ethical issues in the management of ecclesiastical structures, taking the lens of the ethics of virtue. The challenge is then highly interdisciplinary, and it involves three layers of analysis: the chapter applies (i) business ethics categories (ii) to the ecclesiastical context (iii) from the perspective of the ethics of virtue.

To achieve this purpose, the chapter is articulated according to two main sections. The following section has four parts, each one related to one of the cardinal virtues: practical wisdom, justice, courage, and temperance. For each virtue, specific issues in Church management which are related to the development and the lack of the virtue are explained. Given the purpose and extent of this chapter, a selection of potential ethical issues is brought

[2] J. Annas, *The Morality of Happiness*. Oxford University Press, New York NY 1995.

to the attention of the reader, but the chapter is far from being exhaustive. It can be considered a primer for those who are looking to approach this field. The last section suggests a reflection on the role of education in Church management and on the relationship between business theories and models and the management of the Church at different levels.

The sources used to achieve this purpose are the following. The ethical lens is found especially in the work of Rodríguez Luño,[3] who offers a description of the cardinal virtues particularly faithful to the work of Aquinas[4] and culturally translated for a contemporary reader. Among the business ethics sources, of particular relevance are the textbooks by Crane et al.[5] and Melé,[6] and an ebook by Rocchi,[7] which was designed to present business ethics literature in an accessible way. This chapter is not going to look at Church management regulatory frameworks, as it is beyond its scope to delve into juridical sources which are specifically designed

[3] A. Rodríguez Luño, *Scelti in Cristo per essere santi*. III Morale speciale. Vol. 3, EDUSC, Roma 2012.

[4] T. Aquinas, *Summa Theologiae: Latin Text and English Translation, Introductions, Notes, Appendices, and Glossaries*. Edited by Thomas Gilby, Blackfriars, Cambridge 1964. From now on this source is referenced as *Summa Theologiae*, "ST".

[5] Cit.

[6] Cit.

[7] M. Rocchi, *Business Ethics: A Path to Excellence for Business Students, DCU Business School*, Dublin 2023.

for the management of ecclesiastical goods.[8] As a last remark, the chapter was written thinking of the Catholic Church. However, other churches can benefit from these inputs, as they might share similar organizational and economic challenges in the everyday leadership, management, and administration.

1. Frequent ethical issues in Church management: a virtue ethics perspective

This section looks at frequent ethical issues in Church management articulating the analysis around the four cardinal virtues: practical wisdom, justice, courage, and temperance. Each sub-section contains a brief description of the virtue, and this introduction gives an overview of the theory of the virtues used in the remainder of the chapter.

Following Aristotle, one of the fathers of virtue ethics, virtues are habitual dispositions to do the good. More specifically, they are excellences of human character that help us achieve our final end, which he characterizes as *eudaimonia*, a term usually translated as "flourishing" or "happiness." [9] Growing in the virtues is a lifelong journey, and the conceptualization of the virtues has been abundant

[8] E.g., see A. Paletta, *Management per ecclesiastici*, EDUSC, Roma 2016.

[9] Aristotle, *Nicomachean Ethics*. Cambridge Texts in the History of Philosophy, Cambridge University Press, Cambridge 2000.

during the history of philosophy. More recently, a consistent stream of literature applies the virtues to the business context at different levels: individual, organizational, and social.[10] As we shall see, there are articles which consider a specific virtue and how it works in business: these sources are referenced in the following sub-sections on each virtue.

In this chapter, we consider the four virtues in the meaning attributed to them by the Aristotelian and Thomistic traditions. Rhonheimer well summarizes how the virtues are related to the excellence of the person:

> "*Arete* and *virtus* indicated the excellence of the human being as such. Somebody who was virtuous was not – in the classical sense – someone who lived a 'blameless life,' in the sense of not being blamed for anything, someone, perhaps, who was dear and beloved even if he hadn't done much with his life, but rather it was somebody who used his human ability for a good end, who did what was good with mastery, consistency, and joy, who was competent and had his wits about him, was knowledgeable and had the ability to size up situations quickly and correctly; in short, someone who realized what Aristotle called 'the good life' and eupraxia."[11]

[10] Melé, cit.

[11] M. Rhonheimer, *The Perspective of Morality: Philosophical Foundations of Thomistic Virtue Ethics.* Translated by Gerald Malsbary, Catholic University of America Press, Washington DC 2011, p. 189.

This description offered by Rhonheimer helps us understand that virtuous people are exemplars within their community. Conversely, those who do not live a virtuous life, cannot be considered role models. How does this apply to those involved in Church management? The next sub-sections analyze how the four cardinal virtues can be developed in Church management, or how not living a virtuous life can lead to ethical issues in this context. Given the brevity of the chapter, the descriptions offered are significant but not exhaustive. Future research can explore more scenarios, looking at how each virtue, in all its complexity, contributes to personal flourishing and the common good in Church management or how, conversely, lacking a specific virtue can lead to specific ethical issues.

a) *Practical wisdom: the virtue of authentic Church leaders*

Practical wisdom is the virtue which enables us to identify the good end and choose the appropriate means to achieve it.[12] In business ethics, there is plenty of literature on the application of practical wisdom to business settings (one of the most recent handbooks on the topic is the one by Schwartz

[12] Aquinas, ST II-II, qq. 47-56.

and colleagues[13]). In the business ethics literature, practical wisdom is considered to be the virtue of good judgment, so it is the virtue used to describe the quality of decision-making[14] and the character of excellent leaders.[15] Looking at the specific context of Church management, this section focuses on practical wisdom as the virtue of a good leader in an ecclesiastic institution. Different studies explore the relevance of practical wisdom as the virtue of good leaders: in particular, the study by Ferrero and colleagues[16] bridges Aquinas' practical wisdom and authentic leadership, which is one of the styles explored in leadership studies. These authors suggest that the parts and acts of practical wisdom

[13] B. Schwartz, C. Bernacchio, C. González-Cantón, A. Robson, *Handbook of Practical Wisdom in Business and Management*. International Handbooks in Business Ethics, Springer Cham 2020.

[14] C. Bachmann, L. Sasse, A. Habisch (2018), "Applying the Practical Wisdom Lenses in Decision-Making: An Integrative Approach to Humanistic Management", *Humanistic Management Journal* 2: 125-50; D. Melé (2010). "Practical Wisdom in Managerial Decision Making", *Journal of Management Development*, 29 (7/8): 637-45.

[15] I. Ferrero, M.M. Pellegrini, E. Reichert, M. Rocchi (2023), "How Practical Wisdom Enables Transformational and Authentic Leadership", in *Leadership and Virtues: Understanding and Practicing Good Leadership*, edited by Toby P. Newstead and Ronald E. Riggio, 1th Edition, 67-83. Leadership: Research and Practice, Routledge, New York NY.

[16] I. Ferrero, M. Rocchi, M.M. Pellegrini, E. Reichert (2020), "Practical Wisdom: A Virtue for Leaders. Bringing Together Aquinas and Authentic Leadership", *Business Ethics: A European Review*, 29 (S1): 84-98.

described by Aquinas (ST II-II, q. 47-51) are positively related to the four characteristics of an authentic leader. These characteristics are self-awareness, relational transparency, balanced processing, and internalized moral perspective.[17]

Looking at the leaders in the context of ecclesiastic institutions, it is easy to find connections between these four characteristics of authentic leaders and the education and opportunities for personal growth that people involved in Church management receive. Looking at *self-awareness*, the practice of spiritual direction and the daily examination of conscience can be directly related to an increase in self-awareness, as these are spiritual exercises which aim to help in self-knowledge and critical self-examination. *Relational transparency* stresses the quality of the relationships that leaders have with others: Church leaders clearly have the challenge of dealing with multiple stakeholders, both for administrative reasons and for pastoral reasons. Training in communication skills is a desirable educational path for everyone involved in the Church in a leadership role. From an administrative and managerial point of view, smooth communication with a team (being it the parish council for a priest, or the diocesan clergy and laity for a bishop) is essential for the good conduct of the "business." Ad-

[17] W.L. Gardner, C.C. Cogliser, K.M. Davis, M.P. Dickens (2011), "Authentic Leadership: A Review of the Literature and Research Agenda", *The Leadership Quarterly*, 22 (6): 1120-45.

ditionally, and not secondary, relational transparency also hugely enhances communication skills in the communication of the Gospel in pastoral care (both in one-to-one spiritual direction meetings, or in front of a crowd while preaching).

The characteristic of *balanced processing* applies to the ecclesiastical context, as everyday choices are impacted by the way decisions are made. A clear lack of practical wisdom related to the balanced processing aspect would be displaying precipitation, which is the lack of reflection in decision-making; or the lack of consideration, which entails the omission of the due evaluation of essential aspects of a decision.[18] Finally, the *internalized moral perspective*, which is a specific feature of the Authentic Leadership paradigm, when applied to Church leaders, clearly points to the orientation of leaders' actions toward the personal flourishing of people and the good of society, in a way which is aligned with the teachings of the Gospel.[19] It is interesting to note that in the context of Church management, and particularly looking at the internalized moral perspective as characteristic of a Church leader, while it is essential that authentic leadership is exercised, it is also extremely important for leaders not to attract the attention on their personalities

[18] Rodríguez Luño, 2012, cit., p. 41.

[19] M. Schlag, *Economia e società. Le sfide della responsabilità cristiana. Domande e risposte sul Compendio della Dottrina Sociale della Chiesa*, MCENotebooks 5, EDUSC, Roma 2015.

and qualities, but to have in mind that the real leader they want to help the others to follow is Jesus.

This section described one possible application of the virtue of practical wisdom to ecclesiastic management, looking in particular at Church leaders at different levels and their development. From a practical point of view, the four characteristics highlighted can lead to four practical solutions that can be easily implemented by a Church leader: i) continuous and coherent resort to spiritual direction to enhance self-awareness; ii) training in communication skills having in mind different stakeholders to practice relational transparency; iii) enabling defined decision-making mechanisms to achieve balance processing and avoid precipitation; iv) being mindful of the purpose when making decisions and nourishing the awareness of authentic leadership as a service to the Gospel.

b) *Justice and daily Church management*

Justice is the virtue of giving each person what is due to her.[20] We can think about justice as the virtue whose excellence is shown in recognizing others' possessions, whether they are material or immaterial goods. While the last part of this section describes positive actions to live the virtue of justice, the first part of this section explores the violations of justice concerning the ecclesiastic context and is divided

[20] For a complete description of the virtue of justice see Rodríguez Luño 2012 cit.

into two main categories: injustices which are linked to material goods (*ablatio rei alienae*, which means "taking something which belongs to someone else"), and injustices related to immaterial goods (*injusta damnificatio*, which means "unjust damage"). This distinction, which was adopted by moral theology since St. Alphonsus, is well explained in more contemporary terms by Rodríguez Luño.[21] For reasons of brevity, we focus here on material injustice.

In the category of material injustice, there are all kinds of forms of misappropriation. Combining authoritative sources in business ethics like Ferrell and colleagues[22] and Melé,[23] this can be considered a list of frequent ethical issues in business which directly oppose the virtue of justice: misappropriation (misuse of company resources, misuse of company time, misappropriation of intellectual property, counterfeit, violation of trade secrets), fraud, tax evasion and tax avoidance. In the context of Church management, we provide now examples of these categories in daily circumstances. The misuse of company resources is linked to the fact of using goods and services of a company outside their original scope of contributing to the daily work of a specific business. In the case of Church management, this might mean directing existing resources to scopes outside the mission of the Church. On a

[21] Ibidem, cit., p. 71.
[22] 2019, cit.
[23] 2019, cit.

micro level, this might mean that a parish priest or a parish administrator uses the parish money to buy unnecessary or luxury goods for him or herself, instead of respecting the original destination of the funds. In terms of misappropriation of resources, there are no differences between an employee who takes home office supplies (from stationery to actual money) and a priest who uses for himself resources which are meant to serve the parish and the overall community.

The misappropriation of time is also a very interesting aspect of the material aspect of injustice: as employees might be losing time which should be dedicated to productive work during their working hours, so members of clergy might be dedicating their own time to occupations which are not proper for a specific moment in which they are supposed to do something else which serves their own flourishing and the mission of the Church. It is harder to detect these behaviors, as there are no legal contracts that link a priest with a number of hours to develop his vocation – but this is where the virtue of justice comes in, enabling excellent behavior in the right allocation of time for productive and meaningful tasks according to one's vocation and mission. As an important note, the allocation of time to productive tasks does not need to prevent priests from taking the necessary time to rest and being devoted to other kinds of activities. There is good literature on the concept of rest and feast,[24] and this can be applied to the clergy.

Regarding frauds, unfortunately, there are examples of financial frauds also in Church management. Technically, a fraud takes place "when individuals engage in intentional deceptive practices to advance their own interests over those of the organization's or some other group."[25] Financial frauds in the Church can happen at different levels: at the level of a parish, of a diocese, or at wider levels, like in the management of the Church's assets which are managed in a specific country, or which belong to the Church itself. At the parish level, the management of daily or weekly donations can be affected by fraud, if the money is deceptively collected for a good purpose and then used for another purpose which was not declared. At the diocese or central level, fraud can be at the level of real estate management, as the local and global Church notoriously have many real estate properties; or at the level of financial fraud, if it involves unclear movement of financial funds, as the press informed in recent ongoing cases.[26]

[24] A.M. González, *Trabajo, Sentido y Desarrollo. Inflexiones de La Cultura Moderna*, Dykinson, Madrid 2023.

[25] Ferrell et al., 2019, cit., p. 71.

[26] P. Pullella, "Cardinal Among 10 Indicted by Vatican for Financial Crimes", Reuters, 3 July 2021, <https:// www.reuters.com/world/europe/vatican-judge-indicts-10-including-cardinal-alleged-financial-crimes-2021-07-03/>.

Lastly, regarding tax evasion and tax avoidance, there is plenty of literature in business ethics which can be extremely helpful for the management of the Church. For reasons for brevity, we do not delve further into this ethical issue in this context, and we suggest reading the work of Yu,[27] who tackles this issue from a moral theology perspective.

These forms of misappropriation have an amplified dimension of scandal connected, as the Church professes specific kind of values and promotes a virtuous life, so material injustices are in direct contrast with Church teaching and preaching. How to avoid these direct violations of justice and promote that those involved in Church management can grow steadily in this virtue? Critically absorbing some best practices of business organizations, Church management should be conducted according to clear and transparent criteria: the digitalization of records, the correct and digital bookkeeping, and the democratization of the management (i.e. not leaving only one person in charge of financial aspects) clearly facilitate an easier path to justice in Church management at the micro and macro level.

c) *Courage: the virtue of entrepreneurship and risk management*

Courage is the virtue which enables us to keep pursuing the good even in the middle of obsta-

[27] Y. Dennis, *Render to Caesar? The Morality of Taxation*, St. Pauls Philipphines, Makati 2016.

cles.[28] The virtue of courage in business ethics literature is often associated with two main areas: entrepreneurship, as the entrepreneurs are those who are capable of overcoming obstacles to achieve the good purpose of setting up a business, which contributes to the good of society; and risk management, because a proper practice of risk management prevents from falling into the vices opposite to courage, which are the extremes of cowardice (as lack of courage) and recklessness (as excess of courage). It can be argued that entrepreneurship and risk management are intimately connected: this connection is vividly described by Naughton and Cornwall,[29] who depict the virtue of courage in business rediscovering the original and deepest meaning of this virtue. In this section, we are going to look at entrepreneurship and risk management in the ecclesiastical context and see how courage can be undermined by bad practices in these two connected areas.

Regarding entrepreneurship, the Church has a clear tendency to undertake projects and ventures which resemble the life cycle of a business. Indeed, from looking for initial funding to then establishing workflows and processes, while making sure that the structure is economically viable and

[28] Aquinas, ST II-II, qq. 123-140.

[29] M.J. Naughton – J.R. Cornwall (2006), "The Virtue of Courage in Entrepreneurship: Engaging the Catholic Social Tradition and the Life-Cycle of the Business", *Business Ethics Quarterly*, 16 (1): 69-93.

sustainable, all these processes are the everyday work of both an entrepreneur and a Church leader dedicated to establishing functioning projects to achieve the mission of the Church. Of course, there is a big difference in terms of profit generation and allocation, as usually the projects undertaken by an ecclesiastical organization are for the direct benefit of people and society, so the potential returns on investment (if any) are reinvested in the project and not distributed to shareholders. The virtue of courage sustains the life cycle of a business[30] and, likewise, the life cycle of ecclesiastic projects which are meant to have a positive impact on people and society. Not undertaking these projects because of the fear of failure or because they are hard means to fall into the vice of cowardice: this is connected to a waste of potential resources and, additionally, to a lack of the goods or services that would have been the fruit of the project. The opposite extreme is dangerous as well: undertaking these projects without properly considering obstacles and risks can make the projects unviable or can lead to a bad use of resources. This can happen because it might be easy, for a parish priest or a bishop, to undertake a project which is too risky when the money used for the project is not directly their own.

In the context of risk management, there are publications addressing how risk management is

[30] Naughton and Cornwall 2006, cit.

an essential component of Church management.[31] As every organization, also the Church needs to consider the management of risk when it comes to the management of resources at different levels, to avoid the extremes of cowardice and temerity. The business literature can help in looking at ways in which the virtue of courage can be integrated into these decisions. Reardon in *Harvard Business Review* presents courage as a skill and suggests six steps to implement courage within the decision-making process of organizations: "setting primary and secondary goals; determining the importance of achieving them; tipping the power balance in your favor; weighing risks against benefits; selecting the proper time for action; and developing contingency plan."[32] Critically integrating business tools within Church management can help shape the clergy's character and integrate courage as a virtue in setting up beneficial and economically efficient projects of different sizes.

A special spotlight needs to be dedicated to two virtues connected to courage, which are magnificence and perseverance.[33] Magnificence helps in the realization of great projects and is directly opposed by avarice and stinginess, that would prevent the realization of a great project. Perseverance helps in keeping the virtue of courage over time, and when

[31] Paletta 2016, cit.

[32] K. Reardon (2007), "Courage as a Skill", *Harvard Business Review* 85 (1): 58-64, p. 60.

[33] Aquinas ST, cit.; Rodríguez Luño 2012, cit.

the adversity of obstacles is prolonged, this is the virtue that kicks in. These two virtues are particularly useful for Church leaders and administrators, as they both contribute to excellence and effectiveness in the realization of the mission of the Church.

d) *Temperance and the resistance to untimely pleasures*

Temperance can be described as the virtue of "preserving good judgement in the face of excessive or untimely pleasures."[34] Temperance, also known as moderation, has been studied as a virtue in business ethics as well, with specific reference to its implementation in the workplace[35] and, even more specifically, in the working from home setting.[36] Applied to Church management, this virtue has a good potential in avoiding one of its opposite vices, which is represented by laziness, proper of those who cede to the untimely pleasure of rest when not appropriate or due. We can ascribe in-

[34] M. Rocchi – C. Bernacchio (2022), "The Virtues of Covid-19 Pandemic: How Working from Home Can Make Us the Best (or the Worst) Version of Ourselves", *Business and Society Review* 127 (3): 685-700, p. 689 – referencing Aristotle 2000, cited; J.H. McDowell (2013), "Deliberation and Moral Development in Aristotle's Ethics", In *The Engaged Intellect*, 41-58, Harvard University Press, Cambridge MA.

[35] P. Sanz – J. Fontrodona (2019), "Moderation as a Moral Competence: Integrating Perspectives for a Better Understanding of Temperance in the Workplace", *Journal of Business Ethics* 155 (4): 981-94.

[36] Rocchi and Bernacchio 2022, cit.

activity to lack of means, or lack of courage. But it is also a personal attitude towards industriousness which is at the basis of the realization of projects for the common good, so this is where the virtue of temperance comes into play.

From the business ethics literature, we take three of the five parts of temperance formulated by Sanz and Fontrodona[37] in an attempt to adapt Aquinas' parts of temperance for the business context: i) "use of money and other monetary and natural resources", ii) "management of time and amusement", iii) "management of knowledge and of information".[38] These parts can easily be applied to Church management. The first part of temperance (i) is particularly linked to the virtues of practical wisdom and justice, as those who show temperance in the use of money and other resources will use the appropriate means to achieve a good end (showing also practical wisdom); however, those who fail to use money and other resources with temperance, end up in either not doing what they are supposed to do (falling into laziness and lack of industriousness), or misusing the resources they have, even potentially misappropriating these resources (thus violating also the virtue of justice).

Regarding ii), this is also a point where the existence or the lack of temperance overlaps with what discussed in the virtue of justice and the appropri-

[37] Cit.

[38] Sanz and Fontrodona 2019, cit. p. 990.

ate use of time or its misuse. Talking in terms of temperance, it is interesting to see how in Church management ceding to untimely pleasures might mean not being punctual while performing a task or advancing a specific project, or being distracted by less important work. Workaholism, which is the opposite extreme of laziness, is another dangerous violation of the virtue of temperance, and it needs to be addressed by those working in Church management as the relational and social dimension of working in the Church entails that there are appropriate times to rest, and feast needs to be respected also in light of a specific Commandment.

The third part of temperance (iii) is specifically interesting for Church management, as keeping professional secrets is a must for every professional, and those who work in Church management are not exempted from this professional commitment. Church-related projects can be particularly "public," as they attract the attention of communities and involve different stakeholders. Exactly for this reason it is extremely important that those in charge of those projects are mindful of their role and do not share more information than needed, do not cede to gossiping, and acquire specialistic knowledge when needed to make appropriate decisions.

Growing in the virtue of temperance for those involved in Church management means cultivating good habits that allow the person not to cede to untimely pleasures. There is abundant spiritual literature on how to grow in this virtue; it is also interesting to tap into other sources, appreciated in the business and management literature with regard to building character and habits, to learn techniques that can be helpful to grow in the virtue of temperance. From books which are now considered classics like Covey's *The 7 Habits of Highly Effective People* [39] to more recent acclaimed works like *Atomic Habits*,[40] literature used in business schools can serve the purpose of education in the virtue of temperance for those involved in the management of the Church.

2. Key to change: educating in Church management

In light of the description of the four cardinal virtues, their excellences and potential vices, this final section concludes by highlighting the need for a professional education of the clergy at all levels, from the parish priest to the administrator of ecclesiastical goods. This education is on the one hand technical, because making decisions for communities involves a certain degree of knowledge and specialization; on the other hand, as we have shown, moral education is necessary as well, as it

[39] S.R. Covey, *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change*. Revised and Updated edition, Simon & Schuster, London New York NY Sydney Toronto New Delhi 2020 [1989].

[40] J. Clear, *Atomic Habits: An Easy & Proven Way to Build Good Habits & Break Bad Ones*, Random House Business, London 2018.

helps avoid falling into many possible ethical issues connected to Church management. Three recommendations are suggested.

1) *Teaming up with business schools and looking for micro-credentials programmes.* Ecclesiastic institutions are now starting to team up with business-related institutions in order to offer the technical education that someone in charge of Church management at different levels needs. There is clearly a problem related to the cost of this education, as executive education is particularly expensive and might not be affordable for those involved in Church management. It is also true that there is now a large availability of courses for continuous professional development online: this means that more people can use these educational platforms and acquire the necessary knowledge and skills needed to perform professional work in Church management.

2) *Critical engagement with business theories.* Different authors highlight the risk of an acritical absorption of business and management theories within the management of the Church. Senader rightly affirms that "the Catholic Church must also be attentive to its own mission since a simple adoption of other corporations' practices can be detrimental to sharing the Gospel."[41] So while it is true that Church management needs to look at professional business management, it is also important to critically take what is good to advance professionally within the scope and values of the mis-

[41] A. Senander (2017), "Beyond Scandal: Creating a Culture of Accountability in the Catholic Church", *Journal of Business Ethics*, 146 (4): 859-67, p. 859.

sion of the Church. Looking at how this exchange of knowledge was done in the past, Kheng affirms that "there is much room for improvement in the way management ideas have been applied to the ecclesial context:"[42] this author identifies patterns in the application of management ideas to Church management, and warns that management theories are not just neutral tools that can be applied to different contexts, but they underpin values which might be in conflict with the values of the Church, so a critical judgement is always needed.

3) *Production of literature on Church management.* There is a need for specific academic literature on Church management, which can be used in the context of education in curricula for clergy and laity involved in the administration of ecclesiastical goods and projects. Catholic Social Teaching is a treasure of resources and a compass to direct this effort.

3. Conclusions

Business ethics literature has much to offer to Church management. This chapter applied to Church management some categories typical of a virtue ethics approach to business ethics. For each cardinal virtue, a business ethics framework was applied to Church management, looking both at the potential excellence of the virtue in this context

[42] C. Kheng (2019), "What Are They Saying About Church Management? Patterns, Problems, and Considerations for Proceeding", *International Journal of Practical Theology*, 23 (2): 188-205, p. 188.

and at how a lack of the virtue can undermine good Church management practices. The final section concludes by giving recommendations on strategies to develop more structured business education for leaders and administrators of ecclesiastical goods and projects, in line with the spirit and mission of the Church.

AN ENTREPRENEURIAL CHURCH, A CHURCH THAT LOVES: THE "SALTO DI FONDI" CASE

Luca Mongelli
Fernando Crovetto

From her origins, the Church has shown an entrepreneurial attitude with very concrete economic and social consequences. She always knows how to adapt to historical and cultural changes with skill, creativity, and innovation. As an example, one might think of how the Church has spread the Gospel and human development throughout the world with initiatives such as schools, hospitals, and social centers of all kinds. These require educational, medical, and organizational skills as well as a spirit of service and evangelization. What is the reason for all this? How can we justify this entrepreneurial activity of the Church?

1. Theoretical background

In one of his encyclicals,[1] Pope Benedict XVI affirms that the innermost nature of the Church is expressed in a threefold task: the proclamation of the Word of God (*kerygma-martyria*), the celebration of

[1] Benedict XVI, Encyclical Letter *Deus caritas est*, 25 December 2005, n. 25.

the sacraments (*leitourgia*), and the service of charity (*diakonia*). Although these tasks cannot be separated from each other because they make sense insofar as they presuppose each other, charity itself provides a key to interpretation that legitimizes this constant "entrepreneurial" attention to one's neighbor and the dignity of the human person.

Although charity should not be used as an instrument of proselytism, neither should it be considered as a single activity of social assistance that could also be delegated to others. For the Church, charity "belongs to her nature, it is the irreplaceable expression of her very essence" and should not be confused with an unclear variant of the normal non-profit organizations. The practical criterion of the action of Christian charity is provided by the parable of the Good Samaritan: Christian charity is first and foremost a response to an urgent need for the good of the person in a specific situation. And as Christ teaches in his parable of the Final Judgment, the hungry must be fed, the naked clothed, the sick cared for, the prisoners visited, and all other works of mercy must be performed. This implies two fundamental consequences: the people who offer these services according to the logic of charity must offer them with humanity but also with competence. Professional competence alone is not enough, because human beings always need something more than only "technically correct care;" they need compassion, affection, and warmheartedness. However, precisely because a person's care is vital, the Church cannot dispense with professional competence and excellence; rather, it needs to adapt with skill, creativity and innovation to historical and cultural changes.

An emblematic example[2] of this is *Caritas,*[3] a network of international organizations dedicated to helping the needy in various sectors such as health, emergency food, hospitality for migrants, and others. Over the years, as *Caritas* has administered its resources, its criteria have been effectiveness, transparency and participation. However, there are many examples of this throughout history, even beyond the typical missionary and welfare activities, which concern culture, science, and finance. Think, for example, of how the Church has fostered the spread of culture and science with the creation of numerous universities in Europe and throughout the world. These institutions required educational, scientific and managerial skills and adherence to the ecclesiastical magisterium. Examples of universities created by the Church include the Sapienza in Rome, the Pontifical Gregorian University,[4] and others which are among the old-

[2] See P. Cavana (2018), "Enti ecclesiastici e riforma del Terzo settore. Profili canonistici," in *Stato, Chiese e pluralismo confessionale*, 22: 1-26, <https://doi.org/10.13130/1971-8543/10273>.

[3] Caritas Internationalis: <https://www.caritas.org/who-we-are/>.

[4] Pontifical Gregorian University: <https://www.unigre.it/la-nostra-storia/>.

est and most renowned universities in the world. The Gregorian, for instance, offers undergraduate and postgraduate programs in various disciplines such as theology, philosophy, history, law, social sciences, and others. The ecclesiastical and Catholic universities enjoy international and intercultural prestige and are distinguished by the quality of their research and teaching. But in the course of history the Church has also promoted the development of economic organizations in the field of credit and finance by founding banks, pawnshops, savings banks, etc. An example of this was the Banco di Santo Spirito, one of the first public banks in Europe. The Banco di Santo Spirito was established in 1605 by Pope Paul V, to collect deposits from the faithful and finance the works of charity of the Holy See. The Banco di Santo Spirito worked for three centuries, playing an important role in the economic and social development of Italy, until 1992 when it was incorporated into another banking institution. These activities required economic, financial, and legal skills, as well as social ethics. Throughout history there has always been a tradition of "entrepreneurial" projects, to be understood not in opposition to the nature of the Church, but as a consequent manifestation of its mission. The entrepreneurial attitude of her ecclesiastical bodies has always been a challenge and an opportunity at the same time, requiring the ability to face new and ongoing needs and take advantage of the new and emerging opportunities from the economic and social context. And this has also required the development of new tools, the birth of new ecclesial realities and innovative organizational forms needed to manage them efficiently and ethically.[5] In this paper we will delve into a practical case that illustrates what we have been saying, the case of Salto di Fondi. Through the Salto di Fondi project, the Prelature of Opus Dei created an ambitious initiative to solve very concrete problems with a marked entrepreneurial attitude, and this project remains a worthy example of fervent ecclesial behavior to this day.

2. Case introduction

Salto di Fondi was an estate nestled in the picturesque countryside of the Agro Pontino, south of Rome, that holds a significant place in the history of Opus Dei. Acquired by two juridical persons created by members of Opus Dei, besides the Roman College of the Holy Cross and the two siblings of St. Josemaria, Carmen and Santiago, between 1952 and 1969, this property of four entities became home to an agricultural and livestock farm. Opus Dei was thus not the juridical owner of Salto di Fondi, but inspired and governed the whole op-

[5] See P. Cavana, *Gli enti ecclesiastici nella riforma del Terzo settore*, Giappichelli, Torino 2019; E. Cusa, "Modelli imprenditoriali nella Dottrina sociale della Chiesa," in F. Felice, G. Taiani (eds.), *Poveri e Ricchi*, Lateran University Press, Vatican City 2015, 39-57.

eration. Salto di Fondi was more than just a farm. It played a special role for the students of the Roman College of the Holy Cross. During those years, young members of Opus Dei who flocked to Rome for their studies at the pontifical universities found solace in this serene haven. Away from the humidity and scorching heat typical of Roman summers, they could rest, reflect, and pray amidst the tranquil surroundings. Thus, Salto di Fondi served as both a practical establishment and a spiritual retreat – a place where hard work met contemplation, and where the spirit of Opus Dei thrived.

In the following pages, we will delve into the insights that drove the acquisition of the estate. This integrated development project not only addressed the need for a summer retreat for students but also tackled the critical issue of food supplies. Opus Dei skillfully managed these challenges at Salto di Fondi, aiming to alleviate other hardships faced by the estate's peasants – individuals marginalized and dependent on their circumstances.

Opus Dei's vision extended beyond practical solutions. They sought to serve the peasants through a pastoral project, nurturing their spiritual well-being and paving the way toward social emancipation. In this harmonious blend of practicality and compassion, Salto di Fondi became a place where both physical and spiritual needs found fulfillment.

The research draws from the General Archives of the Prelature of Opus Dei (AGP), which houses contracts, plans, reports, activity summaries, and diaries penned by those who labored there, and narratives containing memories of the protagonists.

3. Intuition

a) *Two concrete problems*

In 1948, St. Josemaría established the Collegio Romano at the Villa Tevere residence and appointed Bl. Álvaro del Portillo as its rector. At that time, Opus Dei was a young institution within the Church, only twenty years old, with a small membership primarily composed of young individuals. However, it was rapidly expanding worldwide. St. Josemaría was deeply committed to forming individuals so they could effectively carry out the evangelization work in alignment with the spirit of Opus Dei. This drove him to erect the Collegio Romano and initiate the construction of Opus Dei's headquarters in Rome at Villa Tevere. Recognizing the challenges and potential difficulties, he promptly began fundraising to cover the necessary investments.

Bl. Álvaro quickly grasped that the student population would steadily increase, necessitating significant organizational and logistical efforts to meet their needs. Within a few years, Villa Tevere accommodated over 120 students (by 1954), even though the space was not adequately equipped for students attending courses at various pontifical universities. Furthermore, it lacked provisions for students – mostly in their twenties and thirties – during breaks and summer study after the academic year. Addressing these practical challenges required finding suitable living arrangements during non-class periods and overcoming food supply shortages in the post-war Italian economic context, where large-scale distribution was still underdeveloped. These were concrete problems that demanded practical solutions. Bl. Álvaro del Portillo was entrusted with pastoral responsibility for the students, which involved caring for their material needs as well as their spiritual ones.

b) *Two other concrete problems… or maybe something more*

In those years, during a meeting in the Vatican, Bl. Álvaro had a significant encounter with Marquis Giovanni Bisleti. The Marquis owned Salto di Fondi, an estate spanning almost 1,000 hectares in the province of Latina, approximately 130 kilometers south of Rome along the Tyrrhenian shores of the Mediterranean. This land was situated within the Agro Pontino region, which, like the surrounding area, had once been marshy. Starting in 1929, a reclamation process transformed the landscape, culminating shortly after the end of the Second World War. By 1950, the entire area had been drained and reclaimed for agricultural purposes.

In 1952, alongside fields dedicated to crops and pastures, the estate featured several buildings, a warehouse, a stable, and a one-story structure where other farmers resided. Nearby stood a small church and an additional pavilion, home to several peasant families. The pavilion also housed a modest school attended by the children of these peasants.

Due to its historical marshy nature, the land had posed significant challenges for cultivation. The peasant families who worked there had endured extreme poverty. However, after the Second World War, following extensive reclamation efforts, the marquis transformed the area into a functional farm and began selling plots of land to farmers. The marquis was deeply committed to improving the peasants' living conditions. To this end, he maintained a school within the estate and a small church. Recognizing that empowerment was key, he aimed to provide a place of worship, education for the younger generations, and a path to independence by granting them portions of the land.

Unfortunately, sales progressed slowly. The peasants lacked the economic capacity to purchase land outright, and their limited financial knowledge made it challenging to secure loans or mortgages from banks. Consequently, they remained marginalized and dependent. Eventually, the marquis decided to explore other investments abroad and chose to sell the entire property. During this time, he and Bl. Álvaro met frequently, discussing their respective challenges – the need for summer accommodations for students and food supplies for both students and estate peasants. It was during these conversations that they realized these difficulties could be reframed as opportunities.

c) ***An opportunity***

In their current circumstances, the marquis and Don Álvaro contemplated the possibility of acquiring the estate. Salto di Fondi emerged as an ideal solution to address both the students' needs and the marquis's requirements. Beyond practical considerations, this solution held pastoral implications for the peasant community – both materially and spiritually. The project provided an economically sustainable answer to the challenge of securing food supplies for Villa Tevere's students during the academic year and offering a place for summer respite. Simultaneously, it allowed the marquis's initial efforts on the land to continue, specifically by empowering the dependent farmers and transforming them into landowners.

These farmers had endured poverty and marginalization, exacerbated by the harsh aftermath of the Second World War. Italian households faced lower incomes compared to their Western counterparts. The acquisition of Salto di Fondi promised multiple opportunities for territorial development. It would not only stimulate demand for agriculture and livestock but also emancipate numerous families through wealth accumulation. By integrating these families into the Salto di Fondi community, the purchase would foster a sense of belonging.

Additionally, the presence of priests who would minister to the estate would provide spiritual nourishment.

The primary obstacle to the marquis's original vision lay in the limited economic capacity of these individuals and their lack of bankability. However, this hurdle could be surmounted if a bank were willing to finance the peasants' acquisition of small lots.

Bl. Álvaro's strategic thinking paved the way for Opus Dei to facilitate the sale. By allowing the farmers to assume the mortgage in proportion to the land they purchased, along with a minor adjustment fee, the sale became feasible. Once the acquisition was complete, the farmers could cultivate the land and gradually pay off the loan installments. Bl. Álvaro's intention was not to sell the entire estate. Instead, a portion would serve as farmland to produce essential food supplies for the Collegio, while another section would house young seminarians. However, it was evident that managing this estate would pose significant entrepreneurial and managerial challenges for Opus Dei.

4. The purchase of the estate and the beginning of activity (1952-1954)

Under different circumstances, embarking on an investment like this might have seemed reckless. However, the unique circumstances combined complementary challenges and transformed them into solutions. Bl. Álvaro and St. Josemaría chose to proceed, and the purchase occurred in October 1952. With financial backing from local companies responsible for managing the farm, the members of Opus Dei involved in the project could afford the total price of approximately 400 million Lire for an area spanning about 1,000 hectares.

Upon acquiring the property, Blessed Alvaro and Saint Josemaría immediately recognized the urgent need for a competent managerial team to implement the project. Given the project's inherent complexity, neither of them could handle it individually. The decisions made at the "governance" level needed practical execution at the "managerial" level, requiring specific competencies and autonomy.

In 1952, Opus Dei appointed two members to oversee the activities: Luis Béjar, a doctor of agricultural engineering, and the young veterinarian Ramón Zaera. Their immediate task was to explore various possibilities for agricultural and livestock exploitation. Initially, their plan aimed to maximize the return on investment in three phases: first, a reorganization phase that involved significant restructuring of activities and investments to develop farm production, even if it meant operating at a loss. The second phase's goal was to stabilize production and achieve parity. Finally, the team aimed to maximize economic returns. However, this seemingly linear planning encountered a series of operational challenges over time, which the team addressed with flexibility and an entrepreneurial mindset.

a) *The initial phase: establishing operations (1952-1954)*

The first phase was quite challenging because it was necessary to structure and launch the project from scratch, deciding which crops would work best and cementing the operation's organization. Their first critical task was to delineate the allocation of land: which portions would be sold and which would serve for agricultural and livestock purposes.

Initially, calculations indicated that 100 hectares would suffice to meet the needs of the students at Villa Tevere. However, as time progressed, it became evident that achieving economic viability required a more substantial area under intensive exploitation. Consequently, the decision was made to expand to 160 hectares.

With this clarity, the sale process commenced. Priority was given to small farmers, followed by larger buyers. Remarkably, within a span of less than four years, approximately 300 small farmers acquired around 250 hectares, while an additional 220 hectares found buyers among four prominent entrepreneurs.

Subsequently, sales to small landowners tapered off, likely due to the majority having already secured their portions of land. In this regard, Opus Dei swiftly achieved one of the primary objectives set for the project, attaining a commendable level of success.

b) *The inception of the new farm and its challenges (1952-1954)*

From its very inception, the newly acquired farm aimed to supply food to Rome. However, during the initial months, shipments occurred irregularly, lacking a fixed periodicity. The management team grappled with complexities that proved more formidable than anticipated.

These challenges stemmed from two primary sources. Firstly, the structural reorganization undertaken on the farm necessitated significant adjustments. Originally designed for a sprawling 1,000 hectares, the farm now had to operate within the confines of 160 hectares. Secondly, a shift from the previous sharecropping system to direct management and diversified crops demanded a complete overhaul of labor organization.

Key investments were imperative. The managerial team embarked on constructing essential facilities, including a new stable for cattle, an industrial chicken coop, pigsties, and a small slaughterhouse. Additionally, existing structures on the property were repurposed into living quarters for seminarians. Abandoned buildings and worn-out roads were replaced with new infrastructure, albeit at an increased initial cost.

Despite these challenges, the farm gradually became operational. Over time, it successfully met the food requirements of the Collegio, providing a steady supply of fruits, vegetables, flour, beef, pork, poultry, and more on a weekly basis.

c) *In the summer of 1953, the first students at Salto di Fondi*

During the summer of 1953, the initial cohort of students had the privilege of utilizing the serene spaces at Salto di Fondi for rest and study. A mere year later, the establishment expanded, creating larger rooms that could comfortably accommodate significantly greater numbers of students.

d) *Caring for farmers' souls*

A dedicated priest promptly relocated to Salto di Fondi to take charge of the residents' spiritual care. Over the years, several priests took on this pastoral responsibility – often those who were either working on their doctoral theses or gearing up to commence studies in Rome.

The original chapel underwent restoration, ensuring that Mass could be celebrated and providing a space for the faithful seeking Confession. The pastoral outreach went even further because some Franciscan friars helped catechetical activities flourish in the area.

5. Production and management challenges and the costruction of the parish (1954-1960)

Once the initial startup phase was behind them, the managers shifted their attention from constructing facilities to leveraging those structures for production. Their primary goal was to fully exploit the resources created. Simultaneously, Rome's needs were on the rise, prompting the management team to urgently revisit estate planning. The aim? To prevent the premature sale of land that might prove valuable later.

As the first wave of success settled in, sales to small farmers naturally tapered off. However, transactions continued, albeit in smaller numbers and involving larger plots. Notably, a sale of ninety hectares to Princess Pallavicini exemplified this trend. Post-1954, production surged and solidified, thanks to reorganized activities and strategic investments in new crops. The managers' resource optimization paved the way for a harmonious blend of agricultural and livestock endeavors, laying the groundwork for consistent food shipments to Rome. It wasn't always easy to keep up with demand when crops and livestock were out of season, so on several occasions it was necessary to supplement the supply by purchasing crops and livestock from outside sellers. In some cases, the managers had to negotiate an exchange of cows between different farms in order to provide meat more suitable for slaughter. As time passed, the estate was able to ship enough goods of various varieties to achieve a steady pace.

In 1955, the food shipments to Rome amounted to 6 million lire, including over 300 kilos of meat and 2000 eggs each week. However, the subsequent year witnessed a significant boost in agricultural production, resulting in a total value of approximately 25 million lire – sufficient to feed more than

200 people. Despite these promising outcomes, the management team recognized that achieving lasting profitability would require patience and several additional years. They encountered the gradual pace of farm development, which revealed more complex organizational challenges than initially anticipated.

Within this framework, pastoral care, guided by a commitment to the integral development of laborers, remained a central objective of the project. While the sale of small plots of land successfully emancipated sharecroppers into small owners, attention to the Christian well-being of these individuals remained paramount and inspired various initiatives. To enhance living conditions and foster community growth, several projects were undertaken in the area. In 1955, construction commenced on a new school for children, a telephone booth, and a series of houses for the workers' families. However, the pastoral commitment extended beyond these practical endeavors. Blessed Álvaro offered assistance to the Archbishop of Gaeta, Dionigi Casaroli, in constructing a larger church. This church, later designated as a parish, was inaugurated in 1956 under the title Regality di Maria Santissima e San Pio X. The inaugural Mass was celebrated by the newly appointed parish priest. Subsequently, the leadership of pastoral care fell to the parish priest, with support from the priests of Opus Dei.

6. A transitional phase (1960-1964)

Between 1960 and 1964, a paradoxical period of transition unfolded. On one hand, the investments made in preceding years bore fruit, effectively stabilizing production. Simultaneously, fresh apostolic and educational initiatives were taking shape. However, on the other hand, the project's boundaries started to surface, prompting questions about its purpose and ongoing relevance.

a) *The creation of a professional school*

Building upon their previous accomplishments, the management team sought to capitalize on their expertise by creating a professional school tailored for farmers. This endeavor had long been envisioned by St. Josemaría, with the aim of empowering sharecroppers and expanding their opportunities for growth.

After careful consideration of various options, the decision was made to establish a school for peasants. The initiative was led by a group of Opus Dei members hailing from different corners of the world, who combined their studies with agricultural work. As the inaugural courses commenced, there was an ambitious plan to extend the school's reach to students from nearby towns.

Regrettably, legal hurdles loomed large. Challenges included the need for new qualifications for teachers, a robust system for validating studies, and securing adequate funding. Consequently, the school could only offer short-term specialized courses. Despite these limitations, the spirit of educational and vocational advancement persisted, driven by a commitment to uplift those working the land.

b) *The stabilization of agricultural and livestock production and the new challenges*

The forecasts outlined in the 1958 report materialized significantly, as by 1960, agricultural and livestock production had strengthened, ushering in a new phase: one of stability. The profitability of agricultural endeavors hovered around 5%, while cattle breeding saw a remarkable surge to 20%, primarily driven by substantial growth in dairy product output.

A portion of the production was dispatched to Rome, but a substantial share was directly sold in nearby markets. Weekly supplies to the city reached 1500 kilos, predominantly comprising meat, fruits, and vegetables. However, this regular expedition incurred expenses that proved challenging to amortize with just one weekly trip, necessitating both a driver and a truck. Despite the savings accumulated until then, they were no longer sufficient.

The economic boom of the 1960s in the country led to improved food supplies, and Rome became a hub for competitive prices. Consequently, the management team contemplated the possibility of suspending food shipments. This strategic assessment posed a potential threat to one of the three core objectives of the entire Salto di Fondi project.

Additionally, a 1961 study underscored the need for further expansion of the farm, extending it to 193 hectares. The recent acquisition of machinery aimed at streamlining crop work and reducing costs necessitated larger land parcels for sustainability. Furthermore, the thriving dairy and meat business demanded additional acreage.

However, the farm's internal layout complexity rendered the existing road system inefficient, and constructing new roads would entail acquiring more land. This would inevitably prompt a reevaluation of the land sale policy. In summary, while the farm held promise, it still required further adjustments and investments. The question remained: Was it prudent to proceed?

7. The end and the beginning of an even bigger project (1964-1969)

In 1964, the farm operated at full capacity, engaging in both agricultural and livestock production. The breeding sector stood out, boasting over 100 cows and a substantial number of chickens. By 1965, the company had achieved stable profitability, amassing approximately 9 million Lire in profits.

However, during this period, the director of Salto di Fondi initiated discussions with St. Josemaría regarding the project's ongoing relevance. Despite the favorable economic outcomes and significant investments – both in financial terms and the dedicated efforts of Opus Dei members – it became evident that the motivation to sell the property was not purely economic. But what factors influenced St. Josemaría and Blessed Álvaro to contemplate this significant decision? Beyond financial considerations, St. Josemaría and Blessed Álvaro likely weighed other crucial aspects related to the project's mission and long-term impact. To understand their potential motivations, let us revisit the project's initial objectives and assess their current relevance.

These objectives included providing a place of rest for seminarians during summer periods, supplying food to the Roman School, and engaging in pastoral activities for social advancement among the local farmers. Over time, some of these objectives lost their strategic significance. For instance, in 1962, a decision was made to suspend food shipments to Rome. The cost of purchasing food within the city proved more economical than importing it from the farm. Remarkably, this decision did not adversely impact Salto di Fondi's profitability, as the company adeptly sold its produce in local markets.

While this pivotal decision underscored one of the project's core objectives, the notion of selling the estate remained secondary. After all, the farm continued to thrive. However, another factor soon came into play: the local government initiated the construction of a wide road, intended to traverse the entire territory. Simultaneously, tourism surged. As a result, Salto di Fondi gradually shed its identity as an exclusive retreat for the Roman College. By the summer of 1967, the influx of tourists rendered the estate unsuitable for summer rest, necessitating the exploration of alternative locations. This pivotal choice transformed the landscape. The groundwork laid with the local farmers had borne fruit. Since 1952, numerous new landowners had emerged – individuals who transitioned from laborers or sharecroppers to proprietors, thereby enhancing their living conditions. The accumulated experience introduced novel crops and techniques, ultimately maximizing land profitability. Also, the farmers had been duly cared for spiritually and pastorally; a parish had been built; and houses and schools had been established. So, the pastoral project had also been fully realized.

As soon as Salto di Fondi ceased to serve as the summer residence for the Collegio, the notion of divesting the property gained traction. Efforts to sell the land intensified, resulting in the sale of an additional 100 hectares to private families. A potential buyer emerged in 1969: Mr. Ripamonti, a representative of Società Trasporti e Oleodotti (STO) SpA. The negotiations were succinct, culminating in the establishment of a total price of 650 million Lire for the remaining portion of the estate. In April 1969, the entire property changed hands, passing into the ownership of STO.

With this divestiture, the management team and student-workers returned to their respective countries, where they continued to hone their skills and professionalism. The new company assumed responsibility for all structures, while the employed peasants persisted in their work on the estate. On May 1st, a final Mass was celebrated – a poignant farewell to the Salto di Fondi experience.

8. Lessons learned

Salto di Fondi played an important role in the history of Opus Dei. Initially, it served as a haven for seminarians and students during the summers spanning 1953 to 1967. The farm's diligent efforts sustained essential food supplies. Also, the proceeds of the sale of Salto di Fondi funded two future purchases that were pivotal to Opus Dei's future. One was Cavabianca, which would serve as a new home for students of the Collegio. It was closer to Rome and smaller than Salto di Fondi, although it was larger than Villa Tevere. The other acquisition was Tor d'Aveia. Nestled in San Felice d'Ocre, Abruzzo, this estate would cater to summer needs.

The pastoral work of Salto di Fondi's managerial team extended beyond mere land management. Their work also encompassed the emancipation of peasants from dependence on landowners, dignified housing initiatives for peasants, and improved access to essential services like education and telecommunications. They constructed a parish to improve priestly care, and they developed innovative projects in agriculture and husbandry that have benefited both the Salto di Fondi farm itself and its laborers. Many groups of people grew spiritually and professionally through the Salto di Fondi project, including the managerial team and the students of the Collegio Romano whom the people of the area remember with affection and gratitude.

Having recounted the entire history of Salto di Fondi, let us now mine the story for wisdom about successful ecclesial management.

Within this narrative, two distinct strategic levels emerge with clarity: the governance level and the managerial level. At the helm of governance stand St. Josemaría, the founder and president of Opus Dei, and Bl. Alvaro, the rector of the Collegio Romano. These visionary leaders shaped strategic choices and delineated objectives: the acquisition of the estate for a summer residence, the development of the farm to ensure food supplies, and the promotion of social welfare and pastoral care for the local peasantry.

To execute these strategic imperatives, they appointed a management team well-versed in agricultural and veterinary engineering. Bl. Alvaro and St. Josemaría entrusted this team with nearly two decades of decision-making autonomy. The management team's actions aligned with the overarching objectives, yet they engaged in ongoing discussions with the governing body. These dialogues addressed evolving strategies, long-term goals, and the reconsideration of objectives that no longer remained feasible.

A pivotal juncture arrived after nearly 18 years: the management team recognized that the project had lost its relevance due to shifts in the food distribution market and the encroachment of tourism activities, which compromised the seminarians' privacy. In this instance, the governance and management levels, while remaining aligned, played different roles since they were addressing different challenges. One was primarily charged with Opus Dei's welfare and that of the seminarians, whereas the other primarily oversaw the efficient management of the estate. Very often instead, in ecclesiastic organizations, there is confusion in the attribution of competencies between different levels of the hierarchy. Such confusion can lead to ill-suited decisions – either due to inadequate expertise or opaque criteria. Imagine, for instance, if the rector of the Collegio Romano had dictated the farm's crop choices or land utilization policies, or vice versa, if the sale of the estate had taken place without a constructive discussion between St. Josemaría and the management team.

Moreover, the sale of the Salto di Fondi estate invites us to delve deeper into the meaning of the whole project. Specifically, this project was born from the tangible needs of the Collegio Romano which concerned the good of the seminarians and their sustenance. Much like the parable of the Good Samaritan, the project had a concrete mission: to feed and protect those entrusted to its care

– the seminarians. This vision wasn't born of idle dreams; it was grounded in reality.

Yet, the project's canvas extended beyond the seminarians. It interwove with the social and pastoral development of the estate's farmers. These weren't faceless figures in an abstract narrative; they were real people, people who needed to be taken care of and who played an active part in the project's realization. However, this harmonious blend of needs didn't come without complexity. The project spanned multiple dimensions: residential management, corporate oversight, and human welfare. Each decision on the business front rippled into the realm of people's care. For instance, demolishing dwellings to create space for productive activities carried implications. Similarly, pastoral choices reverberated in the company's functionality – like the construction of a church altering the agricultural landscape. These trade-offs weren't always straightforward, yet the complexity of balancing pastoral and material needs was necessary to the project's essence and was key to its success.

The intricate management of Salto di Fondi over nearly two decades underscores a fascinating dimension – the interplay of complexity within the farm's specific administration. Competitive economic and productive outcomes demanded sustained managerial efforts and substantial investments. Yet, just as these results crystallized, the project's strategic relevance shifted due to altered conditions. So, we can see that projects make sense with respect to an end. If the end no longer exists or has changed form, then the ability to question oneself and rethink what one does is a sign of great wisdom. Very often this sound principle is forgotten, and church leaders end up doing projects that are not always aligned with the mission of the ecclesiastical organization. Stepping into the management team's shoes, one might query: What was the purpose of all this labor?

First, it is important to quantify the project's economic results. Despite a 60% reduction in land extension – from approximately 1000 to 400 hectares – due to prior transfers, the remaining estate's total value surged from 400 million lire to 650 million. This impressive return, when considered alongside other income streams (such as farm revenues and food shipments), underscores the project's enduring success. Without considering the other income achieved from the farm and the savings from the food shipped over time, as well as the net value between the investments made and the revenues from the previous sales of the lands, the final return on the initial investment was still more than 60%. It was precisely this gain that favored the undertaking of the Cavabianca project as the new headquarters of the Roman College.

9. Conclusions

The fine example of Salto di Fondi is more than just economic. It embraces the many students who reveled in its serene retreats and nourishing fare. Beyond that, it extends to the people and peasants – an entire community – who, alongside Opus Dei's priests and laity, embarked on a journey of social emancipation and spiritual growth.

It is a legacy that goes far beyond the economic results to touch the lives of many people. An integral logic combines the material good with the spiritual care of the person. Love is creative by definition; love for our neighbor, and charity for those entrusted to us, involve creative choices. The entrepreneurial attitude in the Church is just that, and the Salto di Fondi project is a shining testimony of this love.

THE VATICAN FINANCIAL SYSTEM AND ITS REFORM

Carmelo Barbagallo
Giuseppe Schlitzer[1]

With the 2009 Monetary Convention, signed between the European Union and the Vatican City State (VCS) to introduce the euro as the official currency of the Vatican jurisdiction,[2] an extensive process began, one which brought the world's smallest state up to international standards in financial matters. This process, initiated by Pope Benedict XVI, continued and made broader by Pope Francis, has resulted, in a little more than a decade, in profound changes in Vatican regulations, especially in financial and criminal matters, as well as in the establishment of new supervisory and control bodies within the Roman Curia.

This chapter gives a brief account of that path, the underlying reasons for which are not always well understood.

[1] The opinions expressed in the text and any errors are solely referable to the authors.

[2] The term 'jurisdiction', which will be used extensively throughout the paper, refers to a territory, that is not necessarily a country or state, where a particular set of laws or rules must be obeyed. It encompasses autonomous territories such as Gibraltar, Macao, Hong Kong, and the British Crown Dependencies, which are in fact members of the FATF (*Financial Action Task Force*) or of FATF-style regional bodies.

By their very nature, the institutions of the Holy See and the Vatican City State register inflows of money of exogenous origin (offerings, donations, wills and bequests), while outflows (humanitarian assistance and support for the neediest Churches) necessarily go where they are most needed: low economic development territories, war zones and countries with high crime rates. From the theoretical risks involved comes the need to have reasonable certainty about the origin and ultimate use of these funds.

In both cases, even if the entity acts in good faith, reputational damage may result not only for the entity directly involved, but also for the Holy See and the Vatican City State as a whole. Therefore, it was necessary to equip the Vatican institutions with safeguards commensurate with the risks.

The first direction taken by the Vatican's financial reform was sharply focused on making the jurisdiction compliant with international standards on preventing and combating money laundering (AML), the financing of terrorism (CFT) and the proliferation of weapons of mass destruction.

A second, complementary direction of reform concerned the implementation of structures and processes for expenditure control and for the management of the Holy See's and the State's property and assets. In this area, there have been important initiatives aimed at increasing transparency and correctness in economic decisions and prudence in financial investments. Of note in this regard are the adoption of timely rules for planning activities, the use of international accounting standards and the implementation of a procurement code.

As can be easily observed, this reform process has covered various and rather complex issues. Moreover, the uniqueness of the Vatican jurisdiction does not allow for the automatic implementation of international guidelines and principles. In fact, international standards and best practices in financial and administrative legislation have, as their background, market economies with financial systems that are far more articulated than that of the Vatican. In contrast, a regime of a purely public nature applies in the Vatican jurisdiction. There are no private financial and economic entities, no debt or equity instruments are issued, nor are there any trusts, insurance or investment companies, or electronic money institutions. Cryptocurrencies are, moreover, expressly prohibited. The only authorized intermediary is the Institute for the Works of Religion (IOR).

As a result, international standards have had to be adapted from time to time to a system that remains unique. And this is not a concluded path. As noted by one careful scholar, "Not even the promulgation on March 19, 2022, of the new apostolic constitution *Praedicate Evangelium* reorganizing the Roman Curia has put an end point to that process, which will require further settling."[3]

[3] J.I. Arrieta, Corso di Diritto Vaticano, EDUSC, Roma 2022, 329-30.

This paper is divided into three parts. In the first we cover the initial phase of the reform, between 2009 and 2015, during which the main institutional and legal foundations were laid. In the second, we illustrate the subsequent stages of consolidation and refinement. In the third and final part, we discuss the recently concluded successful assessement to which the jurisdiction was subjected in the framework of the Committee of Experts on the Evaluation of Policies to Combat Money Laundering and Terrorist Financing (MONEYVAL) incardinated at the Council of Europe.

1. The Monetary Convention and the first phase of reform (2009-2015)

Monetary circulation in the Vatican City State, and the possibility for it to have its own currency, is a consequence of its independence and sovereignty. However, it has been constantly secured through specific agreements, first with Italy and then with Europe. The first monetary Convention dates back to 1930 and was signed with the Kingdom of Italy to introduce the lira as the official currency of the state. This was followed by conventions with the Republic of Italy, the last of which was concluded on 3 December 1991, and was in force until the euro was introduced in the late 1990s. This leads to the two most recent Conventions: the 2000 Convention with the European Economic Community and the even more relevant 2009 Convention with the European Union.

The most significant aspect of the latter lies in the commitment of the Vatican City State to adopt EU legal acts and standards on money laundering and terrorist financing, a requirement that was in addition to the more traditional ones associated with the Monetary Convention (i.e., the rules on counterfeiting of means of payment and statistical reporting).[4]

With the signing of the 2009 Convention, the reform of the Vatican financial system effectively began. The first act in this process was the establishment of the Financial Information Authority, or AIF (now the Supervisory and Financial Information Authority, or ASIF), with the task of preventing and countering money laundering and terrorist financing. Pope Benedict XVI approved its statute with a 2010 Motu Proprio (*For the prevention and countering of illegal activities in the financial and monetary field*).

The Authority was configured from the outset as an entity "linked" to the Holy See, an approach confirmed by the recent Apostolic Constitution *Praedicate Evangelium.* This choice is consistent, on the one hand, with the independence and autonomy conferred on the Authority and, on the other,

[4] The provisions to be adopted are listed in a special "annex" to the Convention, updated annually. The task of reviewing their implementation over time – with reference to both the "production" of Vatican currency and the adoption of EU regulations – is entrusted to a permanent body ("Joint Committee"), composed of representatives of the Vatican, the European Commission, the ECB and Italy's Ministry of Finance and Central Bank.

with the application to it of the rules of sound administration laid down in the General Regulation of the Roman Curia.

At the same time that AIF was established, Law No. CXXVII *Concerning the Prevention and Combating of Money Laundering and Financing of Terrorism* was passed, and the crime of money laundering was introduced into Vatican law.

In addition to regulating the duties and responsibilities of AIF, Law No. CXXVII included obligations for customer due diligence, recording and storing information on financial transactions, and reporting suspicious activity. The latter obligation fell on entities professionally engaged in activities of a financial nature and on a number of other entities, which are not actually present in the Vatican system. In other words, the obligations concerned only the IOR. In 2012, however, the duty to report suspicious activities was extended to all public authorities in the Vatican.

Another qualifying step in the initial phase of the reform was the entry of the Holy See and the Vatican City State into MONEYVAL, a body of the Council of Europe that serves as the European "arm" of the FATF.[5]

[5] In February 2011, the Holy See applied for admission to the MONEYVAL Group of the Council of Europe. A couple of months later, the Committee of Ministers at the Council of Europe approved the request and, following two on-site reviews, in July 2012 MONEYVAL adopted in its plenary session the first report on the regulatory and institutional compliance of the Vatican jurisdiction.

With this decision, the Vatican entered the system of mutual evaluations on the adequacy of MONEYVAL member jurisdictions in preventing and combating money laundering and terrorist financing. This was a very significant step, confirming the practical and formal commitment to comply with the obligations established at the European level. The first assessment of the Vatican jurisdiction took place soon after joining MONEYVAL, between late 2011 and the first half of 2012 (see para. 4).

Partly due to the recommendations received from MONEYVAL, the latter part of 2013 saw the implementation of important steps in the jurisdiction's AML/CFT system. In particular, in October 2013 the Motu Proprio *For the Prevention and Combating of Money Laundering, Terrorist Financing and the Proliferation of Weapons of Mass Destruction* was issued, and Law No. XVIII *Recording Regulations on Transparency, Supervision and Financial Information* was enacted. In the context of the latter measure, the Financial Security Committee (Co.Si.Fi.) was created as a coordinating body among the relevant authorities of the Roman Curia on the matter of money laundering and terrorist financing.

The President of Co.Si.Fi. is the Undersecretary for General Affairs of the Secretariat of State, while the role of Secretary of the Committee is assigned to the Director of AIF/ASIF. With the creation of this body, the Holy See aligned its AML/CFT institutional architecture to that of the most advanced countries. The composition of the Committee, and thus its Statute, was later modified to take into account the new bodies created in 2014, which will be discussed below. All authorities with policy or supervisory functions in economic and financial matters, as well as judicial and investigative authorities, have a seat in the Committee.

Another qualifying aspect of Law No. XVIII is the attribution to AIF of "prudential" supervision of entities that professionally carry out a financial activity, thus the IOR (and, at first, also the Administration of the Patrimony of the Apostolic See (APSA)). Established primarily as an anti-money laundering authority and financial intelligence unit, AIF thus saw its powers expanded to include supervision of the "sound and prudent management" of financial intermediaries.

Law No. XVIII, which can be considered the first organic legislation on the Vatican's limited financial sector and on anti-money laundering, replaced Law No. CXXVII.[6]

With the pontificate of Pope Francis, the financial reform gained further momentum. The reforms were not limited to alignment with international

[6] The regulatory framework of Law No. XVIII is far more comprehensive and articulated than the previous discipline, with Titles dedicated to significant areas such as money laundering, prudential supervision, confidentiality and exchange of information both domestically and internationally, and measures against those who threaten international peace and security. The law was amended over time, including adaptations to relevant EU directives as they were issued, without altering its basic structure.

anti-money laundering standards but focused on a comprehensive reform of the Holy See's economic bodies, starting with the IOR. To assess the consistency between the Institute's activities and the universal mission of the Apostolic See, Pope Francis established the Pontifical Referral Commission on the IOR (CRIOR) in June 2013.[7]

However, the Holy Father's reform went beyond the IOR's assessment. The design of such reform was entrusted to a dedicated working group, the Pontifical Referent Commission for Study and Guidance on the Organization of the Economic-Administrative Structure of the Vatican, better known by its acronym COSEA, established in July 2013.

After a few months, CRIOR and COSEA finished their work. Regarding the IOR, it was determined that the Institute "will continue to carefully serve and provide specialized financial services to the Catholic Church worldwide. The important services that can be offered by the Institute assist the Holy Father in his mission as universal pastor and also support institutions and individuals who

[7] The IOR was established in 1942 at the behest of Pope Pius XII as a public canonical institution to offer services to the entities and persons of the Holy See/VCS and to other entities of the Catholic Church around the world (dioceses and bishops' conferences, religious orders, foundations and canon law entities, Catholic clergy in general). The services offered consist of deposits and the custody, administration and management of the movable and immovable property entrusted to it. By statute, the IOR cannot provide loans "on a professional basis".

collaborate with him in his ministry."[8] The continuation of the Institute's operations was, among other things, linked to its progressive transformation. The relationships with clients were reviewed, leading to the closure of all accounts without a close connection to the Holy See, and a modernization of the internal organization was undertaken. This allowed for the IOR's entry into the international SEPA payments circuit in October 2019.

Taking into account the results of COSEA's work, at the beginning of 2014, with the Motu Proprio *Fidelis dispensator et prudens,* the other fundamental step of the reform was realized, with the establishment of three new bodies for the control of public finances: the Council for the Economy, the Secretariat for the Economy, and the Office of the Auditor General. At distinct levels and in conjunction with each other, these bodies operate in areas of particular importance, such as the approval of budgets, management control, investment policies, authorization of acts of extraordinary administration, and accounting reporting.

The three new Vatican authorities were destined to become increasingly important in the Vatican's economic-financial environment.

The Council for the Economy, composed of eight Most Eminent Cardinals or Bishops and seven particularly qualified laypeople, exercises supervision

[8] Bulletin of the Vatican Press Office, April 7, 2014.

over economic and financial matters at the highest strategic level.

The Secretariat for the Economy, which is entrusted with broad powers in the economic-administrative sphere over all the entities and bodies of the Roman Curia and those connected with it, exercises supervision and control over public finances.

Finally, the Office of the Auditor General (URG) is entrusted with the auditing of the consolidated financial statements of the Holy See and the Governorate of the Vatican City State, as well as the annual individual financial statements of the Dicasteries of the Roman Curia, the Institutions linked to the Holy See[9] and the Administrations of the Governorate of the Vatican City State[10] that flow into the aforementioned consolidated financial statements.

With the approval of the Statutes of the three "economic bodies", the new financial architecture of the Holy See was completed in February 2015.

[9] Articles 222-224 of the Apostolic Constitution *Praedicate Evangelium,* issued March 19, 2022.

[10] *Rescriptum ex audientia SS.MI.* of the Holy Father *regarding the duties of the Office of the Auditor* General, 24.05.2023, which "established that, for all that is not provided for in Articles 222-224 of the Apostolic Constitution *Praedicate Evangelium*, issued March 19, 2022, the provisions contained in the Statute of the Office of the Auditor General, which came into effect on February 16, 2019, shall be observed." in *Press Office Bulletin*, May 24, 2023.

2. The second phase of the reform

The period from 2015 to the present is characterized by measures of refinement and consolidation, in the direction of increasing the transparency of the Vatican's financial system, better defining the perimeter of the entities on which controls and/or reporting obligations of suspicious activities fall, and rationalization of investments.

In 2015, work began under the umbrella of Co. Si.Fi to arrive at the first General Risk Assessment (GRA) of the jurisdiction, as required by Law No. XVIII and international best practices in the field. The approach used was that of the World Bank, whose methodology was judged to be best suited to the peculiar institutional, legal and financial set-up of the Holy See/VCS. The multi-phased preparatory work took approximately two years. The first VGR saw light in November 2017. The risk of money laundering was rated "medium-low," the risk of terrorist financing "low."

Also in 2015, APSA left the perimeter of AIF/ASIF supervision. An *ad hoc* inspection by the Authority ascertained the effective closure by APSA of all non "institutional" relationships. Therefore, it was found that APSA carried out activities of a financial nature exclusively to serve "institutional" entities, thereby excluding it from the scope of Titles II and III of Law No. XVIII, referring respectively to AML/CFT and prudential supervision.

While the scope of institutions subject to AIF/ASIF supervision was narrowed, the scope of the obligation to report suspicious activities was gradually expanded. In 2017, non-profit institutions were included in this obligation, and in 2019, canonical, civil legal persons and voluntary organizations were included. With this latest regulatory provision, all Curial Institutions became "reporting entities."

In 2019, there was also an amendment to the Statute of the URG, which made it the Anti-Corruption Authority of the Holy See/VCS under the Mérida Convention against Corruption.[11]

Some of the aforementioned changes were subsumed into Law No. XVIII when it was revised in 2020-21 to bring the Vatican system in line with the EU's Fifth Anti-Money Laundering Directive (of 2018). With this revision, the General Risk Assessment was refined and the mechanisms for self-assessment of money laundering risk and organizational compliance were introduced, including for reporting entities other than those that are obliged. Collaboration and exchange of information at the domestic and international levels was strengthened. Finally, a "central registry" of active relation-

[11] Art. 3, Statute of the Office of the Auditor General, January 21, 2019, in *Communicationes* 51, 2019, 40-46: "§ 3. The Office of the Auditor General is the Anti-Corruption Authority under the Mérida Convention, in force for the Holy See and the Vatican City State since October 19, 2016." The assignment of the task of "Anti-Corruption Authority" was confirmed by the abovementioned Rescript of May 24, 2023.

ships with the IOR was established at ASIF, which became operational in January 2023.

In May 2020, another important milestone was recorded in public contracts. With the Motu Proprio, *The diligence of the good father*, the Procurement Code was promulgated, which applies to procurement contracts entered by both the Holy See and the Vatican City State. This measure implemented Article 9 of the Mérida Convention, ratified by the Holy See on September 16, 2016.

The Procurement Code remedied a weakness also noted in the VGR, which related to an area that was potentially vulnerable to illicit and corrupt practices. It introduced, among other things, ethical criteria to apply in economic decision making, as well as criteria for combating conflicts of interest and for transparency and competition in procurement procedures. On this occasion, the management of procurement was centralized: at APSA with reference to bodies of the Holy See; at the Governorate with reference to entities that are part of the Vatican City State.

Also significant is the Motu Proprio *Regarding certain competencies in economic and financial matters*, dated December 2020, by which the Holy Father ordered the transfer, as of 1 January, 2021, of the ownership of the funds and bank accounts, movable and immovable investments, including shareholdings in companies and investment funds, held in the name of the Secretariat of State to APSA, entrusting its management to the latter and its monitoring to the Secretariat for the Economy.[12] In continuity with the aforementioned Motu Proprio, a unified financial investment policy of the Holy See was launched in July 2022.

"The new Investment Policy" – reads the official communiqué by the Secretariat for the Economy – "intends to ensure that investments are aimed at contributing to a more just and sustainable world; protect the real value of the Holy See's net worth by generating a return sufficient to contribute sustainably to the financing of its activities; and are aligned with the teachings of the Catholic Church, with specific exclusions of financial investments that contradict its fundamental principles, such as the sanctity of life or the dignity of the human being or the common good." For this reason, the communiqué continues, it is important that such investments "be aimed at financial activities of a productive nature, excluding those of a speculative nature, and above all be guided by the principle that the choice to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice."

In order to implement the new investment policy, an Investment Committee was established

[12] Also flowing to APSA, according to the aforementioned provision, are contributions for any reason due or freely devolved to the Holy See. This includes transfers from the Governorate of Vatican City State, profits from the IOR, funds from St. Peter's Pence and contributions from dioceses around the world based on canon 1271 CJC.

which, according to the Apostolic Constitution *Praedicate Evangelium*, is assigned the tasks of "ensuring the ethical nature of the Holy See's movable investments according to the Church's social doctrine and, at the same time, their profitability, appropriateness and riskiness" (Art. 227 § 1).[13]

The Apostolic Constitution consolidated and, in some cases, strengthened the tasks assigned to the "economic bodies". The Council for the Economy was given significant advisory tasks in addition to the aforementioned functions of high supervision. The Council, in fact, "when necessary and with respect to its operational autonomy, requests from the Supervisory and Financial Information Authority information relevant to its activities and is informed annually regarding the activities of the Institute for Works of Religion." Moreover, it "examines the proposals made by the Secretariat for the Economy, as well as any suggestions presented ... by the Supervisory and Financial Information Authority" (Articles 210 and 211, *Praedicate Evangelium*).

The Secretariat for the Economy was entrusted with the function of "Papal Secretariat for economic and financial matters" (Art. 212*).* Within it, the Holy See's Directorate for Human Resources was established. The Directorate for Human Resources

[13] The Investment Committee is composed, according to its charter, of Members and high-profile Professionals appointed for five-year terms by the Roman Pontiff. It is headed by a chairman, and assisted by a secretary (Art. 227 § 2, *Praedicate Evangelium*).

provides "in dialogue and collaboration with the entities concerned, for everything regarding the position and working management of the personnel and collaborators of the entities subject to the legislation proper to the Holy See" (Art. 217 § 1, *Praedicate Evangelium*).[14]

The Apostolic Constitution also indicated the main functions attributed to APSA ("the treasury, accounting, purchasing and other services" under art. 220, §1) and the Office of the Auditor General ("auditing the consolidated financial statements of the Holy See" under art. 222).

Finally, relevant were the tasks assigned by the Apostolic Constitution to the Commission of Confidential Matters, established by Pope Francis in September 2020, which is responsible for: (i) authorizing any act of a juridical, economic and financial nature that for the greater good of the Church or persons should be covered by secrecy or removed from the control and supervision of the competent bodies; and (ii) controlling and supervising the contracts of the Holy See that, according to the law, require confidentiality (Art. 225, *Praedicate Evangelium*).

The review of major financial measures concludes with the Motu Proprio of 5 December 2022

[14] Exceptions to this are appointments made or approved by the Roman Pontiff concerning individuals at the top of Curial Institutions, Offices and Institutions connected with the Holy See and those of diplomatic personnel, which are the responsibility of the Section for General Affairs of the Secretariat of State (Art. 48 (2), *Praedicate Evangelium*).

and with Law No. DL of 12 December 2022, both regarding Vatican legal entities.

The Motu Proprio identifies the "instrumental juridical persons of the Roman Curia" as those entities that refer to the Holy See, included in a special list annexed to the Statute of the Council for the Economy and located in the Vatican City State (with the exclusion of the Curial Institutions, the Offices of the Roman Curia, the institutions connected with the Holy See and the Governorate of Vatican City State). It is important to note that these "instrumental" entities are defined by the Motu Proprio as "public entities of the Holy See".

The aforementioned acts dictate rules of good administration (incorporation requirements, procedures for registration in a special registry, registration and preservation requirements). They also introduce requirements for institutional supervision, economic and financial supervision and control, accounting records, exchange of information, and the extinction and devolution of assets.

Institutional oversight (pertaining to the "proper functioning of the entity in the pursuit of its institutional purposes") of non-instrumental juridical persons is entrusted to the Governorate; that of "instrumental" juridical persons, on the other hand, is attributed to the Curial Institution on which the juridical person is canonically dependent.

Supervision and control in economic and financial matters of "instrumental" juridical persons are entrusted to the Secretariat for the Economy, which, after consulting ASIF and the Office of the Auditor General, "adopts or recommends the adoption ... of appropriate measures for the prevention and countering of criminal activities" (Art. 2, paragraph 2, of Motu Proprio of 5/12/2022).

3. The recent MONEYVAL assessment

As noted above, in July 2012 MONEYVAL adopted, in its plenary session, the first report on the regulatory and institutional compliance of the Vatican jurisdiction ("technical compliance"). The report revealed the need for adjustment of legislation, the salient contents of which have been summarized in this article.

The progress made by the jurisdiction was the subject, at first annually and then biennially, of three "follow-up" activities by MONEYVAL, represented in the December 2013, 2015, and 2017 "reports", in which the improvements found were progressively acknowledged.

As foreseen in the MONEYVAL procedures, the aforementioned initial verification activities concerned only the consistency of the Holy See's and the VCS's regulations with international standards (contained in the "Forty Recommendations" of the FATF) on preventing and combating money laundering and terrorist financing. The other assessment profile concerned the concrete ability of a jurisdiction to translate norms into consistent and effective behaviour ("effectiveness"). This domain covers a jurisdiction's intelligence, supervisory, and law enforcement activities in the five-year period prior to the audit. This second profile was verified in the fall of 2020 through an intensive on-site visit.

The outcome of the effectiveness review is summarized in the report approved in April 2021 by the MONEYVAL plenary, which fully acknowledged the jurisdiction's significant progress. Of the eleven evaluation profiles, five achieved a rating of "substantial" effectiveness and six were given a rating of "moderate" effectiveness. No profiles were rated "low" effectiveness.

This is, in comparative terms, one of the best assessments achieved in both the MONEYVAL sphere and globally. Among other things, the quality of the results achieved is attested by the jurisdiction's submission to a reduced-frequency "follow-up" process, with a first follow-up review concluded in May 2024 with a positive outcome.[15]

4. Conclusions

International attention to money laundering phenomena goes back a long way and probably has its birthplace in the United States with the *Bank Secrecy Act* of 1970. However, it was between the late 1980s and early 1990s that the phenomenon of money laundering began to be systematically

[15] See the MONEYVAL press release of 28 May 2024 in <www.coe.eu>.

pursued by various jurisdictions. Indeed, in 1989 the FATF was established and in 1991 the European Union's First Anti-Money Laundering Directive was approved. Around that same time, some states established the first financial intelligence units and a few years later, in 1997, MONEYVAL, as a regional body of the FATF, was established.

The formal adherence of the Holy See and the Vatican City State to the relevant international standards and membership in MONEYVAL occurred, as seen, in more recent years (starting in 2010). This inevitably resulted in a certain regulatory and institutional gap. However, this gap has been quickly recovered, and the best attestation to this is precisely the described outcome of the recent MONEYVAL report on the effectiveness of the jurisdiction in preventing and combating money laundering and terrorist financing.

As seen, decisions to align with AML standards have been coupled with major initiatives since 2014/2015 to improve transparency, fairness, and accountability in financial matters, having their core in the implementation of strict spending control mechanisms.

The Monetary Convention of 2009, the membership in MONEYVAL and the noteworthy progress in both the regulatory and institutional spheres are all signs of a path firmly undertaken in the prevention and early detection of possible anomalies and irregularities, and in the increasing efficiency and transparency of the spending mechanisms.

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