

DANIEL FINN

Benedict's third way

When the bishops of England and Wales issued their pre-election statement, 'Choosing the Common Good', last week, they cited the Pope's encyclical *Caritas in Veritate* as highly relevant to efforts to rethink economic life after the recent financial crisis. But what lies behind it?

Pope Benedict XVI's encyclical, *Caritas in Veritate* received kudos from nearly all quarters when it appeared last summer. However, little has been said about the economics in the document, and in particular about what strains or schools of economic thought the Pope was relying upon. This issue becomes more important when we recognise that Benedict's view of economic life marks a significant evolution in papal thought.

We know that earlier popes learned from economists: Leo XIII from the German Jesuit Heinrich Pesch, and Pius XI from another German Jesuit, Oswald von Nell-Breuning. And, of course, Pope John Paul II initiated a far more public consultation when he invited the advice (and the attendance at lunch in his personal quarters) of a score of internationally famous economists – many not Catholic – prior to writing *Centesimus Annus*. Thus we might wonder about any possible influence on Pope Benedict's thinking by the lay economist Stefano Zamagni, who stood alongside two cardinals and a bishop at the press conference formally releasing *Caritas in Veritate* to the world.

The history of the drafting of an encyclical typically remains a closely held secret until after the death of the Pope, but there is sufficient textual evidence within *Caritas in Veritate* to argue that Pope Benedict has been persuaded by what we might call the Bologna School of economics, whose leading figure is Zamagni. One need only look to an important but underappreciated book by him and Luigino Bruni, *Civil Economy: efficiency, equity, public happiness* (Peter Lang Publishing, 2007).

Bruni and Zamagni aim to reintroduce a moral perspective into the market and into economic analysis of it, resisting both those



Qualities for financiers to aspire to: Personifications of Prudence and Justice depicted by Perugino 1498-1500 on the walls of the audience hall in the Collegio del Cambio in Perugia, the home of the Exchange Guild. Photo: Bridgeman

who would rely on "free" markets to solve nearly all social problems and those who view nearly all market relationships as threatening communal life. While endorsing markets, they see capitalist markets as the problem. Instead, they recommend "civil markets" and propose re-establishing (suitably updated) characteristics of the "civil economy" that flourished in fifteenth- and sixteenth-century Italian civic humanism, which itself arose out of earlier Benedictine and Franciscan traditions.

For his part, Benedict in *Caritas in Veritate* notes that "the market does not exist in the pure state. It is shaped by the cultural configurations that define it and give it direction". He goes on to argue that "economic life undoubtedly requires contracts" but it also needs "forms of redistribution", and "fraternal reciprocity".

The parallels in *Civil Economy* are clear. The book's starting point is that every economic system requires three "regulating principles", even though today most economists attend to only the first two. The first is the exchange of equivalents, for which the contract is the paradigm: I agree to transfer this to you and you agree to transfer that to me. The second principle is redistribution, a process that aims at fairness in society, particularly for the poor, without which political support for the economic system would vanish. The third principle is reciprocity.

Reciprocity is similar to exchange, in that when I help you out, you feel an obligation to help me in return. But at the same time, it is similar to the pure gift relationship, in that you don't have to return the favour. Or

you may reciprocate by helping someone else. Common examples include holding the door open for a stranger whose arms are full or contributing to a good friend's favourite charitable cause. Such an action may simply be the right thing to do; but we experience an informal social obligation as well, once we ourselves have benefitted from such actions by others. A similar thing occurs in economic life when an employee or employer does something for the other not required by contract, and the other feels some obligation to reciprocate.

We all regularly experience reciprocity; indeed, it's part of the "software" that allows families, businesses, and society as a whole to "boot up" each morning. Remarkably, however, mainstream economic analysis has ignored it almost completely, ascribing such concerns to the realm of sociology. Bruni and Zamagni are trying to correct this mistake, and are even developing a new textbook in microeconomic theory that does just that.

A second important development in Benedict's encyclical is his endorsement of "hybrid forms of commercial behaviour", described as a means of "civilising the economy". Benedict notes that "the traditionally valid distinction between profit-based companies and non-profit organisations can no longer do full justice to reality, or offer practical direction for the future". He argues that hybrid firms, which make a profit but dedicate a sizeable portion of that profit to the common good, are exemplified in "the so-called 'civil economy' or the 'economy of communion'". Benedict is aware of the difficulties they face in many countries and thus he recommends

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"a suitable juridical and physical structure in every country".

Bruni and Zamagni speak of these organisations as reflecting the values of an early modern civil humanism, when Franciscans invented the first banks (pawn banks), double-entry bookkeeping, and the first rudimentary joint-stock corporations. (The Franciscans' distance from property ownership gave them the freedom to fashion new economic institutions better able to assist the poor.)

Later, the humanistic dimensions of these new institutions were intellectually undermined, first by shifts in political philosophy (consider Machiavelli and Hobbes) and then within economics itself (by Adam Smith and others). The aim for Bruni and Zamagni is to integrate reciprocity within production itself, so that employees are treated as human beings (and not simply as "factors of production") and customers' concerns are brought into the production process more creatively.

Benedict goes on to argue that not only would such hybrid firms be morally superior but more efficient as well, saying: "The very plurality of institutional forms of business gives rise to a market which is not only more civilized but also more competitive."

Bruni and Zamagni agree. Their analysis of productivity in the contemporary knowledge economy indicates that "objective" knowledge, most important in material production, is now less critical for improving productivity than is "tacit" knowledge, insights into how things "really" work, which employees develop but which is not easily tapped by a firm's managers – at least not without engendering reciprocity in the employment relationship.

It's clear that Benedict aims for both personal and institutional change in economic life. Leo and Pius did the same, proposing an institutional update of the medieval guild system in "corporatism". Labour/management strife rendered their institutional proposals unsuccessful. We don't yet know if Benedict's endorsement of hybrid firms will bear more fruit as an historical project but the prospects are better. His vision is not only grounded in the Catholic theological tradition but also arises out of a more savvy analysis of the strengths and weaknesses of markets.

Focusing on hybrid firms cannot be the only path that Catholic social thought takes to a humane economy, as they represent only a tiny fraction of economic organisations in any economy. But their success will assist in developing a broad cultural consensus on the role of reciprocity in economic life, and this would be a long step toward that broader transformation.

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LAURENCE FREEMAN

"The survival instinct can drown our capacity for self-giving and compassion"



"We need prayers – and more soldiers!" Most of us will never know a situation of social infrastructure collapse that will make us cry out like this on Facebook, our last remaining means of communication with the outside world. A world that has suddenly become terrifyingly exterior to the tragedy that has suddenly closed in and isolated us.

We all know, but understandably prefer to forget, on what a knife-edge life perpetually rests. In a few moments our entire sense of security, the management systems and plans of life, can evaporate and instead of thinking about how we will fit in the dental appointment and the meetings tomorrow we find ourselves looking dizzily into an abyss. It took 120 seconds for this to happen to the people of Chile as the tectonic plates groaned and shifted to produce what is now measured as one of the world's biggest earthquakes.

As soon as I heard the news I tried to contact MariaRosa, our national coordinator who lives in Concepción, the country's second largest city and close to the epicentre. Only that day she got out a message on Facebook that was chilling. "This is total chaos – the people have weapons and when it gets dark they loot the houses. Last night our neighbours defended us ... This is horrible – no electricity, no water, no food. Please pray. During the night we must supervise the streets so that the looters do not enter into our homes. This is worse than the earthquake or the tsunami – it has been terrible. Depending on what happens today and if I manage to get gas, I will go to Santiago with the children."

The only thing worse, it seems, than a natural disaster of these proportions is the breakdown of the humane norms of society that make it worthy to be called civilisation. How easily we assume that civilisation has been achieved. Yet how easily we can lose it to the fears aroused by an overriding instinct for survival. What terrifies even more than loss of life or limb is the sudden vision of people whom yesterday we passed comfortably in the street consumed today by a violence which

is not their own and makes them seem such strangers to not only to us but to themselves. The rage for survival seems instead to lead from a hidden, pre-human hunger for life at any cost, a hunger as deep as the abyss itself. But the abyss is within ourselves. The survival instinct can drown our capacity for self-giving and compassion and subject all social relations and the needs of others to itself.

But our response to disaster is unpredictable. When, a few years ago, the power supply in Quebec and parts of the Eastern seaboard crashed for several days in mid-winter, the Canadian Government sent in troops. They expected social chaos, but none came. In Montreal, I heard of the householders forming street communities, sharing their provisions and taking care of the old and sick. The soldiers sat waiting for a breakdown which common humanity averted. It is not, of course, that Canadians are better than Chileans, and I am sure we will hear of heroic and selfless actions there that will more than compensate for the looters in Concepción. The point is not a national league table of virtue. We know from the 12 years of Nazi barbarism, the Allied bombing of Dresden or, a few decades later, the four-year siege of Sarajevo, that the abyss can open anywhere, as unpredictably as the natural disasters we dread. This human randomness only makes the knife-edge seem sharper.

"Thank you," MariaRosa wrote before her battery gave out. "I have been holding up only because I can feel we are united in our prayer. Love to you all." Prayer to some may seem just a crutch when crisis has swept away all security. But for others it is a real force. Not magic that can rejig the earth's plates, but a consciousness, pervaded by faith, the "vision of things unseen". This awareness often becomes stronger in times of crisis than in the days of mundane complexities and stresses. Prayer means knowledge. In the worst of times we can know that – despite the terror of isolation – we belong to a divine order that the deepest abyss cannot swallow. From this knowledge the word "love" unexpectedly emerges. It expresses something we can find no better word for and which is now charged with a meaning that changes the meaning of everything.

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