

MASTERFUL INSIGHTS IN NEW ENCYCLICAL, BUT SOME AMBIGUITIES

By JAMES R. LOTHIAN

On June 29 of this year, the Feast of Sts. Peter and Paul, Pope Benedict XVI issued his social encyclical, *Caritas in Veritate*, subtitled on “Integral Human Development in Charity and Truth.”

By “integral development” Pope Benedict means development that in the words of Pope Paul VI “promote[s] the good of every man and of the whole man.” (18)¹

“Caritas in veritate,” Pope Benedict writes, “is the principle around which the Church’s social doctrine turns, a principle that takes on practical form in the criteria that govern moral action.”(6) The two, he argues, are perfect complements for “[t]ruth needs to be sought, found and expressed within the ‘economy, of charity, but charity in its turn needs to be understood, confirmed and practised in the light of truth.’”(2)

The reason is that

A Christianity of charity without truth would be more or less interchangeable with a pool of good sentiments, helpful for social cohesion, but of little relevance. In other words, there would no longer be any real place for God in the world. Without truth, charity is confined to a narrow field devoid of relations. It is excluded from the plans and processes of promoting human development of universal range, in dialogue between knowledge and praxis.(4)

The more fundamental reason is theological:

In the truth, charity reflects the personal yet public dimension of faith in the God of the Bible, who is both Agápe and Lógos: Charity and Truth, Love and Word.

The bulk of the encyclical – 70 per cent, by my rough count – is an elaboration on this theme, an application of these principles to the human condition in our age of greatly increased globalisation:

Love in truth – *caritas in veritate* – is a great challenge for the Church in a world that is becoming progressively and pervasively globalized. The risk for our time is that the *de facto* interdependence of people and nations is not matched by ethical interaction of consciences and minds that would give rise to truly human development. Only in charity, illumined by the light of reason and faith, is it possible to pursue development goals that possess a more humane and humanizing value.(9)

As one has come to expect from this pope, this discussion is often masterful, both cogently argued and insightful.

The remainder of the discussion in the encyclical

focuses in one way or another on specific economic issues, including the current financial crisis, and on questions of political economy more generally. This part is a good deal less successful. It is replete with empirical assertions, many quite dubious. It is often ambiguous and rambling and, in a number of important instances simply wrong in both its analyses and its conclusions. Indeed, some of this is so disparate in its phraseology and its thinking relative to the rest of the document that it appears to have been penned by a different hand.

The Heart of the Encyclical

Pope Benedict places his discussion in the context of the social encyclicals of the past four decades using as a point of departure Pope Paul VI’s 1967 encyclicals *Populorum Progressio* and *Humanae Vita*. He cautions against the widespread tendency to view these Vatican II era encyclicals and those that followed as breaks with the past. The “hermeneutic of continuity” that Pope Benedict has written about in other contexts, he says in effect, is the lens through which one should view the Church’s tradition of social thought, and he does just this. He writes

It is not a case of two typologies of social doctrine, one pre-conciliar and one post-conciliar, differing from one another: on the contrary, there is a single teaching, consistent and at the same time ever new. It is one thing to draw attention to the particular characteristics of one Encyclical or another, of the teaching of one Pope or another, but quite another to lose sight of the coherence of the overall doctrinal corpus. Coherence does not mean a closed system: on the contrary, it means dynamic faithfulness to a light received.(12)

The specific contribution of *Caritas in Veritate*, is its discussion of the factors that are necessary for integral human development in today’s context. Pope Benedict begins this discussion by considering three key factors enumerated by Pope Paul VI. The first is responsible freedom, both of individuals and peoples; the other two are truth and charity.

With regard to the first, he writes

[N]o structure can guarantee this development over and above human responsibility. The “types of messianism which give promises but create illusions” always build their case on a denial of the transcendent dimension of development, in the conviction that it lies entirely at their disposal. ... Only when it is free can development be integrally human; only in a climate of responsible freedom

can it grow in a satisfactory manner.(17)

The truth in question is the truth of the Gospel for

[I]n the Gospel, Christ, “in the very revelation of the mystery of the Father and of his love, fully reveals humanity to itself” ... The Christian vocation to this development therefore applies to both the natural plane and the supernatural plane; which is why, “when God is eclipsed, our ability to recognize the natural order, purpose and the ‘good’ begins to wane.” (19; quotes from *Populorum Progresso*)

Charity is necessary because

Reason, by itself, is capable of grasping the equality between men and of giving stability to their civic coexistence, but it cannot establish fraternity. This originates in a transcendent vocation from God the Father, who loved us first, teaching us through the Son what fraternal charity is.

With these as backdrop, Pope Benedict goes on to consider questions of population growth and sexuality, the environment, the relation between markets and politics and the role of gratuitousness, the role of religion, the proper view of technology and the importance of an ethical framework for the functioning of markets. There are lengthy discussions of each of these issues to which I can provide only a small flavour.

Openness to life

A key to true integral human development, Pope Benedict writes is openness to life:

When a society moves towards the denial or suppression of life, it ends up no longer finding the necessary motivation and energy to strive for man's true good. If personal and social sensitivity towards the acceptance of a new life is lost, then other forms of acceptance that are valuable for society also wither away. The acceptance of life strengthens moral fibre and makes people capable of mutual help. By cultivating openness to life, wealthy peoples can better understand the needs of poor ones, they can avoid employing huge economic and intellectual resources to satisfy the selfish desires of their own citizens, and instead, they can promote virtuous action within the perspective of production that is morally sound and marked by solidarity, respecting the fundamental right to life of every people and every individual. (28)

He points out further that this makes good economic sense, for

Morally responsible openness to life represents a rich social and economic resource. Populous nations have been able to emerge from poverty thanks not least to the size of their population and the talents of their people. On the other hand, formerly prosperous nations are presently passing through a phase of uncertainty and in some cases decline, precisely because of their falling birth rates; this has become a crucial problem for highly affluent societies.

He goes on to say:

These situations are symptomatic of scant confidence in the future and moral weariness. It is thus becoming a social and even economic necessity once more to hold up to future generations the beauty of marriage and the family, and the fact that these institutions correspond to the deepest needs and dignity of the person. In view of this, States are called to enact policies promoting the centrality and the integrity of the family founded on marriage between a man and a woman, the primary vital cell of society, and to assume responsibility for its economic and fiscal needs, while respecting its essentially relational character.

With regard to the environment, Pope Benedict argues among other things that

If there is lack of respect for the right to life and a natural death, if human conception, gestation, and birth are made artificial, if human embryos are sacrificed to research, the conscience of society ends up losing the concept of human ecology and, along with it, that of environmental ecology. It is contradictory to insist that future generations respect the natural environment when our educational system and laws do not help them to respect themselves. (51)

Christianity's vital role

Pope Benedict is certainly not anti-market. "The Church has always held that economic action is not to be regarded as something opposed to society," he writes. "Society does not have to protect itself from the market, as if the development of the latter were ipso facto to entail the death of authentically human relations." (both from 36) He argues further, however, that for full integral development more is needed and that we need to go beyond "[t]he exclusively binary model of market-plus-State," since "The market of gratuitousness does not exist, and attitudes of gratuitousness cannot be established by law. Yet both the market and politics need individuals who are open to reciprocal gift." (39) In short, charity is necessary to fill the vacuum.

It is here that religion in general and Christianity in particular plays a vital role, for

The Christian revelation of the unity of the human race presupposes a metaphysical interpretation of the "humanum" in which relationality is an essential element. Other cultures and religions teach brotherhood and peace and are therefore of enormous importance to integral human development. Some religious and cultural attitudes, however, do not fully embrace the principle of love and truth and therefore end up retarding or even obstructing authentic human development. (55)

He adds further,

The Christian religion and other religions can offer their contribution to development only if God has a place in the public realm, specifically in regard to its cultural, social,

economic, and particularly its political dimensions. The Church's social doctrine came into being in order to claim "citizenship status" for the Christian religion. Denying the right to profess one's religion in public and the right to bring the truths of faith to bear upon public life has negative consequences for true development. The exclusion of religion from the public square — and, at the other extreme, religious fundamentalism — hinders an encounter between persons and their collaboration for the progress of humanity. Public life is sapped of its motivation and politics takes on a domineering and aggressive character. Human rights risk being ignored either because they are robbed of their transcendent foundation or because personal freedom is not acknowledged. Secularism and fundamentalism exclude the possibility of fruitful dialogue and effective cooperation between reason and religious faith. Reason always stands in need of being purified by faith: this also holds true for political reason, which must not consider itself omnipotent.

Technology, Pope Benedict argues is important for development but "Technology, viewed in itself, is ambivalent." It is, however, neither a bugaboo nor a panacea. Viewing technology through the lens of Whig history or neo-Malthusianism are, therefore, both mistakes:

If on the one hand, some today would be inclined to entrust the entire process of development to technology, on the other hand we are witnessing an upsurge of ideologies that deny in toto the very value of development, viewing it as radically anti-human and merely a source of degradation. This leads to a rejection, not only of the distorted and unjust way in which progress is sometimes directed, but also of scientific discoveries themselves, which, if well used, could serve as an opportunity of growth for all. The idea of a world without development indicates a lack of trust in man and in God. It is therefore a serious mistake to undervalue human capacity to exercise control over the deviations of development or to overlook the fact that man is constitutionally oriented towards "being more". Idealizing technical progress, or contemplating the utopia of a return to humanity's original natural state, are two contrasting ways of detaching progress from its moral evaluation and hence from our responsibility. (14)

Business ethics

Yet another question that Pope Benedict treats in *Caritas in Veritate* is business ethics. "The economy needs ethics in order to function correctly," he writes, "not any ethics whatsoever, but an ethics which is people-centred." (45) For that reason, he states further:

It would be advisable, however, to develop a sound criterion of discernment, since the adjective "ethical" can be abused. When the word is used generically, it can lend itself to any number of interpretations, even to the point where it includes decisions and choices contrary to justice and authentic human welfare. Much in fact depends on the underlying system of morality. On this subject the Church's social doctrine can

make a specific contribution, since it is based on man's creation "in the image of God" (Gen 1:27), a datum which gives rise to the inviolable dignity of the human person and the transcendent value of natural moral norms. When business ethics prescind from these two pillars, it inevitably risks losing its distinctive nature and it falls prey to forms of exploitation; more specifically, it risks becoming subservient to existing economic and financial systems rather than correcting their dysfunctional aspects.

What he might have added is that in the absence of such an underlying system of morality a market economy simply cannot function. No amount of police, no system of laws can substitute for a basic commitment to honesty. Witness the travails of the Russia and many other former Soviet States after the breakdown of that empire in which the immoral became the "moral" and remained so for generations.

Where *Caritas in Veritate* goes awry is when it gets into economics *per se*. This is true both in many of its specific observations and in the overall tenor of its discussions of firm behaviour and the role of profits and of economic organisation more generally.

A market economy is in one sense a second best. If human beings had perfect knowledge and were not subject to original sin a first best would be achievable, but neither is the case. We often err and concupiscence often trumps charity. Clearly, Pope Benedict realises this. As a student of St. Augustine he is certainly not at all neo-Pelagian. He in fact makes explicit reference to original sin and its consequences in "Caritas in Veritate." As a scholar, he most certainly recognises the limitations of human knowledge.

The first reason that markets work better than the alternatives is because they harness information better. In the complex world in which we live, no one person or group of persons, however well motivated, can possibly have the knowledge to direct resources, including human ingenuity and skills, to their most efficacious uses.²

The function of profits, and losses, is to do just that. Firms that do not maximize profits, and hence shareholder value, sooner or later go out of business. Firms' managers, in their roles as managers, do not have any leeway to pursue other goals. Nor is that bad. Adam Smith put it succinctly in the *Wealth of Nations* two centuries ago:³

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

Smith could have added, but did not, that the same is true in the markets for labour and human skills. If those markets are competitive workers will necessarily be paid the value of what they produce. They do not have to rely on the benevolence of the firms managers for that to happen. Misanthropic owners of bake shops

and butcher shops who try to screw down wages eventually will lose their bakers and butchers to other firms that do pay the market wage and either have to raise the wages they pay or suffer the loss of business. Smith might also have added that butchers who sell bad meat or bakers who sell stale loaves, eventually will lose their customers.

Benevolence and charity are not at issue here. What individuals – be they shareholders, managers or other employees – do with their earnings, whether or not they are motivated by charity towards their fellow man is a different matter and of course a legitimate concern. That, however, is totally unrelated to the question of how markets function. Pope Benedict in his discussion of gratuitousness seems in tacit agreement with this. Yet we see, in not at all typical Benedictine prose, the statement that “there is nevertheless a growing conviction that business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business: the workers, the clients, the suppliers of various elements of production, the community of reference.”(40)⁴

Problems with globalisation

A related set of problems crops up in *Caritas in Veritate* in course of the discussion of globalisation. Much of this discussion is excellent, but then at one point in “*Caritas in Veritate* we read that “The articulation of political authority at the local, national and international levels is one of the best ways of giving direction to the process of economic globalisation.”(41) Somewhat later we see the statement that:

To manage the global economy; to revive economies hit by the crisis; to avoid any deterioration of the present crisis and the greater imbalances that would result; to bring about integral and timely disarmament, food security and peace; to guarantee the protection of the environment and to regulate migration: for all this, there is urgent need of a true world political authority, as my predecessor Blessed John XXIII indicated some years ago. (67)

The problem here as it relates to globalisation is two fold. The principal reason that globalisation has increased so greatly is that it has not been managed. It has done so in recent decades as barriers to international trade – the heritage of two world wars and the Great Depression – have eroded. Increased international trade between two countries benefits both. People in these countries are able to specialize in doing what they do best. More goods and services are produced and incomes increase.

To manage the process would run the risk of killing it entirely and of reversing those gains. For if the information problem looms large in an individual economy, it looms even larger still in the world as a whole. No less a problem is the question of who does

the managing and their motivations. *Quis custodiat ipsos custodes* – who guards the guards themselves.

Even if the requisite information were available to such body, is it reasonable to believe that the individuals involved would pursue the right course? Does a change in venue from Cork to Dublin or from Illinois to Washington bring with it an increase in sympathy for one’s fellow man? What about a move to Brussels? The economic marketplace has its warts, but it has a mechanism of direct accountability. In the political marketplace accountability is at one step remove and often skewed by the pleading of one or another special-interest group. At the word level the problem is exacerbated much more greatly.

Nor have world political bodies been highly successful in practice. Witness the League of Nations in the interwar period and the United Nations since World War II. In part these failures, may have been the result of nations guarding their sovereignty – sometimes rightly so – but in the case of the United Nations in particular corruption appears to have loomed large.

Misleading and mistaken

Finally there is the question of the finance and current economic crisis. The discussions of this episode in “*Caritas in Veritate*,” are misleading and of finance more generally mistaken.

At one point we read that:

Finance, therefore — through the renewed structures and operating methods that have to be designed after its misuse, which wreaked such havoc on the real economy — now needs to go back to being an instrument directed towards improved wealth creation and development. ... Financiers must rediscover the genuinely ethical foundation of their activity, so as not to abuse the sophisticated instruments which can serve to betray the interests of savers.(65)

Shortly thereafter the statement appears that

Both the regulation of the financial sector, so as to safeguard weaker parties and discourage scandalous speculation, and experimentation with new forms of finance, designed to support development projects, are positive experiences that should be further explored and encouraged, highlighting the responsibility of the investor.

Bankers erred on several levels, but so also did home buyers and builders. Were their behaviours scandalous too? Judged by what metric? Equally erroneous is the call to “discourage experimentation with new forms of finance.” Most new forms of finance – futures markets, option markets and the like – have played an economically beneficial role. Most in turn came about as ways of sheltering individuals and financial institutions from interest-rate and other forms of risk by shifting that risk to speculators who were more equipped and more willing to bear it.

Notes

More important, to attribute the current financial crisis entirely to the mistakes of bankers is to leave the prince out of the play. In the United States, which is where the credit crisis became most virulent, government actions played a huge role.

At the heart of the financial crisis – the *sine qua non*, if you will – were the “subprime mortgages,” mortgages to low-income people, that banks in the United States made at the behest of the U.S. Congress and that the banks subsequently securitised and sold.⁵ Much of this securitisation took the form of what are called “collateralized debt obligations” (CDOs). Unlike the conventional residential mortgage-backed bonds that banks had been issuing for several decades, there was nothing standardised about these securities. CDOs are hybrid instruments – heterogeneous and rather opaque combinations of mortgage-backed bonds of varying quality that are not traded in any organised market. For those reasons they are difficult to value and became very more so as the crisis unfolded.

When housing prices peaked and then began to fall, sometime near the end of 2006, defaults on subprime mortgages increased dramatically. This, in turn, had extremely adverse effects on the market for CDOs. Via a variety of channels, and as a result of some of the other government policies subsequently pursued, the problems in that market spilled over to the rest of the U.S. credit market and to credit markets abroad. The basic problem here was that no one – even financially sophisticated observers – any longer knew what these CDOs were worth or how exposed individual financial institutions were to the resultant declines in CDO prices and their effects on other firms. In the end, panic set in, credit markets froze and the world economy which had already been teetering, worsened.

Conclusions

Father Joseph Fessio, S.J. in *Catholic World Report* writes that in *Caritas in Veritate* Pope Benedict again “shows himself to be a theologian of synthesis and fundamental principles,” who “has changed the whole framework of the debate on ‘the social question.’”⁶ In this encyclical on social justice Fr. Fessio goes on to say, “[J]ustice’ and ‘rights’ find their proper place in a larger synthesis. But the priority is established from the outset, the foundation is laid, with ‘charity’ and ‘truth.’” This larger synthesis is important as also are the emphases on charity and truth. Unfortunately, the economic analysis is not on the same high level.

1. The number in parentheses refer to the section of *Caritas in Veritate* in which the cited material appears.

2. Friedrich A. Hayek, “The Use of Knowledge in Society,” *American Economic Review*, 1945, (available at <http://www.virtualschool.edu/mon/Economics/HayekUseOfKnowledge.html>) is the classic discussion of the issue of knowledge in economics.

3. Adam Smith. *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Book 1, Chapter 2.

4. The statement in the text is preceded by an even more prolix and equally off-kilter analysis in which, among other things, the curious assertion is made that “shareholders, who are not tied to a specific geographical area and who therefore enjoy extraordinary mobility” (40) are in some unspecified way a source of problems.

5. See John B. Taylor. 2009. *Getting Off Track: How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis*, Stanford: Hoover Press and Gerald P. Dwyer, Jr. and Paula Tkac. 2009. “The Financial Crisis of 2008: Fixed Income Markets,” paper presented at the Journal of International Finance – Warwick Business School conference, The Global Financial Crisis: Causes, Threats and Opportunities, held at Warwick University, April 6, 2009. http://www2.warwick.ac.uk/fac/soc/wbs/subjects/finance/confpapers09/dwyer_tkac.pdf

5. Joseph Fessio, S.J. 2009. “Open to Transcendence, Open to Life,” *The Catholic World Report*, <http://catholicworldreport.com/>

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