

Catholic social teaching and the free economy

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The question is whether Catholic social teaching is compatible with support for capitalism or, as I prefer to call it, the free economy. This is a question that I want to address in principle. I am not arguing that there should be no government intervention in the economy; no regulation of banks; or no provision of welfare. I want to ask what our basic predisposition should be. It should also be said that Catholic social teaching is compatible with other ideas about economic organisation too.

Without question, Catholic social teaching is compatible with support for a free economy. Entrepreneurship is, at its best, an expression of the creative powers given to us by God. Economic activity takes our gifts of reason, insight and ingenuity, and allows them to be put into action in free co-operation with others in order that we can serve God as he intends. Just as *Rerum Novarum*¹ provided a strong defence of the dignity of labour it also contained a trenchant justification of private property and the primacy of the family and society over the state.

Of course, not all human action in the economic sphere is licit; and the fruits of business activity are not always pleasing to God. As such, the Church criticises particular actions within, or particular products of, the free economy such as exploitation, drugs, pornography and so on. To use an analogy, like sexual activity, economic goods have a time, place and context in which their consumption is good and a time, place and context in which their consumption is not good. But, as with sexual activity, the main restraint on economic actions does not come from the state.

Why a free economy?

A consistent strand within Catholic social teaching that takes very seriously the importance of a free economy and the primacy of the family and society over the state in the economic arena goes back to – and beyond – the late scholastics of the sixteenth century. More recently, in *Centesimus Annus*², John Paul II asked the rhetorical question whether capitalism is the system to be adopted after the decline of the Soviet system. The answer is quite direct: *“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’.”*

So, why might John Paul II have said this? The primary objective of Catholic social teaching is the promotion of the dignity of the human person. It is often suggested that the objective is the promotion of the “common good”. This is an error that can lead to too much focus on political structures and policy instead of on the acting, reasoning human person, created with free will in the image of God. When free will is circumscribed and we are less able to use our will and our reason to do good in the economic sphere, we are less human: our dignity is undermined. In *Centesimus annus* John Paul II said: *“The fundamental error of socialism is anthropological in nature. Socialism considers the individual person simply as an element, a molecule within the social organism...Socialism likewise maintains that the good of the individual can be*

realised without reference to his free choice, to the unique and exclusive responsibility which he exercises in the face of good or evil."

But, having established a basic principle – the importance of being allowed to exercise free will in the economic sector – it is important to make the further point that a free economy accords with human nature in other less profound but still rather important ways. One of the advantages of a free economy in the context of fallen human nature is that economic resources are allocated by agreement, peacefully. That should be rather attractive to Christians.

A free economy works with and not against human nature as we find it. In *Centesimus Annus*, Pope John Paul II pointed out: *"The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony."*

Indeed, it is interesting that some of the worst offences of business seem to be when deliberate state intervention has ensured that the pursuit of self-interest is not in harmony with the interests of society as a whole. The financial crash is the most obvious example of this. The continual bailing out of US financial institutions and the underwriting by the US government of financial risk right throughout the system – from the smallest consumer to the largest bank - had disastrous effects by encouraging imprudent and reckless behaviour.

Of course, self-interest is not the motivation for all economic activity. In a theme developed in *Caritas in Veritate*³, the importance of other motivations such as reciprocity or the concept of "gift" was discussed. A free economy is an arena in which different motivations can be the spur for economic activity. When the government allocates economic resources, on the other hand, the system can easily become beset by conflict. Whether it is the fight for the fixed number of places at state schools, or the inter-generational conflicts that are being acted out on the streets of Greece, bargaining and political positioning are the very mechanisms by which governments come to make decisions on resource allocation.

Do we need to tame the market?

It is, of course, possible for self-interest to become disordered – or bent – and turned into selfishness. In the business economy the pursuit of self can do much damage. But the damage is more limited than if the selfish take their place in government and use powers of coercion to achieve their objectives in a centrally planned economy. I would rather a selfish, greedy person worked in a manufacturing or service business than as finance minister of an under-developed country or as chief of the secret police. Ultimately, a business must be mindful of the "other" it seeks to serve or it will go out of business.

And this is the difficulty we have when making prudent judgements about where the power of the state should begin and end in the economic sphere. In a world populated by imperfect human persons we do need a state but that state must be limited in the role that it plays. The very imperfections of the human person that lead to problems that we like the state to solve also manifest themselves amongst those who are in government. As Frédéric Bastiat put it: *"The claims of these organisers of humanity raise another question which I have often asked them and which, so far as I know, they have*

*never answered: if the natural tendencies of mankind are so bad that it is not safe to permit people to be free, how is it that the tendencies of these organisers are always good? Do not the legislators and their appointed agents also belong to the human race? Or do they believe that they themselves are made of a finer clay than the rest of mankind?*²⁴

The Church does not, then, teach that the failings of the free economy can necessarily be resolved by regulation from the state. We should not forget that, once a general regulatory role is given to government, restraining it becomes very difficult – governments like to regulate the market, but who regulates the government? A government is disciplined only by a quinquennial election and by the very imperfect feedback mechanism of public opinion – which, of itself, can turn into self-interested lobbying as noted in *Caritas in veritate*. If you want to see disordered self-interest at work, yes, you could observe businesses in action, but you could just as easily observe Washington DC in the USA.

The corruption and self-interest that can be exercised in the political system was a subject that interested the Catholic historian Lord Acton, and the problems are studied in detail by modern political economists. To put it another way, government intervention in the economic sphere is generally the wrong tool to deal with a problem of a lack of virtue: remoralisation and evangelisation are the correct tools.

Economists also understand the implications of the limitations of human knowledge for political and economic policymaking and for institutional design. This is important for Christians. The argument is straightforward. Humans lack the cognitive ability to plan an economy centrally and achieve outcomes that ensure goods and services are produced that meet our needs and demands. For this reason, central economic planning failed. Economic knowledge is naturally dispersed and it cannot be centralised within a government bureau. We need trial and error by business people and entrepreneurs responding to price signals and the profit motive for a thriving economy that meets human need. Entrepreneurs respond, as the *Compendium of the Social Doctrine of the Church*⁵ puts it very perceptively, to profit as an indicator that a business is using the productive factors efficiently. This critique of government intervention in the economy again should resonate with Christians who should surely be aware of the limitations of the human mind and human planning to try to improve and perfect society.

Is there any place for government?

None of this means that there is no role for the state in economic life. In the first place, as Catholic social teaching makes clear, the state must provide guarantees of private property; enforcement of contracts; a judicial system; and so on. These particular functions of the state are very clearly designed to ensure human flourishing - or the common good - because they are necessary to ensure that the agreed and legitimate plans that individuals, families and communities make can be realised. Without private property and the enforcement of contracts economic life falls apart and the common good disintegrates.

Beyond this, there are areas for prudential judgement. Such prudential issues include the extent of income redistribution, of labour market regulation and of regulation of the financial sector. Interestingly, though, even where talking about the need to ensure human rights for workers, the Catechism states that the primary responsibility here lies not with the government but with professional associations, unions and other parts of

civil society. The Church offers this crucial distinction between society and the state. There is a danger that the state can squeeze civil society to the margins when it should be the primary regulating force of the economy.

The financial crash

One particularly example of where prudential judgement has to be used is in the area of financial regulation – this is clearly topical at the moment. The popular view of the crash is that it came about because of immoral profiteering by bankers and/or because of fundamental frailties in free financial systems. Whether there are such fundamental frailties is a matter that the Church cannot resolve – it is essentially a matter of theoretical and empirical finance and economics. The financial system needs to serve the common good, but, if it enriches the few whilst imposing widespread costs, it will not do that. Christians may therefore be in favour of structural reform of the financial system or in favour of regulation.

However, even if it is accepted that there are problems within deregulated financial systems, it does not follow that the system can be improved by regulation. Regulators come from the same flawed human stock as bankers – as Bastiat would recognise. Indeed, the financial system failed when it was regulated as it has never been regulated before. The detail of financial regulation in the UK was mind boggling and came from several sources: the Financial Services Authority, the EU and the Bank for International Settlements.

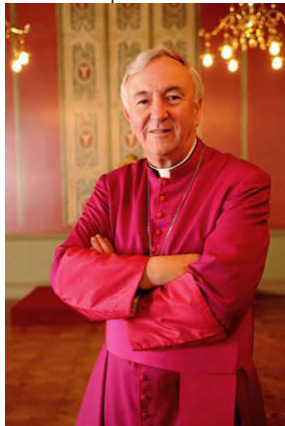
The FSA claims that it pursued “principles-based regulation”, but I once went looking for the FSA rules in a particular area – interest rate risk. I found the relevant regulatory handbook to be called the *Prudential Regulation Handbook*. The full handbook contains ten sections. The section entitled *Prudential Standards* is divided into 11 sub-sections. The sub-section *Prudential Sourcebook for Banks, Building Societies and Investment Firms* is made up of 14 sub-sub-sections. The sub-sub section *Market Risk* is divided into 11 sub-sub-sub sections. The sub-sub-sub-section on *Interest Rate PRR* then has 66 paragraphs. This makes one wonder what detailed regulation looks like! Banks got into the mindset of simply ticking the regulatory boxes.

The financial system was also greatly distorted by moral hazard and the successive bailing-out of financial institutions, especially in the US. Before the bailout culture developed in the 1930s financial institutions used to market themselves by promoting their prudence and trustworthiness – regulation and state guarantees have removed the need for them to do that. Furthermore, behind almost all great financial crises is an irresponsible central bank mismanaging monetary policy.

So, we should not be over-simplistic in our interpretation of the financial crash. Secondly, how Christians should respond is a matter, quite clearly, for prudential judgement – there is no theologically correct answer to the problem of how to regulate the financial system and how to respond to the financial crash. Nevertheless, I think that there are some inferences that we can draw and this is especially so regarding one issue: Christians, I believe, should be very supportive of efforts to change the legal framework to ensure that a failed financial institution can be wound up without bringing down the financial system and imposing costs on society at large. It does not mean that they should necessarily support the UK government’s approach to this, or the US government’s approach – both have their weaknesses. However, the

basic position should be that natural justice demands that those who take the risks bear the costs. Furthermore, to repeat John Paul II, echoing Adam Smith: *“The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony.”* As is often the case, natural justice is also good economics. Bankers should have a self interest in running sound banks, something that is also in the interests of society as a whole. Society as a whole should not subsidise reckless risk-taking.

In addition, we also need remoralisation. Here it is worth remembering what



Archbishop Vincent Nichols said in the Bishops’ 2010 election address: *“In place of virtue we have seen an expansion of regulation. A society that is held together just by compliance to rules is inherently fragile, open to further abuses which will be met by a further expansion of regulation.”* This is exactly how the City has been operating. Catholic social teaching offers an alternative approach which was spelled out in *Caritas in veritate*. In all our economic actions we need to have a strong sense of morality. Regulation cannot substitute for morality. *Caritas in veritate* also welcomed alternative financial institutions other than proprietary banks owned by shareholders: there is a vibrant debate going on about that within Catholic social teaching at the moment.

I think we can also consider some of the trends in wider society – not just in the banking sector – that led to the banking crisis. The accumulation of debt was undoubtedly a problem leading up to the crisis. Prudent behaviour - not becoming attached to material goods to such an extent that huge debts are incurred, and so on - are virtues that should be cultivated.

Saving is a good discipline which, by its nature, requires us to wait for material goods as well as helping people not to become dependent on others and providing the capital that enables an economy to thrive. I have tried to persuade senior clergy to make the point publicly (without success) that binge drinking, promiscuous sex, obesity, drug taking and consumer credit are, in fact, manifestations of the same two problems: the desire to have something now and not to wait; and the desire to have something out of context.

Solidarity

Now I want to move on to discuss about poverty, the welfare state and so on. This is, of course, related to the third principle of Catholic social teaching - solidarity. Solidarity is a virtue that involves (to put it simply) promoting the worldwide brotherhood of man and that imposes an obligation upon us all to do so. The common good or human flourishing for all is impossible without a true sense of solidarity. But redistribution and the provision of services, through a bureaucratic state and financed by high levels of taxation, is not what the Church envisages here. *Rerum Novarum* made this clear as has Catholic social teaching down the ages.

As *Caritas in Veritate* says: *“Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone, and it cannot therefore be merely delegated to the State.”* It is a fundamental error to conflate the role of the political system in

seeking to help the poor through income redistribution using taxation with that of people acting spontaneously out of charity. The primacy of charity was a fundamental principle of the early social encyclicals and has been reiterated time and again by Pope Benedict. The virtue of solidarity, represented by love and works of charity, arises in the first place from the individual, the family and spontaneously from the community. The state is the last resort because it can only achieve its objectives using coercion and because it is so remote from the needs it is trying to meet.

This is one of the messages of *Deus Caritas Est*⁶: “The State which would provide everything, absorbing everything into itself, would ultimately become a mere bureaucracy incapable of guaranteeing the very thing which the suffering person - every person - needs: namely, loving personal concern”.

Solidarity, then, is a virtue, not a public policy action plan. Yes, the state may need to step in when individuals, families and societies fail to provide and the common good or human dignity is at stake. But, in many senses, this is a sign of failure that should lead us to examine our own consciences.

It is sometimes suggested to me that an extensive welfare state, income redistribution and so on is justified by our concern for the poor and the desire to bring the kingdom about on earth. If the kingdom is amongst us, there will be no poverty and all will be our brothers. The welfare state, it is argued, is a justified attempt to bring about the kingdom on earth. Indeed, I was debating this issue with the Anglican Bishop of Leicester earlier this year and he not only made this point but went on to say that the welfare state was the manifestation on earth of the Eucharist instituted at the last supper.

The Catholic view is different. The kingdom is not the state but the Church. The sharing of goods took place in the early Church amongst the members of the Church administered by the Church. As Pope Benedict describes in *Deus Caritas Est*, it was this, amongst other things, that marked out the early Christians. The early Church did not petition the Roman government to redistribute other people's money – they shared their own goods.

The way in which modern welfare states penalise the family, work and saving - important aspects of human flourishing - and increasingly promote forms of intervention from government that undermine freedom of conscience should be an issue of real distress for Christians. In short, it could be said that the particular way in which we developed the welfare state in Britain – quite contrary to Beveridge's⁷ intentions, by the way – replaced private welfare institutions that were vehicles for socialisation with a welfare state that was a vehicle for bureaucratisation. Society is distinct from the state and it is society and not the state that should be the main vehicle for the provision of welfare. This is a key principle of Catholic social teaching and is important in the particular times we find ourselves with the state spending over half of national income and over half of that on elements of the welfare state.

This takes us to the fourth pillar of Catholic social teaching – that of subsidiarity which is often described as intervening at the lowest possible level. It is often said that there is somehow a tension between subsidiarity and solidarity. I do not see it that way. Firstly, subsidiarity tells us how the state should intervene if it needs to – by helping (that is what the word means) lower order communities, the family and the individual to meet their legitimate objectives and for the promotion of the common good. For

example, this might involve helping poor families finance education, but would not involve the state providing education and running schools. Secondly, the principle of subsidiarity is telling us that the promotion of solidarity is a bottom-up and not a top-down process. As the Instruction on *Christian Freedom and Liberation*⁸ put it “neither the State nor any society must ever substitute itself for the initiative and responsibility of individuals and of intermediate communities...nor must they take away the room necessary for their freedom.”

Summary

To summarise, none of the great pillars of Catholic social teaching point in the direction of a state that is very active in economic life. Indeed, as the Compendium puts it: “State action in the economic sphere should also be withdrawn when the special circumstances that necessitate it end”.

The principle I want to stress is that asking government to design the economic architecture in order to bring about a particular ordering of society is a task that is simply beyond the gifts that God has given us. We should have the humility to recognise that. Asking government to create a just order, based on the rule of law and private property, in which human persons, families, communities and society can flourish, is, however, within our grasp. We may not always like the outcome which will be imperfect, reflecting as it must our goodness, our diversity and our sinfulness.

Catholic social teaching is not a running commentary on public policy. Indeed, it is increasingly assisting us with the moral challenges in economic life. Catholic social teaching is a radical challenge to autonomous, reasoning, acting persons: it requires them freely to choose good over evil and to promote human dignity, the common good and solidarity in the economic sphere.

But, at the same time, we cannot debate merely abstract concepts. It is a free economy that has taken us from the margins of subsistence to where we are today. It is the extension of a somewhat more free economy globally that has seen a halving of absolute poverty in 25 years – an unprecedented achievement. It is the absence of a free economy, underpinned by private property and the rule of law, that leads to abject misery throughout much of the world. A free economy is most compatible with our nature as free, reasoning, creative and social beings and we should therefore not be surprised by its success.

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Notes:

1. Encyclical by Leo XIII, 1891
2. Encyclical by John Paul II, 1991
3. Encyclical by Benedict XVI, 2009
4. Frédéric Bastiat, *The Law*, 1850
5. Published by the Pontifical Commission for Justice and Peace, 2005
6. Encyclical by Benedict XVI, 2005
7. Report of the Inter-Departmental Committee on Social Insurance and Allied Services, chairman William Beveridge, 1942
8. Published by the CDF (Prefect: Joseph Cardinal Ratzinger), 1986