

Common good and the economy

CAFOD discussion paper – October 2014

INTRODUCTION

The economic crisis has left deep and unanswered questions about the global economic system that has evolved over the last twenty years. In *Evangelium Gaudium* (#202) Pope Francis states that:

“The need to resolve the structural causes of poverty cannot be delayed, not only for the pragmatic reason of its urgency for the good order of society, but because society needs to be cured of a sickness which is weakening and frustrating it, and which can only lead to new crises.... As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world’s problems or, for that matter, to any problems. Inequality is the root of social ills.”

Leaders of the UK’s main political parties have been quick to try and distance themselves from “irresponsible” capitalism, with its excesses and short-termism and have come up with various responses which attempt to redefine or reframe capitalism including ‘popular’, ‘ethical’, ‘responsible’ and ‘moral’ capitalism. All leaders of major parties made speeches on responsible capitalism in early 2012 and initial ideas ranged from a ‘John Lewis economy’ of employee-ownership to a focus on the responsible behaviour of business through greater transparency and accountability, including increased shareholder powers to curb boardroom pay.

However, with the economy as a key battleground for the 2015 General Election, political debate has failed to engage with the more fundamental issues. In fact, with certain predictability it has moved towards a focus on the household economy, targeting specific groups, and has largely ignored the more fundamental shifts in economic thinking that need to take place.

While we do not pretend to have all the answers, and clearly there is no single solution, it is evident that there is a need for a fundamental shift in the way we think about economies. In this paper we consider the perspective of the common good, as understood in Catholic Social Teaching (CST), and how it must become a more central theme in discussions about the economy. From our experience of working with our partner organisations and with people living in poverty, we believe that there are four clear principles on which any economy needs to be based to contribute to the Common good. These are:

- a) an economy that has a clear purpose to serve society
- b) meaningful economic participation by all people
- c) businesses that behave responsibly and are driven by values
- d) an economy that is environmentally sustainable

The specific solutions will vary according to different economies and contexts, but the broad areas for action apply across all economies, whether considered developed or developing, North or South.

FOUR PRINCIPLES FOR A COMMON GOOD APPROACH TO THE ECONOMY

The Common good in Catholic Social Teaching

The Common good can be summed up as seeking the good of all people as well as the individual (*Gaudium et Spes* #26). This means being fundamentally ‘other’ centred, and seeking to serve others, not just our own interests. There is a particular duty to include those who live in poverty or are otherwise disadvantaged, since poverty undermines the Common good. The exclusion of any groups, even at a minimal level, is a contradiction to the concept of the Common good and requires rectification (*The Common good*, CBCEW, #70). Pope Francis has recently challenged us to act and to counter what he referred to as the ‘globalization of indifference’ that is responsible for so much injustice and suffering in the world.¹

a) An economy that has a clear purpose to serve society

Although CST does not come down in favour of one economic model, it emphasises the political and social nature of the economy, arguing that the market does not exist in a pure state, but is shaped by political and cultural factors (*Caritas in Veritate*, #36). Precisely because the economic sphere is not inherently neutral and is part and parcel of human activity, it needs to be structured and governed in an ethical manner. It must have a purpose and that purpose is to serve the needs of wider society – the common good.

The economy should be measured on whether it is fulfilling this purpose, for example in terms of reducing poverty, tackling inequality, providing basic services and creating decent jobs and in favouring the preferential option for the poor – that is, ensuring the wellbeing of the poor and most vulnerable in society is of paramount concern (*Sollicitudo Rei Socialis* #39). At the heart of a common good economy is the understanding that the human person is at the centre of all institutions and political, economic and social decisions. The common good therefore demands that political and economic decisions are based, not just on how much profit can be achieved but, more fundamentally, on what the impact will be on the flourishing of the human person (*Evangelium Gaudium* #203).

However, that moral framework is largely absent from today’s economic discussions. In *Caritas in Veritate* Pope Benedict XVI writes that the economy needs ‘an ethics which is people-centred’ in order to function correctly (#45) and that ‘the conviction that the economy must be autonomous, that it must be shielded from “influences” of a moral character, has led man to abuse the economic process in a thoroughly destructive way’ (#58). The Pontifical Council for Social Sciences argues that “Market forces alone, bereft of ethics and collective action, cannot solve the intertwined crises of poverty, exclusion, and the environment. However, the failure of the market has been accompanied by the failure of institutions, which have not always aimed at the common good.”²

¹ *Evangelium Gaudium* #54, [http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html#No to an economy of exclusion](http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium.html#No%20to%20an%20economy%20of%20exclusion)

² <http://www.pass.va/content/scienze-sociali/en/events/2014-18/sustainable/statement.html?>

All economic agents – governments, individuals and businesses - therefore need to refocus towards this people-centred ethics in order to bring about the common good, what Cardinal Vincent Nichols calls “a purpose beyond profits”.³

Although the economy is set to be a defining issue in the next General Election, Britain’s main political parties have yet to address the more fundamental questions of morality and the purpose of the economy head on, despite each giving major speeches on ‘responsible capitalism’ at the start of 2012. The debate has moved to focus almost exclusively on household incomes, with little regard to wider ethical, social and environmental issues.

The focus globally still largely remains on GDP as the ultimate measure of success in societies. Governments have come to judge themselves and each other on their growth performance as opposed to on whether economic activity is promoting well-being or human flourishing.⁴

For the economy to have a clear purpose to serve society:

- Governments need to have broader economic objectives than increasing income and GDP and should specifically put the economy at the service of society and orientate it towards the common good
- Economic indicators need to be developed that measure success on progress in reducing poverty, tackling inequality, creating decent jobs, providing essential services and promoting environmental sustainability
- The preferential option for the poor and vulnerable needs to be integrated into economic thinking.

b) Meaningful economic participation

Most economists and politicians now accept that inequality is a problem for overall economic prosperity. The International Monetary Fund (IMF) has declared that income inequality helped create the financial and economic crisis through an abundance of capital being concentrated in the hands of a small number of people. From the perspective of Catholic Social Teaching, an economy that increases inequality is inherently bad as it fails to serve the common good, i.e. it fails to create a society where all people can participate meaningfully and all people can benefit. Imbalances of economic power also often lead to imbalances of political power and the inability to participate in decisions that affect people’s lives.

But what type of inequality do we really need to focus on: inequality of opportunity or outcome?

Politicians on the right tend to emphasise policies that promote equality of opportunity e.g. making sure everyone has a decent education and so are able to improve themselves and get a good job. Those on the left tend to argue that it is inequality of outcome, largely in terms of income, that is the real problem and we need to redistribute wealth primarily through fiscal policy to correct the distortions in wealth created by market failures.

These aspects are important but inadequate by themselves to address the real injustice of inequality.

³ <http://www.blueprintforbusiness.org.uk/Home/Conference/Speakers/Archbishop-Vincent-Nichols>

⁴ For more information on measuring well-being see ‘Wholly Living, a New Perspective on international development’, pp17-18 <http://www.theosthinktank.co.uk/files/files/WhollyLiving.pdf>.

There needs to be a focus on meaningful participation so that men and women are able to participate effectively in economic life. This is based on an understanding of what people need to flourish as human beings – to contribute to, and participate in, the common good in a way that respects and promotes their dignity, recognising all people as creative and productive beings.⁵ Economic activity is to be considered and undertaken as a grateful response to the vocation which God holds out for each person.⁶ Work itself is an expression of our dignity and of our involvement in God's creation and people therefore have a right to decent work (*Evangelium Gaudium* #63).

This also means ensuring that people benefit fairly, according to their contribution and also their ability to contribute. It is primarily about fairness of returns rather than redistributive approaches towards achieving more equal sharing of wealth. A rich Biblical tradition underpins the Church's teaching on the just or 'living' wage: "Behold," says the Apostle James, "the wages you withheld from the workers who harvested your fields are crying aloud, and the cries of the harvesters have reached the ears of the Lord of hosts." (James 5:4).

If a central objective of economic policy is to reduce poverty in order to achieve the common good, we need to directly support the economic activities of the poorest by improving their participation *and* ensuring they receive a fair economic return for their work. Participation needs 'different type of businesses' in order to achieve 'a more humane market economy' (*Caritas in Veritate* # 47), which would include profit-based companies, non-profit organisations, social enterprises and others.

In many developing countries, poor people are actually making huge contributions to economic life despite an unsupportive investment climate. According to an analysis commissioned by CAFOD, 85% of jobs and up to 60% of GDP in some developing countries are provided by small businesses. These are generally small, informal, rural and very often run by women. However, government policy too rarely supports or encourages these enterprises in practice.⁷

Participation also means people being able to contribute to decisions on what direction society takes. This means that people should have a say in deciding their own economic development policy through more open and transparent decision-making at national level, including increased scrutiny of, and participation in, multilateral institutions.⁸ *Gaudium et Spes* (#31) states that: 'The will to play one's role in common endeavours should be everywhere encouraged. Praise is due to those national procedures which allow the largest possible number of citizens to participate in public affairs with genuine freedom.'

Promoting meaningful economic participation requires governments to ensure that everyone, especially the poorest people and communities, can take advantage of economic opportunities. This will involve:

- Promoting an enabling business environment that works for all, ensuring support for small and medium businesses
- Commitment to full employment, fair fiscal policies and fair wages
- Social protection measures for the most vulnerable members of the population

⁵ Wholly Living, p28

⁶ Compendium of the Social Doctrine of the Church, 326. Available at http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html

⁷ <http://www.cafod.org.uk/content/download/12681/98366/file/Thinking%20Small%202.pdf>

⁸ 'Wholly Living', pp46-5. For more in-depth background paper see http://campaigndirector.moodia.com/Client/Theos/Files/04_Gordon_Governance.pdf

- Greater opportunities for participation in decision-making over economic priorities, including increased parliamentary scrutiny of multilateral institutions

c) Responsible companies

In order to survive, businesses need to be profitable, and in order to survive over time they need to be sustainable. CST also states that as part of society, business has a social responsibility and ‘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’ (*Caritas in Veritate*, #40). Business therefore has the responsibility to ensure that it contributes to the common good in a way that is appropriate to its activities and to limit any negative impacts of its operations.

In relationship to goods and ownership, CST argues that whilst each person has the right to sufficient goods for themselves and their family, the goods that we have are not only ‘ours’ but are also ‘common in the sense that they should be able to benefit not just him but also others’ (*Gaudium et Spes*, #69). The right to private property, carries a ‘social mortgage’ in that an individual or group does not have the right to hoard or hold excess wealth, property or goods whilst any human being is in a situation of deprivation of basic human needs such as food, water or shelter. CST therefore recognises limitations needed in wealth accumulation, in particular in situations of inequality.

In fact, ‘the demands of the common good are dependent on the social conditions of each historical period’ and therefore involves all members of society⁹. Therefore, in our current context of globalisation, pressure on environmental resources and the challenges of global poverty, business people and companies, have an important role to play.

Since the 2008 financial crisis, there have been a range of initiatives launched by businesswomen and men, as well as governments, which seek to restore trust and examine the role business plays within our world. There are companies like Unilever, that are globally recognised for being value-led and trying to integrate responsible behaviour throughout their core business practices. There are also positive initiatives like *A Blueprint for a Better Business?* working with global businesses to consider how corporate purpose and personal values can be brought together to serve society.¹⁰

But significant challenges still remain which in practice allow some irresponsible companies to escape oversight and avoid making their fair contribution to society.

As with all other areas of the economy, public authorities still have the overall responsibility for promoting the common good for their citizens and ensuring that all other actors are doing so. However, there has been an increasing reluctance of the state to specifically orientate the economy towards the well-being of the population. There has often been the reverse where countries, keen to attract investment and to drive growth, have reduced environmental and social standards, which has given global capital a means to avoid controls and in some instances even driven a ‘race to the bottom’.

⁹ Compendium of the Social Doctrine of the Church, 165-7

¹⁰ <http://blueprintforbusiness.org/>

Furthermore, through the removal of some specific social or environmental safeguards or a failure to respond to rapidly evolving corporate structures and ways of doing business, governments have allowed global companies to become increasingly detached from political and judicial processes intended to represent and protect their citizens. This isn't something that can be addressed by individual countries alone but needs global cooperation to ensure minimum standards of business practice apply across different countries, creating a level playing field. It is essential for governments to work together through international institutions to ensure that companies act responsibly wherever they operate and that they are transparent and accountable to citizens.

Perhaps one of the areas where we have seen most progress recently is in steps to increase transparency to tackle corruption. The US and EU governments have introduced legislation to require listed oil, gas and mining companies to publish payments made to governments. The 2013 G8 summit at Lough Erne¹¹ made progress in committing to develop registers of the ultimate beneficial owners of companies, as well as rules to encourage more exchange of information of tax payments in different jurisdictions in order to prevent money laundering and tax evasion.

For companies to behave more responsibly, and to contribute to the wider good of society, there needs to be:

- Support to companies who are seeking to be value-led and to serve the wider good of society
- Greater human rights (including environmental) due diligence by companies throughout their supply chains to reduce negative impacts and increase positive benefits to communities
- Legal requirements on companies for greater transparency in their ownership structures, tax and other payments
- Accessible and meaningful opportunities for redress in cases where business activities have adversely affected communities and/or the environment.

d) An economy that is environmentally sustainable

Scripture teaches us that everything ultimately belongs to God and that men and women are stewards of his creation (Genesis 1:1-2:4) for the benefit of all. Humanity and the rest of creation depend on each other and have been called by God to live in a mutual and harmonious relationship with each other and with the planet. According to Pope Francis: 'it is our profound conviction that the future of the human family depends also on how we safeguard – both prudently and compassionately, with justice and fairness – the gift of creation that our Creator has entrusted to us.'¹²

On the contrary, 'a way of life that disregards and damages God's creation, forces the poor into greater poverty, and threatens the right of future generations to a healthy environment and to their fair share of the earth's wealth and resources, is contrary to the vision of the Gospel'.¹³

There are enough resources for everyone and they are meant to be used to meet everyone's needs, since God's gifts are destined for all, not for a few. We use, and by using we transform, the natural world. As 'co-creators', our acts should reflect God's own love for creation, and we are invited to build

¹¹ <https://www.gov.uk/government/organisations/prime-ministers-office-10-downing-street/series/g8-communicate-and-documents>

¹² http://w2.vatican.va/content/francesco/en/speeches/2014/may/documents/papa-francesco_20140525_terra-santa-dichiarazione-congiunta.html

¹³ Call of Creation, CBCEW, 2002, chap 4

with others long-term sustainable solutions to common problems, so as to serve the common good. We can develop the earth's resources but we cannot use them for our own arbitrary use; they have their own God-given purpose, which we must not betray.¹⁴

There is now overwhelming consensus that damage to eco-systems and climate change pose a major threat to poverty reduction and sustainable development, not least because climate change hits the poorest people first and hardest. CAFOD's report *Pushing People over the Edge* identified four out of ten people (42%) most vulnerable to the impacts of climate change are already struggling with a life of extreme poverty, surviving on less than \$1.25 a day.¹⁵

Climate change is already impacting on food security and threatens to reverse decades of progress in tackling hunger and providing access to healthcare and education. It has global reach, but hits the poorest countries and people first and hardest. Ambitions to end extreme poverty through sustainable development in our lifetime will not be achievable if we fail to tackle climate change urgently and comprehensively.¹⁶

Yet the environmental threat also extends beyond the poorest and vulnerable groups to pose a risk to economic prosperity globally in the medium to long-term, with the economic and social costs of preventing further damage and adapting to changes increasing the longer we delay taking action¹⁷. Recent estimates put the cost at \$1.2 trillion a year, wiping 1.6% off global GDP, with projections for this to double by 2030 if insufficient action is taken.¹⁸ Climate change and environmental degradation exacerbate existing stresses on resources, political tensions and economic and social inequalities. All this undermines efforts to achieve the common good.

Our current model of economic growth is based on unsustainable resource production and consumption. Whether politicians, business and citizens rise to this challenge will be decisive in terms of ensuring human well-being not just for current but also future generations. The challenge is to move to a low carbon economy that will both meet social needs and protect the environment. A central component is a massive shift to sustainable energy and energy efficiency away from fossil fuel use, including by removing subsidies for fossil fuel production and consumption while protecting poor and vulnerable groups. The recent New Climate Economy Report, from the Global Commission on the Economy and Climate, outlined a future where potential economic growth could be realised from a transition to a low carbon energy model.¹⁹

According to the Pontifical Academy of Social Sciences "the massive fossil fuel use at the heart of the global energy system deeply disrupts the Earth's climate and acidifies the world's oceans. The warming

¹⁴ *ibid*

¹⁵ *Climate Change and Vulnerability: Pushing People over the Edge* <http://www.cafod.org.uk/News/UK-News/CAFOD-report-climate-poorest>

¹⁶ See for instance World Bank, 2012 & 2013: *Turn Down the Heat*

¹⁷ *Stern Review on the Economics of Climate Change*, 2006 & Nicholas Stern, "Fostering Growth and Poverty Reduction in a World of Immense Risk", Address to IMF, April 2013.

¹⁸ *Climate Vulnerability Monitor*, 2nd Edition, *A guide to the Cold Calculus of a Hot Planet*, <http://daraint.org/climate-vulnerability-monitor/climate-vulnerability-monitor-2012/>

¹⁹ *New Climate Economy Report* <http://newclimateeconomy.net/content/press-release-economic-growth-and-action-climate-change-can-now-be-achieved-together-finds> September 2014

and associated extreme weather will reach unprecedented levels in our children's life times and 40% of the world's poor, who have a minimal role in generating global pollution, are likely to suffer the most."²⁰

None of the UK's main political parties has given sufficient priority in their thinking to the need for an economy that has environmental sustainability at its heart. Decision-makers need to recognise that finite natural resources and healthy eco-systems are the basis for economic prosperity and human well being, by integrating social and environmental objectives into economic policies and practices. When political cycles last four or five years it is inherently difficult to adopt the kind of long-term economic perspective needed to tackle the scale of environmental threats and risks that we face. Political planning and a supportive policy environment are needed to give the future certainty that companies need to choose long-term environmental sustainability over short-term economic concerns.

The most pressing implications for policy-makers include:

- Policies to promote environmentally responsible business practices and low-carbon investment
- Policies to incentivise the shift from fossil fuels to sustainable sources of energy and greater energy efficiency
- Coordinated international action to tackle the causes of climate change and to build adaptation to its impacts, especially for poor and vulnerable groups
- Policies to incentivise sustainable consumption and production; proper pricing of the cost of environmental impacts in any economic activities; and promotion of environmental and social co-benefits.

²⁰ <http://www.pass.va/content/scienze-sociali/en/events/2014-18/sustainable/statement.html?>

CONCLUSION

Recent political speeches and debates have only touched the surface of the challenges with our current economic model. Each political party has themes that resonate with common good principles as they apply to the economy. However, we need leaders to be more imaginative and more ambitious in how they tackle these issues. This requires refocusing the purpose of the economy to promote human flourishing, and to place the economy as a servant of human beings: enabling meaningful participation of all people, protecting the environment and promoting more responsible business models.

We need both imagination and faith to envisage alternatives, to believe they are possible and work to bring them about. As Pope Francis exhorts us:

'Faith also helps us to devise models of development which are based not simply on utility and profit, but consider creation as a gift for which we are all indebted; it teaches us to create just forms of government, in the realization that authority comes from God and is meant for the service of the common good.' (Lumen Fidei, #55)

This is the first draft of this discussion paper, and will be updated in the light of comments received. For further information or comments, please contact Graham Gordon, ggordon@cafod.org.uk