PROSPERITY, POVERTY AND THE RESPONSABILITY OF BUSINESS

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(To be completed)

1. Introduction

One of the most penetrating dangers of our epoch was stamped by the 20th Century writer C.S. Lewis as the "chronological snobbery", that is, the uncritical acceptance of anything merely because it belongs to the intellectual trends of our present. To repulse such a danger, intelligibility of *res novae* and moral commitment are jointly required.

Let me start from some stylized facts characterizing the present epoch. First, the political system has not been able, so far, to modify in a significant way the financial institutions responsible of the present crisis. Under these conditions, there is no guarantee that in the next 15-20 years another bank and financial crisis will not occur. In his latest book (*The map and the territory*, 2013), Alan Greenspan has written: "Our highest priority going forward is to fix our broken political system. Short of that, there is no viable long term solution to our badly warped economy". In other words, the solution is in a shared system of values; it is not to be found in free market economics.

Second, the economic machinery continues to operate in a scandalously unfair way. In its Report, released in January 2015, Oxfam has informed us that the wealth of the 1% of the world population has almost reached that of the remaining 99%. The growing inequality jeopardizes both the efficiency and the stability of our societies. Inequality has become endogenous to the system and this generates not only economic costs (e.g. speculative bubbles, decreasing rate of investment; consumption distortions), but also social and human costs. It is a fact that an inequality rate exceeding a certain threshold reduces health and increases the mortality rate of people. In his "State of the Union Address" of January 20th, 2015, president Obama said: "Will we accept an economy where only a few of us do spectacularly well? Or will we commit ourselves to an economy that generates rising incomes and choices for everyone who makes the effort?"

Third, the scaffolding of the present market system tends to erode some of the values that sustain our civilization. Indeed, the process of creative destruction in Schumpeter's sense applies not only to firms and to inputs of production, but also to the very values that gave rise to market capitalism in the first place. In particular, the present market system tends to empower the strong over the weak and to make people believe that greed is the appropriate way of incentivizing economic agents and achieve the best results. However, this is a mere ideological approach to management.

Fourth, and as a consequence of the above, global capitalism as a model of social order, has increasingly taken the characteristics of a religion, since it posits an overarching goal for human life and seeks to purse it on the basis of a specific concept of human being. Today, the masking of the ideological nature of global capitalism takes place in two ways. On the one hand, decisions with moral content are presented in technological terms (e.g.: human rights have to be limited for the sake of labour flexibility). On the other hand, technical arguments are rendered as genuine moral alternatives (e.g.; the market versus State alternative is presented as if it were an ideological question). Isn't urgent to try to de-mask the ideological nature of the global economic order?

Finally, market capitalism is change incarnate. Yet, for all its fixation with change, the present system has lacked any theory to explain how a traditional society could become capitalist. This is the great paradox of capitalism's intellectual life. We know how change might take place within a market economy and the ensuing consequences. But economic sciences can give few accounts of how the economy might undergo non-linear changes.

These and many other facts are strictly connected to the emergence of a global economic order that has come to represent the most characteristic feature of our age. Globalization entails many dimensions, but it is a fact that the creation of a global financial market constitutes the most relevant one. The increasing importance of the financial structure with respect to the real side of the economy is posing a novel paradox. At a time when we would need more regulation, just because financial markets are intrinsically unstable, we have less, since international financial institutions are weaker, in relative terms, than the domestic ones, or even non-existent. As we are reminded by Charles Kindleberger: "…If there is no authority to halt the disintermediation that comes with panics, with forced sales of commodities, securities, and other assets, … the fallacy of composition takes command. Each participant in the market, in trying to save himself, helps ruin all" (1996:146).

An important implication of the paradox noted above is revealed by the recent financial crisis which has shown a peculiar nature, reflecting one novel feature of international capital transactions. Although capital and goods markets are increasingly integrated, policy making has largely remained a national matter. Most authors claim the relevance of institutions in the new global financial environment. The necessity to introduce a new global financial architecture can be seen as a first step in the direction of re-regulating the international monetary system.

Indeed, the conditions under which institutions such as the World Bank and the IMF were founded are no longer with us. There are structural flaws in the present-day system, which was conceived – in 1944 at Bretton Woods – for the western world (and not for developing countries) to assist in adjustment of current account imbalances. Yet, there are too many different ideas on what institutions should be in place, what they should do and how. The frequency and magnitude of major disturbances such as the international financial crises reflect the tremendous asymmetry existing between an increasingly sophisticated, yet unstable, international financial system, and the institutions that regulate it. The world lacks the types of institutions that financial globalization requires. The case for the provision of emergency lending by the international financial community, eventually by the International Monetary Fund (IMF), can be strongly made on theoretical grounds. More generally, a world in which large nations gear their macroeconomic policies to internal goals (and can afford to do so) and markets are integrated generates *externalities* for third countries, especially smaller developing economies. It is crucial that international economic organizations, international financial institutions in particular, play a leading role in internalizing the positive externalities and in mitigating the negative ones.

The liberalization of trade is in itself beneficial to poor countries. In restating this fact the international economic organizations are right. But what is never brought out is the relevance of the speed and the level of the liberalization of imports. The empirical evidence suggests that a rapid liberalization always correlates with increasing inequality. We need, therefore, to implement the PRSPs (*Poverty Reduction Strategy Papers*) by placing international trade at the service of the fight against poverty, as was written at the outset, but which, in fact, the IMF and the World Bank have done to the full. We need urgently to create a kind of international agency that is able to address the problems of prices that are too low and above all the instability to which they are subject. This is an idea that J.M. Keynes was already advocating in 1944 at Bretton Woods. Millions of poor people are experiencing the harmful consequences of the contemporary rapid decrease in prices. The case of coffee may be taken as an example: from 1997 to today the price of coffee has fallen by 70%, and this costed exporting countries about eighty billion US dollars. The general problem is the structural excess of supply – an excess that the spontaneous forces of the market are not able to correct without provoking further increases in poverty.

For a long period, the “Washington consensus” held the view that free trade and full capital account liberalization are conducive to higher economic growth and welfare. A world in which goods and capital can flow freely was considered as the guiding “north star” and any incremental liberalization towards this ideal was considered as a step in the right direction. Recently, the IMF took on a more nuanced view (Cf. “Report of the Committee on International Economic Policy and

Reform", 2012). This more balanced view acknowledges that in a second best world, liberalizing only some markets might be harmful. Especially, the build-up of persistent capital flow imbalances in form of short term debt, the so-called "hot money", increases the risk of financial instability. To avoid sudden reversals it is necessary to "manage" capital flows. Capital controls should be part of the macroprudential tool kit, if one really wants to cope with the pecuniary externalities due to market incompleteness. It should not be forgotten that pecuniary externalities are particularly detrimental to poorer countries.

So what is to be done? In what follows I will first consider the relationship between globalization and poverty. (Section 2). Then I will discuss the nature of present day poverty and I will speak in favour of the entitlement approach to cope with the scandal of poverty (section 3). Section 4 tackles the issue of the role that business can and ought to take to face the challenges thrown down by XXI century scenario. Lastly, I will briefly focus on some practical suggestions stemming from Catholic Social Thought (section 5). (It may be of interest to recall that for centuries the Catholic Church used the expression *doctrina civilis* to refer to the teaching on economic and social matters. It was only after the pontificate of pope Leo XIII that *doctrina civilis* became to be known as *doctrina socialis*).

2. Poverty in the age of globalization

Globalization is a novel complex phenomenon bringing with it an array of significant facts characterising our time. Let me stress a couple of them. First, the tendency to destructure productive activities pertaining not only to the manufacturing sector but also to the service sector. Delocalization is the new key word in this regard. What is the object of delocalization, to-day, is not simply firms (the so-called "nomadic companies") or entire sectors of production, but also individual jobs. It has been estimated that almost 20 per cent of jobs of western economies could be delocalized already, by now. Second, a substantial increase in aggregate wealth which goes hand-in-hand with an increase in global inequality and a decrease in absolute poverty. The increase in economic interdependence, due to globalization, means that even large sections of a population can be negatively affected by events that take place in distant places.

Let's consider, very briefly, the main consequences of the above stylisized facts. Today capital appears to have acquired a new freedom: no longer does it have to account to the people in the countries where its profits are made. It is as if economic power had acquired an extra-territorial status. It follows that big companies are able to react to profit opportunities quite independently of their national authorities and in so doing they play a key role not only in the organization of the economy – which is obvious – but also in that of society – which is less obvious. Thus globalization is modifying the foundations of both the economy and polity, reducing the degrees of freedom of nation-states and giving rise to a new form of "sub-politicization": the familiar nation-state's political-economic instruments are tied to a well-defined territory, whereas companies can produce goods in one country, pay taxes in another and claim assistance and state contributions in yet a third one. This process has serious implications on both global financial stability and efficiency of capital markets. Although there seems to be a certain consensus on the fact that financial globalization would play, all in all, a positive role, many questions are still waiting for a credible answer. The most relevant of these concerns the way a country should organize itself in order to be able to ripe the benefits of financial globalization.

A second major consequence of the globalization process is its impact upon inequality and poverty. It is certainly true that globalization is a positive sum game that increases aggregate wealth. But it is also true that it exacerbates the contrast between winners and losers. This fact is linked to the emergence of a new form of competition, anknown until recently: positional competition, according to which the "winner takes all and the loser loses everything" – the so-called "superstar effect" in the sense of Sherwin Rose. Why is it that the literature on this subject is so hotly divided? A credible answer comes from the work by B. Milanovic (*Worlds apart: measuring global and international inequality,* Princeton, Princeton University Press, 2006) who distinguishes between *world* (or global) and *international* inequality. The latter considers the differences in the average incomes of various countries, unweighted ("Concept 1 inequality" in Milanovic's sense) and duly weighted to account for the size of the population ("Concept 2 inequality"). The former, on the contrary, takes into account also the inequalities in income distribution within the individual countries ("Concept 3 inequality"). It is world (or global) inequality which is increasing as a consequences of globalization.

In fact, in order for "Concept 3 inequality" to diminish, two conditions should be met: i) poor and densely populated countries must grow at a faster rate than rich countries; ii) this must occur without an increase in inequality within the country. Now, while the first condition is more or less satisfied, the second condition is virtually absent. In fact, over the last quarter of a century, the growth rate of the poorest countries has been higher than that of the richest countries (4 per cent versus 1,7 per cent). The question arises: why should one worry about the growth of global inequality? Since it is a principal cause of conflict and ultimately of civil war. As wisely indicated by Polachek and Seiglie ("Trade, peace and democracy: an analysis of a dyadic dispute", IZA, DP, June, 2006), conflict can be defined as "trade gone awry": if a country's gains from trade are not as high as it thinks it should receive, this becomes a major determinant of conflict, which might in the end jeopardize peace itself. That is why the search for a socially responsible trade integration regime, capable of taking into consideration also the “pains from trade” (Verdier, “Socially responsible trade integration”, NBER, October, 2005), is a duty that economists cannot escape or forget about.

A related, but different, aspect is the one concerning the relationship between globalization and poverty. In the last couple of decades, poor countries have increased their participation in world trade, so much so that to-day they can be said to be more globalized than rich countries. Yet, there is very little evidence on that relationship and even the scanty evidence available only deals with the indirect link between globalization and poverty. A notable exception is the recent work by Harrison (2006) who provides a novel perspective on how globalization affects directly poverty in developing countries. Three general propositions deserve special attention: a) contrary to the Heckscher-Ohlin theory of international trade, the poor in countries with a lot of unskilled labor do not typically gain from trade expansion; b) globalization generates both winners and losers among the poor and this creates social instability in so for as it destroys social capital: c) the poor segments of population obtain the largest benefits from globalization when national governments endeavour to implement welfare policies aimed at improving the *capabilities* of life of their citizens, rather than their *conditions* of life.

The relationship between nutritional status and work capacity deserves special attention. This relationship influences both the way in which food is allocated within the members of a family and the way the labour market functions. Poor people possess only their *potential* labour power. But to transform this potential into effective labour power, a person needs, amongst other things, adequate nutrion. A poor person without help of any kind – such as social security networks – is generally not able to achieve this condition in a free market economy. The reason for this is simple: the quality of work that the poor person is able to offer is insufficient to ‘command’ the food that s/he needs to live in a decent way. As modern nutritional science has demonstrated, 60% to 75% of the energy that a person obtains from food is used to ensure the maintenance of the body; the remaining 25%-40% can be used for work and other activities. This is why – as Partha Dasgupta has convincingly shown – in poor societies ‘poverty traps’ can be created which can even last long periods of time.

An economy can continue to have poverty traps even when it grows at the aggregate level. Indeed, it can happen that a growth in average incomes will encourage peasants to transfer the use of their land from (for example) the production of cereals to the production of meat by increasing their livestock farming. The consequence of this is an increase in cereal prices and thus a worsening of the nutritional levels of poor people, who anyway do not have access to the consumption of meat.

The point is that an increase in the number of individuals with average-low incomes tends to increase the malnutrition of poor people because of a change in the composition of demand.

Poverty based upon the connection between nutritional status and productivity can be *dynastic*: once a family falls into the poverty trap it is rather difficult for its descendants to escape this trap, even though the economy may grow. This is why the mechanisms and the strengths of the free market are a *necessary* condition but not a *sufficient* condition to solve the problem of hunger and malnutrition. The neo-liberal theses are based on an economic paradigm – the Walrasian one – which *assumes* from the start that all economic agents have already solved the problem of basic physiological maintenance.

3. Beyond poverty measures to entitlements

Although some notion of poverty must have been current for a long time, for example who were worthy of receiving alms or other forms of charity, the notion of *poverty as a social problem* society should do something about is quite modern. There are two views of poverty. One, the *absolute poverty* view. The other notion of poverty is *a relative one.* Here poverty is defined relative to a community norm-relative that is to what the non poor do. When a family has insufficient resources to follow the sort of consumption practices which are customary in the community in which it lives, when it cannot participate in the cycle of reciprocal give and take of daily life then we declare that family to be poor. Poverty thus cuts a family off from the normal social discourse.

In evaluating what such resources are, it is necessary to consult the poor as well as the non poor about their consumption habits and expectations. It is not a necessary part of the relative poverty notion that we arrive at a single number by way of a poverty line. There are *two major flaws* with the notions of poverty discussed thus far in the literature. *First,* that we do not have a sound theory for including or excluding any item; what should or should not be in a poverty measure remains contentious. This problem is addressed by Amartya Sen's notion of capabilities. But a *second* and much less well discussed problem is that by measuring poverty as an income shortfall, it is easy to think that the cure of poverty is to undo the shortfall. There is in other words a confusion between a measure of poverty and a causal theory of why the poor are poor and how therefore poverty can relieved. Income shortfall is a measure of poverty; it does not constitute a theory of poverty or a recipe for its cure. A central task of the new reformism is to take this distinction on board.

In proposing the concept of capability, Sen intended to synthesise the absolute/relative divide. Capabilities are the things we wish to ensure everyone universally; they may however translate in different commodity bundles and different money sums in different societies. Once people have enough resources to guarantee their capabilities, what they actually do – their functionings – constitute their standard of living, but functionings are of no normative significance. What is important here is to emphasise two major differences from the poverty calculation. *First* is the notion of interdependence. The resources necessary to guarantee my capabilities are a joint function of those necessary to guarantee other peoples' capabilities. Boot's education example is relevant here; crime is a better example. If poverty drives you to crime, guaranteeing my capability for mobility, good health or even in extremis my longevity would cost much more. Thus besides private expenditure a set of public goods has to be available for all of us. Secondly, the provision of current consumption expenditure is perhaps necessary but it certainly is not sufficient for guaranteeing capabilities. Public expenditure as well as some minimal bound on inequality would be needed before one could be happy with the outcome.

No matter how cleverly computed, poverty measures, especially in rich countries, have the problem that they pertain to a minority and by definition they are granted on sufferance by the majority. There is an inevitable paternalism in any poverty programme; and what the pater can give he can withdraw. The important transition is to argue for minimum income guarantee as a political right. It is here that the new reformism has to stake its claim. Capitalism has emerged triumphant in the last few decades and at least one dominant variant of socialism has lost credibility. We are however concerned with polities which combine capitalism with mass democracy. The market is built on the principle of formal, juridical equality and substantive inequality in asset distribution. If citizenship were a contractual relationship, then certain entitlements would be conditional upon satisfying certain other prerequisites - property ownership, tax payments etc. But a most important historical struggle was to establish the unconditional right to vote, irrespective of education, property ownership, gender etc. This right has only been won fairly recently; only in the post 1945 period has it been granted even in the rich democracies. Thus citizenship defined by the franchise is built on principles which are contradictory to those of the market. The contradiction has been contained so far by the separation between the economic and the political spheres whereby citizenship does not translate as of right into income entitlements.

The key to the needed new reformism then is to exploit this contradiction. It will not be an easy nor a quick task; it would take a sustained political struggle. But the principle is to establish a universal income entitlement as unconditional as the right to vote. Any such entitlement as unconditional should be universal-available to the rich as to the poor, to men and women, to all who have the right to vote. (The recently issued report Encouraging Citizenship by the Commission on Citizenship in the UK almost comes to this view). It is by establishing the economic right on the same basis as the political right that we will remove the stigma from poverty income. But there are other strong arguments for it which I wish to rehearse.

Much of daily life takes place outside the sphere of commodity circulation and of the exchange calculus. Voluntary, unpaid labor sustains almost all our political life, much of the task of caring and all household life. There is a phenomenon known as work to rule, i.e. only to do that which you are required to do by your job description. It is well known that when people work to rule everyting comes to a halt; this is because even paid work presumes certain voluntary "outside the work" work. All political activity in modern societies is sustained by such voluntary time and only those who are assured a good living can afford to devote such time. Child care, care of the elderly, almost all house work depends on time for which the return is uncertain, contingent, noncontractual and dependent on goodwill. It is recognition of this time – disproportionately given up by women, hence the gender differentiation that I started with – which requires a citizenship wage.

In absence of this sort of arrangement, especially with the shrinkage of paid work that will result in the long run from the technological change, we shall find a minority of highly skilled professional, paid or fast obsolescent jobs who will be sustained by a body of high earning reluctant taxpayers, who will have the resources but non time to spend on political life. They may hire political agents but these will need popular support as long as a democratic presumption is maintained. Such is the recipe of trouble. An income guarantee, expensive though it is, at the present is the one path for the new reformism. It is not an easy path, as it requires the construction of a new coalition of interests. It is no more impossible than was the construction of the old welfare state, which was also denounced as absurdly expensive.

The literature on poverty has been for a long time discussed among economists with no reference to the political dimensions. Perhaps political scientists also discuss the welfare state without a careful scrutiny of the economic argument. Time and circumstances dictate that we get our acts together and construct the theoretical basis of the new reformism.

4. The true entrepreneur is social

Whoever observes the relationship between the economy and society today will notice that civil societies no longer only expect enterprises to produce wealth, make quality products at low cost, pay their taxes and respect the law, but rather it is expected that they will also take in tasks that until recently were considers the responsibility of the state, the Church or of the family. At the same time, the expectations of civil society organizations have also changed; they are now expected to operate efficiently in ways that public opinion in the past did not expected of them.

This process of bringing social relationships more visibly together with efficiency whether on the side of capitalistic enterprise or social enterprise, begins in the early 1950s, but is only recently, due in large part to the insistence on the principle of subsidiarity that it has gone beyond a critical mass, now influencing in a profound way the general public and political institutions in general. This phenomenon is now highly diversified and complex, more so that one might think. On the one side, enterprises that were founded within a liberal capitalistic system have begun to take social factors into account, under pressure from consumer groups; one the other, various associations with a clear social goal begin to experience the need to become enterprises, that is, to deal with the typical dynamics of the market. This phenomenon captures within itself two distinct and different traditions: the capitalistic business that moves beyond its previous limits into the social dimension, and the world of social value that takes on an enterprising face.

I am convinced that being social entrepreneur is the rule not the exception of entrepreneurship. In fact, when the market functions correctly, it is a place in which innovation and human creativity are favoured and awarded. Market competition can be, and if we want to understand it in its truest nature, should be seen as a race to innovation. Those who innovate grow and live, while those who do not innovate remain behind and leave the economic and civil game.

The author who has most caught this virtuous dynamic of the market (the capacity to innovate is undoubtedly a virtue, because it is an expression of *arête*, of excellence) is J.A. Schumpeter. In 1911, he published *The Theory of Economic Development*. In that book, Schumpeter masterfully describes the dynamics of the market as a “run” between innovators and imitators. To explain the nature and role of innovation, Schumpeter draws upon a model where the starting point is the “stationary state”, the situation in which businesses only carry out routine activities and the economic system perfectly replicates itself over time, without profits and loses, without creation of added values and true wealth. Economic development then starts when the entrepreneur breaks from the stationary state by introducing innovation, which can be a technical invention, a new organizational formula, the creation of new products or new markets, which on average reduce costs and makes it possible for the business to create new wealth.

The entrepreneur-innovator is the protagonist of economic development, as he/she creates real added value and makes the social system dynamic. The innovator is then followed by a “swarm” of imitators attracted by that created added value, just as bees are attracted by nectar. When they enter into those sectors that verify the innovation, they cause the market price of that given product to decrease, to the point that all the profit generated by the innovation is entirely absorbed. The economy and society return to the stationary state until a new innovation restarts the cycle of economic development. Therefore, for Schumpeter, profit has a transitory nature, as it subsists as long as there is innovation, in that time lapse between the initial innovation and the imitation.

This classic text of economics reminds us that the truest nature of the entrepreneur and the entrepreneurial function is the capacity to innovate. The entrepreneur is not a profit-seeker: profit is only a signal that innovation is present. When the entrepreneur (including the social entrepreneur) complains because he/she is imitated, his/her vocation is already in crisis. He/she must be reminded that imitation also plays an important role, as it makes sure that derivative advantages that come from an innovation do not remain in the innovating business alone but are spread to the entire society (for example, through the reduction of market prices, which increases collective well-being). The entrepreneur is not a "rational" agent as understood in mainstream economics. Such conceptualization is present in many other economists belonging to the civil economy tradition: what is typical of entrepreneurship is not profit seeking per se but innovation, and in doing this she or he promotes also the common good, is a social entrepreneur. When an entrepreneur stops innovating, he/she dies as an entrepreneur (perhaps transforming himself/herself into a spectator or a rent-seeker), and so blocks the run or the innovation-imitation relay race, which is the true virtuous dynamics that pushes society ahead, not only the economy.

One of the deepest reasons for the current crisis was the progressive transformation of many entrepreneurs into mere speculators, which took place in the past decades following the financial boom. The entrepreneur-innovator, compared to the speculator, thanks to his vocation, sees the world as a dynamic place that can be changed. He/she doesn't simply think of increasing his/her own piece of a given "pie". He/she creates new "pies", welcomes new opportunities, looks ahead and not beside him/her in search of rivals to battle with so that he/she can hoard the pie.

In view of the above one could reasonably raise the question: are we sure that the idea of the socially-responsible business represents something new? Or when we use this term today, are we just saying something obvious and certainly not new? Some authors think that the enterprise as an institution has always been socially responsible, having been conceived and developed within a social system and with laws, persons and procedures to be respected. Indeed, if we look at the history of capitalism already in the 1800s perhaps we could take the side of the critics. Many entrepreneurs and traders took care of non-economic or social aspects of their enterprises, such as the big corporations that arose at the turn of the 20th century that were concerned about the housing of their workers, the schools their children attended and their summer camps, and that constructed churches, libraries, sports grounds and so on. Think of W. Ratenau, the founder of AEG, or of Adriano Olivetti, or of Henry Ford who in an interview in 1919 declared: “an enterprise that aims to make nothing more than money is a truly modest enterprise”. Again Andrew Carnegie in *The Gospel of Wealth* (1889) wrote that: “The rich person is the custodian of a fortune and that must be at the disposal of the common good and his career must be divided into two parts: acquisition and distribution”. And so on.

At the same time, however, there is an important difference between these former manifestations of social responsibility and current practice. These earlier forms were largely “top-down”; it was the owner of the business who, *if* and *when* he saw fit, would donate services to his workers, somewhat paternalistically, that went beyond their salaries. It was therefore his personal morality that motivated him to think about social issues (or perhaps sometimes his fear of a socialist revolution). Today, instead, this process is essentially “bottom-up”: the social responsibility movement has not developed primarily from the initiative of shareholders or managers, but as a response to pressure on enterprises from civil society organizations and entities. Similarly, whereas in the past situation of a more “paternalist” capitalism, the process was largely internal to the business (between owners and workers, sometimes with the mediation of unions) in the context of a single external reference point in the state and its legislation, today the processes of CSR are largely driven by citizens outside the business (who make use of “voice” in Hirschman’s sense), well before and independently of the employees and workers of a business.

To grasp, therefore, what is new in the CSR movement requires us to dig deeper into the radical changes that are taking place in our ways of thinking about the relationship between economics and civil or social life. To say things briefly, we could say that for a business to be socially-responsible means that it knows how to recognise that there are passions, ideals and human relationships that are not saleable goods and that should not be reduced to commodities. A business can involve itself in sponsorship or philanthropic activities and still not be socially responsible. The fact is that, while the logic of philanthropy is one of concession or compassion, CSR rests on the principle of equal dignity of all the subjects involved in a business activity – from setting the goals to the fulfilment of the entrepreneurial plan.

The socially-responsible business knows the right place at which to draw the line in the process of transforming relationships, human passions and relational goods into instruments. It is the business that knows, and continues learning, that without “gratuitousness” the business itself will implode, because the good that gratuitousness brings (passions, ideals, values . . .) is the place where the market, wealth and profit are regenerated. Gratuitousness is the “stem cell” of all that is truly human, in all the spheres of life. Obviously, the “civil” sustainability of economic development and of the business is not only the responsibility of the world of business. They have their own specific responsibility, but there is also the responsibility of institutions, of each citizen and of the media.

An economy that loses contact with gratuitousness does not have a future *as an economy*, for it will not attract those with high "vocations"; if the enterprise becomes only a business (in the sense of a "machine to make money"), and excludes the passions and moral sentiments, it will only attract persons with a low capacity for human relations, meaning poor managers and workers. Money and profit are weak incentives if we want to move people at the level of their most noble and most powerful energies. Furthermore, when we act because we are motivated only by monetary incentives, freedom is of little value, if it is true that only where there is gratuitousness is there true freedom. This is why good businesses, those that give value to ideals, passions and to gratuitousness, are important: they increase personal and collective freedom. Virtue cannot be produced or bought, but from virtue all wealth is created: "Virtue does not come from riches; it is from virtue that all riches, and every other good for the citizens and for the city, come forth" (Plato, *Apologia for Socrates*).

Mission-driven organisations develop from a vocation that is born out of the intrinsic motivations of their promoters/founders. And when we speak of mission, intrinsic motivation, vocation, we are also speaking of *gratuitousness*, if it is true that we enter into the territory of gratuitousness every time that we deal with behaviour that is practised just because it is good, because it has value in itself, before and independently of (at least in the short term) of material results that those who act in this way bring with them.

The ideal that moves these organisations can take various forms: in can be in the type of activity that is carried out, or in the reasons why the organisation exists (if, for example, it comes into existence in order to provide work for the most disadvantaged), or in the way of carrying on the activity, as regards its form of governance or its organisational structure. These aspects must be present together in a values-based organisation, even if to different degrees, since it is difficult to imagine, for example, that motivation towards an intrinsic good would not be linked to a form of governance that is appropriate to this, since the "new wine" of this mission usually needs the "new wineskins" to hold it, and to help it mature with time.

So these organizations exhibit two main characteristics. First, the activity carried out is an essential part of its identity, since that activity is generated by its "vocation" as this represents its values, its identity and the mission of the organisation. In other words, in a mission-driven organisation, the activity carried out cannot be separated from the results achieved, neither in theory nor in practice. The activity carried out is therefore a constitutive part of the objective which the organization aims to achieve. Second, the identity of the organisation is an essential element, even if it is a dynamic reality in continual evolution with its environment and through history. It is not a formal or abstract factor, but is profoundly linked to the people who share in it, at least the few at its core, and who, in a certain sense, incorporate (embody, make real and alive) the vocation and the values of a particular mission-driven organisation.

In a beautifully written book, Greg Mulgan (*The locust and the bee*, Princeton Univ. Press, 2013) has properly stresses the dual character of capitalism – a point already remarked by A. Smith – ; i.e. this system certainly rewards creators, innovators and providers; but also rewards takers and predators, those who extract value from others without contributing much in return. The critics of capitalism – Mulgan writes – are blind to its innovation potential; its acritical admirers resist the idea that the system might sometimes rewards pure speculation or that the creation of value for some might destroy it for others. What has to be done to empower the productives and restrain the predators is one of the major challenges Catholic Social Thought has to take to-day.

The issue of entrepreneurship is not to be mixed up with that of management. Today, the management culture of the organizations is becoming a true global ideology, developed and taught at major universities and widely implemented by multinationals and consulting firms. It is an ideology that is entering in many areas of social life, since it appears as a value-free technique that has been able to recycle many of the symbolic codes that Western civilization has associated with good life for centuries. The result is under our eyes: we observe a growing relational and emotional fragility of the employees and managers, especially in large companies. The burn-out syndrome is spreading rapidly all over the world and this is one of the major causes of the decline of the happiness index.

At the root of this new working malaise there is a paradox. A golden rule of the managerial culture is the prohibition to mix languages and emotions of private life with those of business life. Words such as gift, gratitude, friendship, forgiveness that we all recognize to be fundamental in family, social relationships must be kept rigorously outside the working place, since they are deemed as improper, inefficient, and dangerous. If we go beyond the rethoric of the teams and team work and take a look inside the real dynamics of the new enterprises, we will discover that in these organizations there is more hierarchy than in traditional ones, even if they have a participatory look. However, while today management cultivates the culture of separation, it is a fact that when the managers have to select and motivate executives they typically use words taken from the context of the family, ethics, spirituality: esteem, merit, respect, passion, loyalty, faithfulness, community. Words and codes that activate the same dynamics inside the person that s/he has learned and practiced in private life. The dangerous bluff of the modern organizations of capitalism is hidden in their use of the symbolic and motivational registers as they were used in the past by religion but – and here is the point – distorting and resizing them radically.

5. What Catholic Social Thought can contribute for a more inclusive economy

It is an acknowledged fact that in our time the market and the culture of contract on which the market is based have grown progressively more important in our life. There are those who believe that nowadays the global market will recreate social obligation and rebuild human relationships, and they want everything in our social, political and cultural life to be directed to the efficiency of mechanisms and the effectiveness of procedures. The "good news" of competition and globalization seems to have become, in recent years, the true ideology of the post-Fordist society, a sort of "single thought". Christians, instead, believe that a new human dimension to all this integration of the economies through the market is needed and that a model of development is a good one *not only* for the efficiency of the results it achieves, but also for its ability to take into account the *whole* human being – in all its three dimensions: the material one; the socio-relational one and the spiritual one – and *all* the human beings, bearing in mind the right of each individual to realize his/her potential and aspirations. While CST underlines this aspect it does not at all, as some would wish, reject the market, the social role of private enterprises, profit, finance and so on.

Rather, CST holds that everyone can help make the rules and build the institutions, to select the aims and decide the priorities by which the economy is governed. And if in the teachings of the Church there is critical reference to the dominant model of development, this is not because its enormous potential and the benefits it has brought to humankind are not acknowledged, but because such potential is too often exploited to create inequalities rather than to enhance solidarity; to increase what is superfluous rather than to redistribute necessities; to impose the dominance of one particular model of development rather than to acknowledge the resources of the many diverse models.

A doubt which might arise from a hasty reading of *Caritas in Veritate* is the following: is it not perhaps true that the criterion to be used to choose the institutional set-up of society needs to be efficiency? And isn't it therefore true that when in a given moment in history certain rules are followed instead of others, it is because these rules have proven to be more efficient than the alternatives? This is a subtle matter and it cannot be dealt with here adequately. But I would like to mention two main reasons – not the only ones – why the answer to both questions is no. First of all, the concept of efficiency, as it is used in economics, is not a primitive concept, since it comes from Bentham's utilitarian principle, which is by no means an economic principle – it is a philosophical one - nor the only possible standard for gauging efficiency. Therefore efficiency cannot be said to be a neutral, and consequently objective, assessment criterion – a criterion to be used to make the market work at its best. Let us recall that the market economy existed long before the utilitarian philosophy entered economics after J. Bentham's famous book published in 1789.

Secondly, in calculating efficiency the social externalities (positive or negative, as the case may be) of economic activity are never taken into account. Let's consider the situations, anything but rare, where efficiency is opposed to fairness or freedom, in its positive sense. If in order to achieve a more efficient allocation of resources positive freedom must be sacrificed, what then guarantees the sustainability of the market institution over time? True, in the short-term economists can abstract from this concern, but this would show them to be suffering from short-termism, since the market cannot exist without freedom. On the other hand, economic development is the result of factors which do not belong to the solely economic sphere. Emile Durkheim warned that the values of society are not mere means at the disposal of economic calculation, given that society can always "oblige" or compel its members to act so as to neutralize the injunctions originated by that calculation.

The message sent by popes Benedict XVI and Francis to economists is that the renowned thesis that the market, as the place where agents are free to choose, is self-legitimizing and therefore not subject to moral constraints has to be critically reconsidered. The point is, in brief, the following. The market is the place where the coordination of economic decisions is carried out through voluntary cooperation. And this is fundamentally because "both parties in an economic transaction benefit from it, provided that the transaction is bilaterally voluntary and informed" (M. Friedman, *Capitalism and Freedom*, Chicago, Chicago University Press, 1962, p.13). As a consequence, when two (or more) parties, with no trick or coercion, and therefore free to make their own choices, originate an economic transaction, they also agree to any consequences. This is the ethical justification, in economics, of consequentialism. The concept of consent based on freedom of choice is well explained by R. Posner when he writes: "I personally believe that he who buys a lottery ticket and loses, agrees to the loss if there was no fraud or coercion" (*The Economics of Justice*, Cambridge (Mass.) Harvard University Press, 1981, p.94).

Therefore, apart from these last cases, choosing freely means giving one's consent and agreeing means to legitimize. As is pointed out by F. Peter ("Choice, consent and the legitimacy of market transactions", *Economics and Philosophy,* 20, 2004), the market does not need to ask for certificate of ethical legitimacy, because it is capable of legitimizing itself on its own. This is not the case of the State which, on the contrary, in order to be able to use coercion – which is the main tool for attaining its goals – needs the approval of the electorate, for only from them can the State be legitimized. What is the mistake in this reasoning? Basically, that it is almost never true that freedom of choice postulates consent. It would be so if the subject of the choice took part in the creation of the choice menu – which is never the case in real life. The parent voluntarily offering, under no obligation of any kind, to sell one of his organs to alleviate the poverty of his family, certainly does not agree to the consequences of his act. Free choice of an option has the power to legitimize only if the set of alternatives is somehow part of the subject's choice problem. If this set is *given*, this prerequisite is by no means fulfilled.

Everybody knows that the key role of the category of consent is typical of the tradition of social contract theory starting with Hobbes. The idea is that if I signed a contract with you to do something I now no longer want to do, your answer could be "but you agreed to do it at the time, now you have to abide to the terms of the contract". That is, consent generates obligation. Among those who embrace the social contract theory, no one better than J. Rawls was able to show that in order for consent to produce obligation the constraints under which the parties to the contract take their decisions must be shared by everyone. Only if it can be proved that the parties to the social contract agreed (or intended to agree) to the rules of the game they are in, can it be legitimately claimed that the agreement reached through consent implies obligation.

Of course, it is evident that in our market economies this condition is never fulfilled, in practice. Indeed, freedom of choice describes the absence of coercion by others. It has to do with the *possibility* of choice, that is to say with the existence of a domain or space within which the subject can exercise his/her sovereignty. But this still says nothing about the *ability* to choose, in other words the real exercise of the choice. Having a large number of possible choices is not enough if you don't know how to choose or if you don't have the resources to translate the means into the capability of promoting your own goals. This is the great lesson taught by Benedict XVI and Francis when they remind us that the use of freedom is somehow essential to its definition. Someone who is free to put into practice his/her action plan, but who does not possess the capacity to do it, cannot really be said to agree to the consequences of his/her actions. Therefore, if the market is not capable of finding within itself the reasons upon which to construct its justification, the reference to ethics becomes fundamental.

In may 2007, humanity witnessed a truly turning point in world history. For the first time ever, just over half of the global population was confirmed as living in urban environments. No less than 95% of the current urban growth is accounted for in developing countries, all of which are having to absorb five million people each and every month in cities, compared to a growth rate of half a million in developed countries. Unlike in the first ware of urbanization, to-day's process has been radically decoupled from industrialization, sometimes even from development *per se*. The present urbanization process is driven by nothing else than poverty. It is no longer true that “all reeds lead to the towns” (F. Braudel); they lead to the slums.

Human development has in large part been a story of mobility. People move to seek a better job or a better life and when they succeed they move up the socioeconomic ladder, whether as assessed by income or by capabilities. People’s aspirations fuel these efforts; yet aspirations can be quashed by poverty, or social exclusion. Upward mobility is a dynamic counterpart of equality, offering the possibility that those born in poverty might escape it. Support for basic capabilities, especially in the areas of health and education, is essential to enabling such upward mobility. That is why the Catholic Church insists so much, in its many documents, on the attention to be given to those forced to flee epidemics, economic crises, natural disasters, human conflicts, human trafficking. Importantly, the Church insists on the point that people aspire to agency as well as to well-being. People seek democracy and liberty. Aspirations deserve study because they represent a deeper layer of human psychology than is ordinarily capture by preference-based models.

Another important novelty is attracting, to-day, the attention of CST. Recent empirical evidence shows that today market interaction causally affect the willingness to accept severe, negative consequences for a third party. This indicates that people do not care about pecuniary externalities. It is well known that market price does not include the full cost of the ensuing consequences of an economic choice: it is known that the price system guarantees allocative efficiency (under very stringent conditions). However, there is a mirror image to the allocative function of market price: it also distributes incomes and wealth across the economy. Yet, it is a fact that mainstream economics considers only technical externalities and gives no attention to pecuniary externalities, those having to do with the distributive dimension of price changes. As pope Francis stressed in his *Evangelii gaudium* (2013), it is not acceptable that the pursuit of efficiency – a legitimate goal in itself – comes at the detriment of social justice. (From 2007 to 2012, the top 1% has increased incomes by 31% and the bottom 40% has decreased incomes by 6%).

The notion of sin structures has been introduced into CST by Pope John Paul II. It proves to be particularly fruitful in the area of finance. The short term pressure linked to quarterly results is typically a sin structure; it is not the mere fruit of somebody’s greed, it is a collective constraint. The same is true when one considers benchmarking fund managers based on short term measurement of market data. Such a situation is worsened by the fact that in such an environment, the corresponding behavior is often described as good, as the fruit of a fiduciary duty. Also, the principle that a company is only there to maximize shareholders’ profits is another case of sin structure. And so on.

It is not yet clear what is going to be the direction that pope Francis will confer to the Catholic Social Teaching (CST) and in particular what will be his impulse towards the overcoming of the many contradictions of present day global capitalism. (His *Evangelii gaudium* is not an encyclical, but a pastoral document). We can only speculate about possible future developments. Pope Francis is well aware of the fact that we live in a secular environment seeking to banish Christianity from public discourse, to make it irrelevant. Therefore, I expect his reaction will be to challenge such an environment by showing that what is problematic with global capitalism as a model of social order is ultimately due to the fact that it has increasingly taken the characteristics of a (immanentistic) religion. Pope Francis is striving to de-mask the global economic order by showing that it is fundamentally religious in nature because it posits an overarching goal for human life and seeks to pursue it, based on a specific concept of human being, the *homo oeconomicus* concept.

To grasp the point it pays to consider how the idea of natural order was introduced into the field of economics in the mid of 18th Century. This is the idea according to which the system of economic exchanges achieves by its own force an equilibrium without government intervention. The equilibrium in which the economy finds itself has to be seen as a manifestation of the natural order of things. As a consequence, the best that could be done by the "positive order", or the laws and institutions of organized society, was not to interfere. In this way, so it seemed, De Gournay's maxim—*laissez faire, laissez passer les merchandises*—was scientifically proved. A century later, in conjunction with the obsolescence of the category of natural law due to the spread of positivist epistemology, the same idea of natural order was transformed into the notion of the inherent efficiency of the market. Since then, the efficiency argument has become a real myth of the economic discourse. An unsuspected voice on this is that of Ronald Dworkin in his *Justice for Hedgedogs* (Harvard University Press, 2011).

At what price have so many intellectuals (especially in America) come to believe that the economy is the realm of natural order and that efficiency is the measuring rod to evaluate different states of affairs? First, at the price of seeing the sphere of policing (government and administration) completely separated from the market sphere. The distributional consequences of the market processes get shielded from political, social and moral debates. "This means that the naturalness of the market depoliticizes the distributional outcomes" This is known, as the separation thesis for the first time clearly explicated by Richard Whateley in 1829 in terms of the principle of NOMA (*Non-Overlapping Magisteria*). However, such a thesis holds true in so far as social externalities of economic activity (technological or pecuniary as the case may be) do not exist. Which is never the case. To avoid misunderstandings, it is proper to clarify that Coase theorem does not represent a solution to the difficulty, since it applies only to the case of technological externalities, not to that of pecuniary externalities, which are by far the most relevant, nowadays.

Since the values of Christianity are radically different from those of present day capitalism, even though the two have much in common, the task pope Francis will in my view assign to Christians is to *shape* markets in such a way they may move in a different direction. In so doing, it will be possible to demonstrate the intellectual relevance of CST to the resolution of present day major problems and to argue that the marginalization of Christianity from public discourse on these matters is over.

6. By way of conclusion

The squalor that comes from many tragic events and cases of destitution leads us to consider carefully the notion of "social inclusion" and to identify it with the litmus test of the seriousness of our declarations. To include means sharing, participating. It entails moving from being a stranger and misfit to be an integrated and active subject, from a subject to a sovereign citizen. The term inclusion expresses the common thread that binds all the reflections of Pope Francis on social questions and also of at least three of the last Popes.

To this regard it might be of interest to recall the letter that appeared in *The Times* on Dec. 21, 1940 where four leaders of the Churches in Britain accepted the "Five peace points" set out by Pope Pious XII few days earlier, as standard by which economic situations and proposal may be tested. They are: " 1. Extreme inequality in wealth and possessions should be abolished; 2. every child, regardless of race or class, should have equal opportunities of education, suitable for the development of his/her peculiar capacities; 3. the family as a social unit must be safeguarded; 4. the sense of a Divine Vocation must be restored to a man's daily work; 5. the resources of the earth should be used as God's gift to the whole human race and used with due consideration for the needs of the present and future generations". William Beveridge in *The Pillars of Security* (London, 1943) concluded his favourable comment on "The five peace points" as follows: "Only as man come to see themselves as part of a larger whole, as children of one Father, can the selfishness and the strife which lead to self-destruction be banished from the world". Beveridge was not a believer; yet he had understood very well the exact content of the principle of fraternity.

I would like to conclude with a personal consideration that I draw from a recent piece of empirical research by J. Gaudal and A. Roccas, from Tel Aviv University. The authors conducted an experiment on personal value priorities of economists, who were asked to report the five values that in their opinion were most important to economists in general. The three value most often mentioned by the respondents were: “being ambitions, intelligent and successful”. All three values belong to the self-enhancement value types, i.e. values enhancing our own personal interests, even at the expense of others. Only 55% of the respondents included at least one of the self-transcendence values, i.e. values such as universalism, benevolence, promoting the welfare of others. Yet in nearly all studies on values, non-economist individuals attribute more importance to self-transcendence values than to self-enhancement values. The message is clear: as long as economists continue to give of themselves such an image, it comes to no surprise that people identify economics with the dismal science.

To conclude. Those with no hope in the future have only the present; and those who have only the present have no compelling reason to be interested both in innovative endeavours. But, fortunately, people who continue to entertain a hope in the future have not disappeared altogether.