

Encyclical Letter of the Supreme Pontiff Benedict XVI

39. Paul VI in *Populorum Progressio* called for the creation of *a model of market economy capable of including within its range all peoples and not just the better off*. He called for efforts to build a more human world for all, a world in which “all will be able to give and receive, without one group making progress at the expense of the other”<sup>[94]</sup>. In this way he was applying on a global scale the insights and aspirations contained in *Rerum Novarum*, written when, as a result of the Industrial Revolution, the idea was first proposed — somewhat ahead of its time — that the civil order, for its self-regulation, also needed intervention from the State for purposes of redistribution. Not only is this vision threatened today by the way in which markets and societies are opening up, but it is evidently insufficient to satisfy the demands of a fully humane economy. What the Church's social doctrine has always sustained, on the basis of its vision of man and society, is corroborated today by the dynamics of globalization.

When both the logic of the market and the logic of the State come to an agreement that each will continue to exercise a monopoly over its respective area of influence, in the long term much is lost: solidarity in relations between citizens, participation and adherence, actions of gratuitousness, all of which stand in contrast with *giving in order to acquire* (the logic of exchange) and *giving through duty* (the logic of public obligation, imposed by State law). In order to defeat underdevelopment, action is required not only on improving exchange-based transactions and implanting public welfare structures, but above all on gradually *increasing openness, in a world context, to forms of economic activity marked by quotas of gratuitousness and communion*. The exclusively binary model of market-plus-State is corrosive of society, while economic forms based on solidarity, which find their natural home in civil society without being restricted to it, build up society. The market of gratuitousness does not exist, and attitudes of gratuitousness cannot be established by law. Yet both the market and politics need individuals who are open to reciprocal gift.

40. Today's international economic scene, marked by grave deviations and failures, requires a *profoundly new way of understanding business enterprise*. Old models are disappearing, but promising new ones are taking shape on the horizon. Without doubt, one of the greatest risks for businesses is that they are almost exclusively answerable to their investors, thereby limiting their social value. Owing to their growth in scale and the need for more and more capital, it is becoming increasingly rare for business enterprises to be in the hands of a stable director who feels responsible in the long term, not just the short term, for the life and the results of his company, and it is becoming increasingly rare for businesses to depend on a single territory. Moreover, the so-called outsourcing of production can weaken the company's sense of responsibility towards the stakeholders — namely the workers, the suppliers, the consumers, the natural environment and broader society — in favour of the shareholders, who are not tied to a specific geographical area and who therefore enjoy extraordinary mobility. Today's international capital market offers great freedom of action. Yet there is also increasing awareness of the need for greater *social responsibility* on the part of business. Even if the ethical considerations that currently inform debate on the social responsibility of the corporate world are not all acceptable from the perspective of the Church's social doctrine, there is nevertheless a growing conviction

that *business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business*: the workers, the clients, the suppliers of various elements of production, the community of reference. In recent years a new cosmopolitan class of *managers* has emerged, who are often answerable only to the shareholders generally consisting of anonymous funds which *de facto* determine their remuneration. By contrast, though, many far-sighted managers today are becoming increasingly aware of the profound links between their enterprise and the territory or territories in which it operates. Paul VI invited people to give serious attention to the damage that can be caused to one's home country by the transfer abroad of capital purely for personal advantage[95]. John Paul II taught that *investment always has moral, as well as economic significance*[96]. All this — it should be stressed — is still valid today, despite the fact that the capital market has been significantly liberalized, and modern technological thinking can suggest that investment is merely a technical act, not a human and ethical one. There is no reason to deny that a certain amount of capital can do good, if invested abroad rather than at home. Yet the requirements of justice must be safeguarded, with due consideration for the way in which the capital was generated and the harm to individuals that will result if it is not used where it was produced[97]. What should be avoided is a speculative *use of financial resources* that yields to the temptation of seeking only short-term profit, without regard for the long-term sustainability of the enterprise, its benefit to the real economy and attention to the advancement, in suitable and appropriate ways, of further economic initiatives in countries in need of development. It is true that the export of investments and skills can benefit the populations of the receiving country. Labour and technical knowledge are a universal good. Yet it is not right to export these things merely for the sake of obtaining advantageous conditions, or worse, for purposes of exploitation, without making a real contribution to local society by helping to bring about a robust productive and social system, an essential factor for stable development.

41. In the context of this discussion, it is helpful to observe that *business enterprise* involves a *wide range of values*, becoming wider all the time. The continuing hegemony of the binary model of market-plus-State has accustomed us to think only in terms of the private business leader of a capitalistic bent on the one hand, and the State director on the other. In reality, business has to be understood in an articulated way. There are a number of reasons, of a meta-economic kind, for saying this. Business activity has a human significance, prior to its professional one[98]. It is present in all work, understood as a personal action, an "*actus personae*"[99], which is why every worker should have the chance to make his contribution knowing that in some way "he is working 'for himself'"[100]. With good reason, Paul VI taught that "everyone who works is a creator"[101]. It is in response to the needs and the dignity of the worker, as well as the needs of society, that there exist various types of business enterprise, over and above the simple distinction between "private" and "public". Each of them requires and expresses a specific business capacity. In order to construct an economy that will soon be in a position to serve the national and global common good, it is appropriate to take account of this broader significance of business activity. It favours cross-fertilization between different types of business activity, with shifting of competences from the "non-profit" world to the "profit" world and vice versa, from the public world to that of civil society, from advanced economies to developing countries.

*Political authority* also involves a *wide range of values*, which must not be overlooked in the process of constructing a new order of economic productivity, socially responsible and human in scale. As well as cultivating differentiated forms of business activity on the global plane, we must also promote a dispersed political authority, effective on different levels. The integrated economy of the present day does not make the role of States redundant, but rather it commits governments to greater collaboration with one another. Both wisdom and prudence suggest not being too precipitous in declaring the demise of the State. In terms of the resolution of the current crisis, the State's role seems destined to grow, as it regains many of its competences. In some nations, moreover, the construction or reconstruction of the State remains a key factor in their development. The focus of *international aid*, within a solidarity-based plan to resolve today's economic problems, should rather be on consolidating constitutional, juridical and administrative systems in countries that do not yet fully enjoy these goods. Alongside economic aid, there needs to be aid directed towards reinforcing the guarantees proper to the *State of law*: a system of public order and effective imprisonment that respects human rights, truly democratic institutions. The State does not need to have identical characteristics everywhere: the support aimed at strengthening weak constitutional systems can easily be accompanied by the development of other political players, of a cultural, social, territorial or religious nature, alongside the State. The articulation of political authority at the local, national and international levels is one of the best ways of giving direction to the process of economic globalization. It is also the way to ensure that it does not actually undermine the foundations of democracy.

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45. Striving to meet the deepest moral needs of the person also has important and beneficial repercussions at the level of economics. *The economy needs ethics in order to function correctly* — not any ethics whatsoever, but an ethics which is people-centred. Today we hear much talk of ethics in the world of economy, finance and business. Research centres and seminars in business ethics are on the rise; the system of ethical certification is spreading throughout the developed world as part of the movement of ideas associated with the responsibilities of business towards society. Banks are proposing “ethical” accounts and investment funds. “Ethical financing” is being developed, especially through micro-credit and, more generally, micro-finance. These processes are praiseworthy and deserve much support. Their positive effects are also being felt in the less developed areas of the world. It would be advisable, however, to develop a sound criterion of discernment, since the adjective “ethical” can be abused. When the word is used generically, it can lend itself to any number of interpretations, even to the point where it includes decisions and choices contrary to justice and authentic human welfare.

Much in fact depends on the underlying system of morality. On this subject the Church's social doctrine can make a specific contribution, since it is based on man's creation “in the image of God” (Gen 1:27), a datum which gives rise to the inviolable dignity of the human person and the transcendent value of natural moral norms. When business ethics prescind from these two pillars, it inevitably risks losing its distinctive nature and it falls prey to forms of exploitation; more specifically, it risks becoming subservient to existing economic and financial systems rather than correcting their dysfunctional aspects. Among other things, it risks being used to justify the financing of projects that are in reality unethical. The word “ethical”, then, should not be used to make ideological distinctions, as if to suggest that initiatives not formally so

designated would not be ethical. Efforts are needed — and it is essential to say this — not only to create “ethical” sectors or segments of the economy or the world of finance, but to ensure that the whole economy — the whole of finance — is ethical, not merely by virtue of an external label, but by its respect for requirements intrinsic to its very nature. The Church's social teaching is quite clear on the subject, recalling that the economy, in all its branches, constitutes a sector of human activity[113].

46. When we consider the issues involved in the *relationship between business and ethics*, as well as the evolution currently taking place in methods of production, it would appear that the traditionally valid distinction between profit-based companies and non-profit organizations can no longer do full justice to reality, or offer practical direction for the future. In recent decades a broad intermediate area has emerged between the two types of enterprise. It is made up of traditional companies which nonetheless subscribe to social aid agreements in support of underdeveloped countries, charitable foundations associated with individual companies, groups of companies oriented towards social welfare, and the diversified world of the so-called “civil economy” and the “economy of communion”. This is not merely a matter of a “third sector”, but of a broad new composite reality embracing the private and public spheres, one which does not exclude profit, but instead considers it a means for achieving human and social ends. Whether such companies distribute dividends or not, whether their juridical structure corresponds to one or other of the established forms, becomes secondary in relation to their willingness to view profit as a means of achieving the goal of a more humane market and society. It is to be hoped that these new kinds of enterprise will succeed in finding a suitable juridical and fiscal structure in every country. Without prejudice to the importance and the economic and social benefits of the more traditional forms of business, they steer the system towards a clearer and more complete assumption of duties on the part of economic subjects. And not only that. *The very plurality of institutional forms of business gives rise to a market which is not only more civilized but also more competitive.*