

COMPENDUM OF THE SOCIAL DOCTRINE OF THE CHURCH

CHAPTER SEVEN

ECONOMIC LIFE

I. BIBLICAL ASPECTS

a. Man, poverty and riches

323. *In the Old Testament a twofold attitude towards economic goods and riches is found. On one hand, an attitude of appreciation sees the availability of material goods as necessary for life. Abundance — not wealth or luxury — is sometimes seen as a blessing from God. In Wisdom Literature, poverty is described as a negative consequence of idleness and of a lack of industriousness (cf. Prov 10:4), but also as a natural fact (cf. Prov 22:2). On the other hand, economic goods and riches are not in themselves condemned so much as their misuse. The prophetic tradition condemns fraud, usury, exploitation and gross injustice, especially when directed against the poor (cf. Is 58:3-11; Jer 7:4-7; Hos 4:1-2; Am 2:6-7; Mic 2:1-2). This tradition, however, although looking upon the poverty of the oppressed, the weak and the indigent as an evil, also sees in the condition of poverty a symbol of the human situation before God, from whom comes every good as a gift to be administered and shared.*

324. *Those who recognize their own poverty before God, regardless of their situation in life, receive particular attention from him: when the poor man seeks, the Lord answers; when he cries out, the Lord listens. The divine promises are addressed to the poor: they will be heirs to the Covenant between God and his people. God's saving intervention will come about through a new David (cf. Ezek 34:22-31), who like King David — only more so — will be defender of the poor and promoter of justice; he will establish a new covenant and will write a new law in the hearts of believers (cf. Jer 31:31-34).*

When sought or accepted with a religious attitude, poverty opens one to recognizing and accepting the order of creation. In this perspective, the “rich man” is the one who places his trust in his possessions rather than in God, he is the man who makes himself strong by the works of his own hands and trusts only in his own strength. Poverty takes on the status of a moral value when it becomes an attitude of humble availability and openness to God, of trust in him. This attitude makes it possible for people to recognize the relativity of economic goods and to treat them as divine gifts to be administered and shared, because God is the first owner of all goods.

325. *Jesus takes up the entire Old Testament tradition even with regard to economic goods, wealth and poverty, and he gives them great clarity and fullness* (cf. *Mt* 6:24, 13:22; *Lk* 6:20-24, 12:15-21; *Rom* 14:6-8; *1 Tim* 4:4).

Through the gift of his Spirit and the conversion of hearts, he comes to establish the “Kingdom of God”, so that a new manner of social life is made possible, in justice, brotherhood, solidarity and sharing. The Kingdom inaugurated by Christ perfects the original goodness of the created order and of human activity, which were compromised by sin. Freed from evil and being placed once more in communion with God, man is able to continue the work of Jesus, with the help of his Spirit. In this, man is called to render justice to the poor, releasing the oppressed, consoling the afflicted, actively seeking a new social order in which adequate solutions to material poverty are offered and in which the forces thwarting the attempts of the weakest to free themselves from conditions of misery and slavery are more effectively controlled. When this happens, the Kingdom of God is already present on this earth, although it is not of the earth. It is in this Kingdom that the promises of the Prophets find final fulfilment.

326. *In the light of Revelation, economic activity is to be considered and undertaken as a grateful response to the vocation which God holds out for each person.* Man is placed in the garden to till and keep it, making use of it within well specified limits (cf. *Gen* 2:16-17) with a commitment to perfecting it (cf. *Gen* 1:26-

30, 2:15-16; *Wis* 9:2-3). Bearing witness to the grandeur and goodness of the Creator, he walks towards the fullness of freedom to which God calls him. Good administration of the gifts received, and of material goods also, is a work of justice towards oneself and towards others. What has been received should be used properly, preserved and increased, as suggested by the parable of the talents (cf. *Mt* 25:14-30; *Lk* 19:12-27).

Economic activity and material progress must be placed at the service of man and society. If people dedicate themselves to these with the faith, hope and love of Christ's disciples, even the economy and progress can be transformed into places of salvation and sanctification. In these areas too it is possible to express a love and a solidarity that are more than human, and to contribute to the growth of a new humanity that anticipates the world to come.[683] Jesus sums up all of revelation in calling the believer to *become rich before God* (cf. *Lk* 12:21). The economy too is useful to this end, when its function as an instrument for the overall growth of man and society, of the human quality of life, is not betrayed.

327. *Faith in Jesus Christ makes it possible to have a correct understanding of social development, in the context of an integral and solidary humanism.* In this regard, the contribution of theological reflection offered by the Church's social Magisterium is very useful: "*Faith in Christ the Redeemer*, while it illuminates from within the nature of development, also guides us in the task of collaboration. In the Letter of St. Paul to the Colossians, we read that Christ is 'the firstborn of all creation,' and that 'all things were created through him' and for him (*Col* 1:15-16). In fact, 'all things hold together in him', since 'in him all the fullness of God was pleased to dwell, and through him to reconcile to himself all things' (v. 20). A part of this divine plan, which begins from eternity in Christ, the perfect 'image' of the Father, and which culminates in him, 'the firstborn from the dead' (v. 15-18), *in our own history*, marked by our personal and collective effort to raise up the human condition and to overcome the obstacles which are continually arising along our way. It thus prepares us to share in the fullness which 'dwells in the

Lord' and which he communicates 'to his body, which is the Church' (v. 18; cf. *Eph* 1:22-23). At the same time sin, which is always attempting to trap us and which jeopardizes our human achievements, is conquered and redeemed by the 'reconciliation' accomplished by Christ (cf. *Col* 1:20)".[684]

b. Wealth exists to be shared

328. Goods, even when legitimately owned, always have a universal destination; any type of improper accumulation is immoral, because it openly contradicts the universal destination assigned to all goods by the Creator. Christian salvation is an integral liberation of man, which means being freed not only from need but also in respect to possessions. "For the love of money is the root of all evils; it is through this craving that some have wandered away from the faith" (1 Tim 6:10). The Fathers of the Church insist more on the need for the conversion and transformation of the consciences of believers than on the need to change the social and political structures of their day. They call on those who work in the economic sphere and who possess goods to consider themselves administrators of the goods that God has entrusted to them.

329. *Riches fulfil their function of service to man when they are destined to produce benefits for others and for society.*[685] "How could we ever do good to our neighbour," asks St. Clement of Alexandria, "if none of us possessed anything?"[686] In the perspective of St. John Chrysostom, riches belong to some people so that they can gain merit by sharing them with others.[687] Wealth is a good that comes from God and is to be used by its owner and made to circulate so that even the needy may enjoy it. Evil is seen in the immoderate attachment to riches and the desire to hoard. St. Basil the Great invites the wealthy to open the doors of their storehouses and he exhorts them: "A great torrent rushes, in thousands of channels, through the fertile land: thus, by a thousand different paths, make your riches reach the homes of the poor".[688] Wealth, explains Saint Basil, is like water that issues forth from the fountain: the

greater the frequency with which it is drawn, the purer it is, while it becomes foul if the fountain remains unused.[689] The rich man — Saint Gregory the Great will later say — is only an administrator of what he possesses; giving what is required to the needy is a task that is to be performed with humility because the goods do not belong to the one who distributes them. He who retains riches only for himself is not innocent; giving to those in need means paying a debt.[690]

II. MORALITY AND THE ECONOMY

330. *The Church's social doctrine insists on the moral connotations of the economy.* Pope Pius XI, in a passage from the Encyclical *Quadragesimo Anno*, speaks of the relationship between the economy and morality. “Even though economics and moral science employs each its own principles in its own sphere, it is, nevertheless, an error to say that the economic and moral orders are so distinct from and alien to each other that the former depends in no way on the latter. Certainly the laws of economics, as they are termed, being based on the very nature of material things and on the capacities of the human body and mind, determine the limits of what productive human effort cannot, and of what it can attain in the economic field and by what means. Yet it is reason itself that clearly shows, on the basis of the individual and social nature of things and of men, the purpose which God ordained for all economic life. But it is only the moral law which, just as it commands us to seek our supreme and last end in the whole scheme of our activity, so likewise commands us to seek directly in each kind of activity those purposes which we know that nature, or rather God the Author of nature, established for that kind of action, and in orderly relationship to subordinate such immediate purposes to our supreme and last end”.[691]

331. *The relation between morality and economics is necessary, indeed intrinsic: economic activity and moral behaviour are intimately joined one to the other. The necessary distinction between morality and the economy does not entail the separation of these two spheres but, on the contrary, an important reciprocity.*

Just as in the area of morality one must take the reasons and requirements of the economy into account, so too in the area of the economy one must be open to the demands of morality: "In the economic and social realms, too, the dignity and complete vocation of the human person and the welfare of society as a whole are to be respected and promoted. For man is the source, the centre, and the purpose of all economic and social life".[692] Giving the proper and due weight to the interests that belong specifically to the economy does not mean rejecting as irrational all considerations of a meta-economic order. This is so because the purpose of the economy is not found in the economy itself, but rather in its being destined to humanity and society.[693] The economy, in fact, whether on a scientific or practical level, has not been entrusted with the purpose of fulfilling man or of bringing about proper human coexistence. Its task, rather, is partial: the production, distribution and consumption of material goods and services.

332. The moral dimension of the economy shows that economic efficiency and the promotion of human development in solidarity are not two separate or alternative aims but one indivisible goal. Morality, which is a necessary part of economic life, is neither opposed to it nor neutral: if it is inspired by justice and solidarity, it represents a factor of social efficiency within the economy itself. The production of goods is a duty to be undertaken in an efficient manner, otherwise resources are wasted. On the other hand, it would not be acceptable to achieve economic growth at the expense of human beings, entire populations or social groups, condemning them to indigence. The growth of wealth, seen in the availability of goods and services, and the moral demands of an equitable distribution of these must inspire man and society as a whole to practise the essential virtue of solidarity,[694] in order to combat, in a spirit of justice and charity, those "structures of sin" [695] where ever they may be found and which generate and perpetuate poverty, underdevelopment and degradation. These structures are built and strengthened by numerous concrete acts of human selfishness.

333. *If economic activity is to have a moral character, it must be directed to all men and to all peoples.* Everyone has the right to participate in economic life and the duty to contribute, each according to his own capacity, to the progress of his own country and to that of the entire human family.[696] If, to some degree, everyone is responsible for everyone else, then each person also has the duty to commit himself to the economic development of all.[697] This is a duty in solidarity and in justice, but it is also the best way to bring economic progress to all of humanity. When practised morally, economic activity is therefore service mutually rendered by the production of goods and services that are useful for the growth of each person, and it becomes an opportunity for every individual to embody solidarity and live the vocation of “communion with others for which God created him”. [698] The effort to create and carry out social and economic projects that are capable of encouraging a more equitable society and a more human world represents a difficult challenge, but also a stimulating duty for all who work in the economic sector and are involved with the economic sciences.[699]

334. *The economy has as its object the development of wealth and its progressive increase, not only in quantity but also in quality; this is morally correct if it is directed to man's overall development in solidarity and to that of the society in which people live and work.* Development, in fact, cannot be reduced to a mere process of accumulating goods and services. On the contrary, accumulation by itself, even were it for the common good, is not a sufficient condition for bringing about authentic human happiness. In this sense, the Church's social Magisterium warns against the treachery hidden within a development that is only quantitative, for the “*excessive* availability of every kind of material goods for the benefit of certain social groups, easily makes people slaves of ‘possession’ and of immediate gratification ... This is the so-called civilization of ‘consumption’ or ‘consumerism’ “. [700]

335. In the perspective of an integral and solidary development, it is possible to arrive at a proper appreciation of the moral evaluation that the Church's social doctrine offers in regard to the market economy or, more simply, of the free economy: "If by 'capitalism' is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a 'business economy', 'market economy' or simply 'free economy'. But if by 'capitalism' is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative".[701] In this way a Christian perspective is defined regarding social and political conditions of economic activity, not only its rules but also its moral quality and its meaning.

III. PRIVATE INITIATIVE AND BUSINESS INITIATIVE

336. *The Church's social doctrine considers the freedom of the person in economic matters a fundamental value and an inalienable right to be promoted and defended.* "Everyone has the *right to economic initiative*; everyone should make legitimate use of his talents to contribute to the abundance that will benefit all, and to harvest the just fruits of his labour".[702] This teaching warns against the negative consequences that would arise from weakening or denying the *right of economic initiative*: "Experience shows us that the denial of this right, or its limitation in the name of an alleged 'equality' of everyone in society, diminishes, or in practice absolutely destroys the spirit of initiative, that is to say the *creative subjectivity of the citizen*".[703] From this perspective, free and responsible initiative in the economic sphere can also be defined as an act that reveals the humanity of men and women as creative and relational subjects. Such initiative,

then, should be given *ample leeway*. The State has the moral obligation to enforce strict limitations only in cases of incompatibility between the pursuit of common good and the type of economic activity proposed or the way it is undertaken.[704]

337. The creative dimension is an essential component of human activity, even in the area of business, and it is especially manifested in the areas of planning and innovation. “Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy, and taking the necessary risks — all this too is a source of wealth in today's society. In this way, the *role of disciplined and creative human work and, as an essential part of that work, initiative and entrepreneurial ability* becomes increasingly evident and decisive”.[705] At the basis of this teaching we can see the belief that “man's principal resource is man himself. His intelligence enables him to discover the earth's productive potential and the many different ways in which human needs can be satisfied”.[706]

a. Business and its goals

338. *Businesses should be characterized by their capacity to serve the common good of society through the production of useful goods and services.* In seeking to produce goods and services according to plans aimed at efficiency and at satisfying the interests of the different parties involved, businesses create wealth for all of society, not just for the owners but also for the other subjects involved in their activity. Besides this typically economic function, *businesses also perform a social function, creating opportunities for meeting, cooperating and the enhancement of the abilities of the people involved.* In a business undertaking, therefore, the economic dimension is the condition for attaining not only economic goals, but also social and moral goals, which are all pursued together.

A business' objective must be met in economic terms and according to economic criteria, but the authentic values that bring about the concrete development of the

person and society must not be neglected. In this personalistic and community vision, “a business cannot be considered only as a ‘society of capital goods’; it is also a ‘society of persons’ in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company’s activities or take part in such activities through their labour”.^[707]

339. *All those involved in a business venture must be mindful that the community in which they work represents a good for everyone and not a structure that permits the satisfaction of someone’s merely personal interests.* This awareness alone makes it possible to build an economy that is truly at the service of mankind and to create programmes of real cooperation among the different partners in labour.

A very important and significant example in this regard is found in the activity of so-called cooperative enterprises, small and medium-sized businesses, commercial undertakings featuring hand-made products and family-sized agricultural ventures. The Church’s social doctrine has emphasized the contribution that such activities make to enhance the value of work, to the growth of a sense of personal and social responsibility, a democratic life and the human values that are important for the progress of the market and of society.^[708]

340. *The social doctrine of the Church recognizes the proper role of profit as the first indicator that a business is functioning well:* “when a firm makes a profit, this means that productive factors have been properly employed”.^[709] But this does not cloud her awareness of the fact that a business may show a profit while not properly serving society.^[710] For example, “it is possible for the financial accounts to be in order, and yet for the people — who make up the firm’s most valuable asset — to be humiliated and their dignity offended”.^[711] This is what happens when businesses are part of social and cultural systems marked by the exploitation of people, tending to avoid the obligations of social justice and to violate the rights of workers.

It is essential that within a business the legitimate pursuit of profit should be in harmony with the irrenounceable protection of the dignity of the people who work at different levels in the same company. These two goals are not in the least contrary to one another, since, on the one hand, it would not be realistic to try to guarantee the firm's future without the production of useful goods and services and without making a profit, which is the fruit of the economic activity undertaken. On the other hand, allowing workers to develop themselves fosters increased productivity and efficiency in the very work undertaken. A business enterprise must be a community of solidarity,[712] that is not closed within its own company interests. It must move in the direction of a “social ecology” [713] of work and contribute to the common good also by protecting the natural environment.

341. *Although the quest for equitable profit is acceptable in economic and financial activity, recourse to usury is to be morally condemned.* “Those whose usurious and avaricious dealings lead to the hunger and death of their brethren in the human family indirectly commit homicide, which is imputable to them”.[714] This condemnation extends also to international economic relations, especially with regard to the situation in less advanced countries, which must never be made to suffer “abusive if not usurious financial systems”.[715] More recently, the Magisterium used strong and clear words against this practice, which is still tragically widespread, describing usury as “a scourge that is also a reality in our time and that has a stranglehold on many peoples' lives”.[716]

342. *Businesses today move in economic contexts that are becoming ever broader* and in which national States show limits in their capacity to govern the rapid processes of change that effect international economic and financial relations. This situation leads businesses to *take on new and greater responsibilities with respect to the past.* Never has their role been so decisive with regard to the authentic integral development of humanity in solidarity. Equally decisive in this sense is their level of awareness that “development either becomes shared in common by every part of the world or it undergoes a process

of regression even in zones marked by constant progress. This tells us a great deal about the nature of *authentic* development: either all the nations of the world participate, or it will not be true development”.[717]

b. Role of business owners and management

343. *Economic initiative is an expression of human intelligence and of the necessity of responding to human needs in a creative and cooperative fashion.*

Creativity and cooperation are signs of the authentic concept of business competition: a “*cumpetere*”, that is, a seeking together of the most appropriate solutions for responding in the best way to needs as they emerge. The sense of responsibility that arises from free economic initiative takes not only the form of an *individual virtue* required for individual human growth, but also of a *social virtue* that is necessary for the development of a community in solidarity.

“Important virtues are involved in this process, such as diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions which are difficult and painful but necessary, both for the overall working of a business and in meeting possible set-backs”.[718]

344. The roles of business owners and management have a central importance from the viewpoint of society, because they are at the heart of that network of technical, commercial, financial and cultural bonds that characterizes the modern business reality. Due to the increasing complexity of business activities, decisions made by companies produce a number of very significant interrelated effects, both in the economic and social spheres. For this reason the exercise of responsibility by business owners and management requires — in addition to specific updating that is the object of continuous efforts — constant reflection on the moral motivations that should guide the personal choices of those to whom these tasks fall.

Business owners and management must not limit themselves to taking into account only the economic objectives of the company, the criteria for economic efficiency and the proper care of “capital” as the sum of the means of production. It is also their precise duty to respect concretely the human dignity of those who work within the company.[719] These workers constitute “the firm's most valuable asset” [720] and the decisive factor of production.[721] In important decisions concerning strategy and finances, in decisions to buy or sell, to resize, close or to merge a site, financial and commercial criteria must not be the only considerations made.

345. *The Church's social doctrine insists on the need for business owners and management to strive to structure work in such a way so as to promote the family, especially mothers, in the fulfilment of their duties; [722] to accede, in light of an integral vision of man and development, to the demand for the quality “of the goods to be produced and consumed, the quality of the services to be enjoyed, the quality of the environment and of life in general”; [723] to invest, when the necessary economic conditions and conditions of political stability are present, in those places and sectors of production that offer individuals and peoples “an opportunity to make good use of their own labour”.*[724]

IV. ECONOMIC INSTITUTIONS AT THE SERVICE OF MAN

346. One of the higher priority issues in economics is the utilization of resources,[725] that is, of all those goods and services to which economic subjects — producers and consumers in the private and public spheres — attribute value because of their inherent usefulness in the areas of production and consumption. Resources in nature are quantitatively scarce, which means that each individual economic subject, as well as each individual society, must necessarily come up with a plan for their utilization in the most rational way possible, following the logic dictated by the “principle of economizing”. Both the

effective solution of the more general, and fundamental, economic problem of limited means with respect to individual and social — private and public — need, and the overall structural and functional efficiency of the entire economic system depend on this. This efficiency directly involves the responsibility and capacity of the various agents concerned, such as the market, the State and intermediate social bodies.

a. Role of the free market

347. *The free market is an institution of social importance because of its capacity to guarantee effective results in the production of goods and services.*

Historically, it has shown itself able to initiate and sustain economic development over long periods. There are good reasons to hold that, in many circumstances, “*the free market* is the most efficient instrument for utilizing resources and effectively responding to needs”.^[726] The Church's social doctrine appreciates the secure advantages that the mechanisms of the free market offer, making it possible as they do to utilize resources better and facilitating the exchange of products. These mechanisms “above all ... give central place to the person's desires and preferences, which, in a contract, meet the desires and preferences of another person”.^[727]

A truly competitive market is an effective instrument for attaining important objectives of justice: moderating the excessive profits of individual businesses, responding to consumers' demands, bringing about a more efficient use and conservation of resources, rewarding entrepreneurship and innovation, making information available so that it is really possible to compare and purchase products in an atmosphere of healthy competition.

348. *The free market cannot be judged apart from the ends that it seeks to accomplish and from the values that it transmits on a societal level. Indeed, the market cannot find in itself the principles for its legitimization; it belongs to the consciences of individuals and to public responsibility to establish a just*

relationship between means and ends.[728] The *individual profit* of an economic enterprise, although legitimate, must never become the sole objective. Together with this objective there is another, equally fundamental but of a higher order: *social usefulness*, which must be brought about not in contrast to but in keeping with the logic of the market. When the free market carries out the important functions mentioned above it becomes a service to the common good and to integral human development. The inversion of the relationship between means and ends, however, can make it degenerate into an inhuman and alienating institution, with uncontrollable repercussions.

349. *The Church's social doctrine, while recognizing the market as an irreplaceable instrument for regulating the inner workings of the economic system, points out the need for it to be firmly rooted in its ethical objectives, which ensure and at the same time suitably circumscribe the space within which it can operate autonomously.*[729] The idea that the market alone can be entrusted with the task of supplying every category of goods cannot be shared, because such an idea is based on a reductionist vision of the person and society.[730] Faced with the concrete “risk of an ‘idolatry’ of the market”, the Church's social doctrine underlines its limits, which are easily seen in its proven inability to satisfy important human needs, which require goods that “by their nature are not and cannot be mere commodities”,[731] goods that cannot be bought and sold according to the rule of the “exchange of equivalents” and the logic of contracts, which are typical of the market.

350. *The market takes on a significant social function in contemporary society, therefore it is important to identify its most positive potentials and to create the conditions that allow them to be put concretely into effect.* Market operators must be effectively free to compare, evaluate and choose from among various options. Freedom in the economic sector, however, must be regulated by appropriate legal norms so that it will be placed at the service of integral human freedom. “Economic freedom is only one element of human freedom. When it becomes

autonomous, when man is seen more as a producer or consumer of goods than as a subject who produces and consumes in order to live, then economic freedom loses its necessary relationship to the human person and ends up by alienating and oppressing him”.[732]

b. Action of the State

351. The action of the State and of other public authorities must be consistent with the principle of subsidiarity and create situations favourable to the free exercise of economic activity. It must also be inspired by the principle of solidarity and establish limits for the autonomy of the parties in order to defend those who are weaker.[733] Solidarity without subsidiarity, in fact, can easily degenerate into a “Welfare State”, while subsidiarity without solidarity runs the risk of encouraging forms of self-centred localism. In order to respect both of these fundamental principles, the State's intervention in the economic environment must be neither invasive nor absent, but commensurate with society's real needs. “The State has a duty to sustain business activities by creating conditions which will ensure job opportunities, by stimulating those activities where they are lacking or by supporting them in moments of crisis. The State has the further right to intervene when particular monopolies create delays or obstacles to development. In addition to the tasks of harmonizing and guiding development, in exceptional circumstances the State can also exercise a substitute function”.[734]

352. *The fundamental task of the State in economic matters is that of determining an appropriate juridical framework for regulating economic affairs, in order to safeguard “the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience”.*[735] Economic activity, above all in a free market context, 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”.[736] To fulfil this task, the State must adopt suitable legislation but at the same time it must direct economic and social policies in such a way that it does not become abusively involved in the various market activities, the carrying out of which is and must remain free of authoritarian — or worse, totalitarian — superstructures and constraints.

353. *It is necessary for the market and the State to act in concert, one with the other, and to complement each other mutually. In fact, the free market can have a beneficial influence on the general public only when the State is organized in such a manner that it defines and gives direction to economic development, promoting the observation of fair and transparent rules, and making direct interventions — only for the length of time strictly necessary [737] — when the market is not able to obtain the desired efficiency and when it is a question of putting the principle of redistribution into effect. There exist certain sectors in which the market, making use of the mechanisms at its disposal, is not able to guarantee an equitable distribution of the goods and services that are essential for the human growth of citizens. In such cases the complementarities of State and market are needed more than ever.*

354. *The State can encourage citizens and businesses to promote the common good by enacting an economic policy that fosters the participation of all citizens in the activities of production. Respect of the principle of subsidiarity must prompt public authorities to seek conditions that encourage the development of individual capacities of initiative, autonomy and personal responsibility in citizens, avoiding any interference which would unduly condition business forces.*

With a view to the common good, it is necessary to pursue always and with untiring determination the goal of a proper equilibrium between private freedom and public action, understood both as direct intervention in economic matters and as activity supportive of economic development. In any case, public intervention

must be carried out with equity, rationality and effectiveness, and without replacing the action of individuals, which would be contrary to their right to the free exercise of economic initiative. In such cases, the State becomes detrimental to society: a direct intervention that is too extensive ends up depriving citizens of responsibility and creates excessive growth in public agencies guided more by bureaucratic logic than by the goal of satisfying the needs of the person.[738]

355. *Tax revenues and public spending take on crucial economic importance for every civil and political community. The goal to be sought is public financing that is itself capable of becoming an instrument of development and solidarity.* Just, efficient and effective public financing will have very positive effects on the economy, because it will encourage employment growth and sustain business and non-profit activities and help to increase the credibility of the State as the guarantor of systems of social insurance and protection that are designed above all to protect the weakest members of society.

Public spending is directed to the common good when certain fundamental principles are observed: the payment of taxes [739] as part of the duty of solidarity; a reasonable and fair application of taxes;[740] precision and integrity in administering and distributing public resources.[741] In the redistribution of resources, public spending must observe the principles of solidarity, equality and making use of talents. It must also pay greater attention to families, designating an adequate amount of resources for this purpose.[742]

c. Role of intermediate bodies

356. *The social-economic system must be marked by the twofold presence of public and private activity, including private non-profit activity. In this way sundry decision-making and activity-planning centres come to take shape.* The use of certain categories of goods, collective goods and goods meant for common utilization, cannot be dependent on mechanisms of the market,[743] nor does

their use fall under the exclusive competence of the State. The State's task relative to these goods is that of making use of all social and economic initiatives promoted by intermediate bodies that produce public effects. Civil society, organized into its intermediate groups, is capable of contributing to the attainment of the common good by placing itself in a relationship of collaboration and effective complementarities with respect to the State and the market. It thus encourages the development of a fitting economic democracy. In this context, State intervention should be characterized by a genuine solidarity, which as such must never be separated from subsidiarity.

357. Private non-profit organizations have their own specific role to play in the economic sphere. These organizations are marked by the fearless attempt to unite efficiency in production with solidarity. In general, they are built on agreements of association and manifest a common way of thinking in the members who choose to join. The State is called to respect the nature of these organizations and to make proper use of their various features, putting into practice the fundamental principle of subsidiarity, which requires that the dignity and autonomous responsibility of the “subsidiary” subject be respected and promoted.

d. Savings and consumer goods

358. Consumers, who in many cases have a broad range of buying power well above the mere subsistence level, exercise significant influence over economic realities by their free decisions regarding whether to put their money into consumer goods or savings. In fact, the possibility to influence the choices made within the economic sector is in the hands of those who must decide where to place their financial resources. Today more than in the past it is possible to evaluate the available options not only on the basis of the expected return and the relative risk but also by making a value judgment of the investment projects that those resources would finance, in the awareness that “the decision to invest

in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice”.[744]

359. *Purchasing power must be used in the context of the moral demands of justice and solidarity, and in that of precise social responsibilities.* One must never forget “the duty of charity ..., that is, the duty to give from one's ‘abundance’, and sometimes even out of one's needs, in order to provide what is essential for the life of a poor person”.[745] This responsibility gives to consumers the possibility, thanks to the wider circulation of information, of directing the behaviour of producers, through preferences — individual and collective — given to the products of certain companies rather than to those of others, taking into account not only the price and quality of what is being purchased but also the presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates.

360. *The phenomenon of consumerism maintains a persistent orientation towards “having” rather than “being”.* This confuses the “criteria for correctly distinguishing new and higher forms of satisfying human needs from artificial new needs which hinder the formation of a mature personality”.[746] To counteract this phenomenon it is necessary to create “life- styles in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors which determine consumer choices, savings and investments”.[747] It is undeniable that ways of life are significantly influenced by different social contexts, for this reason the cultural challenge that consumerism poses today must be met with greater resolve, above all in consideration of future generations, who risk having to live in a natural environment that has been pillaged by an excessive and disordered consumerism.[748]

V. THE “NEW THINGS” IN THE ECONOMIC SECTOR

a. Globalization: opportunities and risks

361. *Our modern era is marked by the complex phenomenon of economic and financial globalization, a process that progressively integrates national economies at the level of the exchange of goods and services and of financial transactions. In this process, an ever growing number of those involved in the economic sector is prompted to adopt a more global perspective concerning the choices that they must make with regard to future growth and profits. The new perspective of global society does not simply consist in the presence of economic and financial bonds between national forces at work in different countries, which have moreover always been present, but in the pervasiveness and the absolutely unprecedented nature of the system of relations that is developing. The role of financial markets is becoming ever more decisive and central. Following the liberalization of capital exchange and circulation, these market dimensions have increased enormously and with incredible speed, to the point that agents can “in real time”, transfer large quantities of capital from one part of the globe to another. This is a multifaceted reality that is difficult to decipher, since it expands at different levels and is in continuous evolution along paths that cannot easily be predicted.*

362. *Globalization gives rise to new hopes while at the same time it poses troubling questions.[749] Globalization is able to produce potentially beneficial effects for the whole of humanity. In the wake of dizzying developments in the field of telecommunications, the growth of the system of economic and financial relations has brought about simultaneously a significant reduction in the costs of communications and new communication technologies, and has accelerated the process by which commercial trade and financial transactions are expanding worldwide. In other words, the two phenomena of economic-financial globalization and technological progress have mutually strengthened each other, making the whole process of this present phase of transition extremely rapid.*

In analyzing the present context, besides identifying the opportunities now opening up in the era of the global economy, one also comes to see the risks

connected with the new dimensions of commercial and financial relations. In fact, there are indications aplenty that point to a trend of *increasing inequalities*, both between advanced countries and developing countries, and within industrialized countries. The growing economic wealth made possible by the processes described above is accompanied by an increase in relative poverty.

363. *Looking after the common good means making use of the new opportunities for the redistribution of wealth among the different areas of the planet, to the benefit of the underprivileged that until now have been excluded or cast to the sidelines of social and economic progress.*[750] “The challenge, in short, is to ensure a globalization in solidarity, a globalization without marginalization”.[751] This technological progress itself risks being unfairly distributed among countries. In fact, technological innovations can penetrate and spread within a specific community only if the potential beneficiaries have a minimum level of knowledge and financial resources. It is evident that, because of the great disparities between countries regarding access to technical and scientific knowledge and to the most recent products of technology, the process of globalization ends up increasing rather than decreasing the inequalities between countries in terms of economic and social development. Given the nature of the current dynamics, the free circulation of capital is not of itself sufficient to close the gap between developing countries and the more advanced countries.

364. *Trade represents a fundamental component of international economic relations, making a decisive contribution to the specialization in certain types of production and to the economic growth of different countries.* Today more than ever, international trade — if properly oriented — promotes development and can create new employment possibilities and provide useful resources. The Church's social doctrine has time and again called attention to aberrations in the system of international trade,[752] which often, owing to protectionist policies, discriminates against products coming from poorer countries and hinders the growth of industrial activity in and the transfer of technology to these countries.[753] The

continuing deterioration in terms of the exchange of raw materials and the widening of the gap between rich and poor countries has prompted the social Magisterium to point out the importance of ethical criteria that should form the basis of international economic relations: the pursuit of the common good and the universal destination of goods; equity in trade relationships; and attention to the rights and needs of the poor in policies concerning trade and international cooperation. Otherwise, “the poor nations remain ever poor while the rich ones become still richer”. [754]

365. *An adequate solidarity in the era of globalization requires that human rights be defended.* In this regard, the Magisterium points out that not only the “vision of an effective international public authority at the service of human rights, freedom and peace has not yet been entirely achieved, but there is still in fact much hesitation in the international community about the obligation to respect and implement human rights. This duty touches all fundamental rights, excluding that arbitrary picking and choosing which can lead to rationalizing forms of discrimination and injustice. Likewise, we are witnessing the emergence of an alarming gap between a series of new ‘rights’ being promoted in advanced societies – the result of new prosperity and new technologies – and other more basic human rights still not being met, especially in situations of underdevelopment. I am thinking here for example about the right to food and drinkable water, to housing and security, to self-determination and independence – which are still far from being guaranteed and realized”. [755]

366. *As globalization spreads it must be accompanied by an ever more mature awareness on the part of different organizations of civil society of the new tasks to which they are called on a worldwide level.* Thanks also to resolute action taken by these organizations, it will be possible to place the present process of economic and financial growth taking place on a global scale within a framework that guarantees an effective respect of human rights and of the rights of peoples, as well as an equitable distribution of resources within every country and

between different countries: “freedom of trade is fair only when it is in accord with the demands of justice”.[756]

Special attention must be given to specific local features and the cultural differences that are threatened by the economic and financial process currently underway. “Globalization must not be a new version of colonialism. It must respect the diversity of cultures which, within the universal harmony of peoples, are life's interpretive keys. In particular, it must not deprive the poor of what remains most precious to them, including their religious beliefs and practices, since genuine religious convictions are the clearest manifestation of human freedom”.[757]

367. *In the era of globalization solidarity between generations must be forcefully emphasized:* “Formerly, in many places, solidarity between generations was a natural family attitude; it also became a duty of the community”.[758] It is good that such solidarity continue to be pursued within national political communities, but today the problem exists also for the global political community, in order that globalization will not occur at the expense of the neediest and the weakest. Solidarity between generations requires that global planning take place according to the principle of the universal destination of goods, which makes it morally illicit and economically counterproductive to burden future generations with the costs involved: morally illicit because it would mean avoiding one's own responsibilities; economically counterproductive because correcting failures is more expensive than preventing them. This principle is to be applied above all — although not only — to the earth's resources and to safeguarding creation, the latter of which becomes a particularly delicate issue because of globalization, involving as it does the entire planet understood as a single ecosystem.[759]

b. The international financial system

368. *Financial markets are certainly not an innovation of our day: for a long time now, in different forms, they have been seeking to meet the financial needs of the*

productivity sector. The experience of history teaches that without adequate financial systems, economic growth would not have taken place. Large-scale investments typical of modern market economies would have been impossible without the fundamental role of mediation played by financial markets, which among other things brought about an appreciation of the positive functions of savings in the overall development of the economic and social system. If the creation of what is called the “global capital market” has brought benefits, thanks to the fact that the greater mobility of capital allows the productivity sector easier access to resources, on the other hand it has also increased the risk of financial crises. The financial sector, which has seen the volume of financial transactions far surpass that of real transactions, runs the risk of developing according to a mentality that has only itself as a point of reference, without being connected to the real foundations of the economy.

369. A financial economy that is an end unto itself is destined to contradict its goals, since it is no longer in touch with its roots and has lost sight of its constitutive purpose. In other words, it has abandoned its original and essential role of serving the real economy and, ultimately, of contributing to the development of people and the human community. In light of the extreme imbalance that characterizes the international financial system, the overall picture appears more disconcerting still: the processes of deregulation of financial markets and innovation tend to be consolidated only in certain parts of the world. This is a source of serious ethical concern, since the countries excluded from these processes do not enjoy the benefits brought about but are still exposed to the eventual negative consequences that financial instability can cause for their real economic systems, above all if they are weak or suffering from delayed development.[760]

The sudden acceleration of these processes, such as the enormous increase in the value of the administrative portfolios of financial institutions and the rapid proliferation of new and sophisticated financial instruments, makes it *more urgent*

than ever to find institutional solutions capable of effectively fostering the stability of the system without reducing its potential and efficiency. It is therefore indispensable to introduce a normative and regulatory framework that will protect the stability of the system in all its intricate expressions, foster competition among intermediaries and ensure the greatest transparency to the benefit of investors.

c. Role of the international community in an era of a global economy

370. *The loss of centrality on the part of States must coincide with a greater commitment on the part of the international community to exercise a strong guiding role.* In fact, an important consequence of the process of globalization consists in the gradual loss of effectiveness of nation-states in directing the dynamics of national economic-financial systems. The governments of individual countries find their actions in the economic and social spheres ever more strongly conditioned by the expectations of international capital markets and by the ever more pressing requests for credibility coming from the financial world. Because of the new bonds of interdependence among global operators, the traditional defensive measures of States appear to be destined to failure and, in the presence of new areas of competition, the very notion of a national market recedes into the background.

371. *The more the worldwide economic-financial system reaches high levels of organizational and functional complexity, all the more priority must be given to the task of regulating these processes, directing them towards the goal of attaining the common good of the human family. There is the clear need not just for States but for the international community to take on this delicate chore with adequate and effective political and juridical instruments.*

It is therefore indispensable that international economic and financial institutions should be able to identify the most appropriate institutional solutions and formulate the most suitable plans of action aimed at bringing about a change

that, if it were to be passively accepted and simply left to itself, would otherwise produce a dramatic situation detrimental above all to the weakest and defenceless classes of the world's population.

In international agencies it is necessary that the interests of the whole human family be equally represented. It is necessary moreover that "in evaluating the consequences of their decisions, these agencies always give sufficient consideration to peoples and countries which have little weight in the international market, but which are burdened by the most acute and desperate needs, and are thus more dependent on support for their development".[761]

372. *The sphere of politics too, just like that of the economy, must be in a position to extend its range of action beyond national boundaries, quickly taking on an operative worldwide dimension which alone will permit it to direct the processes now underway not only according to economic parameters but also according to moral criteria.* The basic goal is to guide economic processes by ensuring that the dignity of man and his complete development as a person are respected, in the context of the common good.[762] Taking on this task entails the responsibility of accelerating the consolidation of existing institutions and the creation of new entities responsible for this.[763] Economic development, in fact, will be lasting only to the extent that it takes place within a clear and defined normative context and within a broad plan for the moral, civil and cultural growth of the entire human family.

d. An integral development in solidarity

373. *One of the fundamental tasks of those actively involved in international economic matters is to achieve for mankind an integral development in solidarity, that is to say, "it has to promote the good of every person and of the whole person".*[764] To achieve this task requires a vision of the economy that, on the international level, guarantees an equitable distribution of resources and that is responsive to awareness of the interdependence — economic, political and

cultural — that today unites people definitively among themselves and makes them feel linked by a sole destiny.[765] Social problems increasingly take on a global dimension. No State can face these alone and find a solution. The present generations have direct experience of the need for solidarity and are concretely aware of the necessity to move beyond an individualistic culture.[766] There is an ever wider awareness of the need for models of development that seek to take on the task not only “of raising all peoples to the level currently enjoyed by the richest countries, but rather of building up a more decent life through united labour, of concretely enhancing every individual's dignity and creativity, as well as his capacity to respond to his personal vocation, and thus to God's call”.[767]

374. *A more human development in solidarity will also bring benefit to the richer countries themselves.* In these countries “one frequently observes a sort of existential confusion, an inability to live and to experience properly the meaning of life, even though surrounded by an abundance of material possessions. A sense of alienation and loss of their own humanity has made people feel reduced to the role of cogs in the machinery of production and consumption and they find no way to affirm their own dignity as persons made in the image and likeness of God”.[768] Rich countries have shown the ability to create material well-being, but often at the expense of man and the weaker social classes. “One cannot ignore the fact that the frontiers of wealth and poverty intersect within societies themselves, whether developed or developing. In fact, just as social inequalities — even to the point of lives of misery and poverty — exist in rich countries, so, in parallel fashion, in the less developed countries one often sees manifestations of selfishness and a flaunting of wealth which is as disconcerting as it is scandalous”.[769]

e. Need for more educational and cultural formation

375. *For the Church's social doctrine, the economy “is only one aspect and one dimension of the whole of human activity.* If economic life is absolutized, if the

production and consumption of goods become the centre of social life and society's only value, not subject to any other value, the reason is to be found not so much in the economic system itself as in the fact that the entire socio-cultural system, by ignoring the ethical and religious dimension, has been weakened, and ends up limiting itself to the production of goods and services alone".[770] The life of man, just like the social life of the community, must not be reduced to its materialistic dimension, even if material goods are extremely necessary both for mere survival and for improving the quality of life. "An increased sense of God and increased self-awareness are fundamental to any *full development of human society*".[771]

376. *Faced with the rapid advancement of technological and economic progress, and with the equally rapid transformation of the processes of production and consumption, the Magisterium senses the need to propose a great deal of educational and cultural formation,* for the Church is aware that "to call for an existence which is qualitatively more satisfying is of itself legitimate, but one cannot fail to draw attention to the new responsibilities and dangers connected with this phase of history ... In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones ... Of itself, an economic system does not possess criteria for correctly distinguishing new and higher forms of satisfying human needs from artificial new needs which hinder the formation of a mature personality. Thus *a great deal of educational and cultural work* is urgently needed, including the education of consumers in the responsible use of their power of choice, the formation of a strong sense of responsibility among producers and among people in the mass media in particular, as well as the necessary intervention by public authorities".[772]