CARITAS IN VERITATE'S INTERPRETATION OF THE NATURE OF THE FINANCIAL CRISIS

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1. Introduction

This essay defends the thesis that the Encyclical *Caritas in Veritate* (*CV*), published by Pope Benedict XVI on June 29, 2009, contains a specific interpretation of the financial crisis which began in summer 2007 in the USA and then spread contagiously throughout the rest of the world. At its core, the interpretation is that the crisis is entropic, i.e. systemic, in nature; not merely cyclical. It is the inevitable point of arrival of a process that for more than thirty years has changed at its very roots the way of doing finance, generating that phenomenon today known as financialization of society. At the bottom of the remote causes of the crisis, *CV* identifies a triple divorce: first, the separation between the economic and the social spheres of society; second, the decoupling between labor and the origin of wealth; third, the divorce between market and democracy. Taken together, these three separations point to a common and general consideration, that I will consider, albeit briefly.

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 seem to have become, in recent years, a sort of new ideology of the post- industrial society. 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 both the *whole* human being – in all its three dimensions: the material one; the socio-relational one; the spiritual one –

and *all* the human beings with no discrimination. While *CV* underlines this aspect already in its subtitle ("On integral human development in Charity and Truth") it does not at all, as some would wish, reject the market, the social role of private enterprises, profit, finance and so on.

Rather, the encyclical 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 prevailing 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. "*The world's wealth is growing in absolute terms, but inequalities are on the increase*. In rich countries, new sectors of society are succumbing to poverty … In poorer areas some groups enjoy a sort of "superdevelopment" of a wasteful and consumerist kind which forms an unacceptable contrast with the ongoing situations of dehumanizing deprivation" (*CV*, 22; italics in the original).

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 legal and economic institutional set-up of society has 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? For brevity, I would like to mention two main reasons 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, as it derives from Bentham's utilitarian principle, which is an ethical principle and not an economic one. Therefore efficiency cannot be said to be a value-neutral, and consequently objective, assessment criterion to evaluate alternative states of affairs. Rather, it is a "positionally objective" criterion in the sense of Amartya Sen (1992). In other words, efficiency acquires an objective meaning only after the researcher (or the manager) has openly declared the vision of the world – i.e. the position – sustaining his/her discourse or action.

Secondly, in calculating efficiency the social externalities (positive or negative, as the case may be) of economic activity are never taken into full account. Let's consider the situations, anything but rare, where efficiency is opposed to 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 perspective economists can abstract from this concern, but this would defeat the very purpose of their argumentation, since the market cannot function properly and for long without freedom. On the other hand, economic development is the result of factors which do not belong to the solely economic sphere. Already the famous French sociologist 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 Benedict XVI to the economic world 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” (Friedman 1962, p.13). As a consequence, when two (or more) parties, with no fraud or coercion, freely originate an economic transaction, they also agree to any consequences stemming from it. By the way, this is the ethical justification of consequentialism - the doctrine according to which the ethical evaluation of an action entirely and exclusively depends on the consequences stemming from it. The concept of consent based on freedom of choice is well explained by Richard 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” (1981, p. 94).

Therefore, apart from those cases, choosing freely means giving one's consent and agreeing means to legitimize. As pointed out by Fabienne Peter (2004), the market does not need to ask for a 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 means it uses for attaining its goals – needs the approval of the electorate, for only from it can the State be legitimized. What is the weak point 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. As Peter notes, 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 it only if the set of alternatives is somehow part of the subject’s choice menu. If this set is *given*, this prerequisite is by no means fulfilled.

It is known that the key role played by the category of consent is typical of the social contract tradition of political thought, 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 scholars who embrace the social contract theory, no one better than John

Rawls (1971) 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.

It is common knowledge that in our market economies this condition is practically never fulfilled. 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 about the real exercise of the choice. Having a large number of alternatives is not enough if one doesn't know how to choose among them or if one lacks the capability to actually choose. As Benedict XVI reminds us, the *use* of freedom is essential to its own *definition*. Someone who is virtually free to put into practice his/her action plan, but who does not possess the capacity to do it, cannot be said to agree to the consequences of his/her actions. Therefore, trying to justify the present economic and financial architecture on the grounds of the efficiency criterion *only*, would simply be a mere tautology.

2. The economic and social spheres being kept separated

I come now to the first of the remote causes lying at the bottom of the present crisis. One of the negative legacies from modernity is the notion that the only eligible members of the "economic club", i.e. of the market are those entrepreneurs who are profit-seekers. This is tantamount to affirming that if one does not pursue exclusively the maximization of profit, one cannot be considered a real entrepreneur. As a consequence, one must resign to belonging to the social sphere, where social enterprises, cooperatives, non-profit organizations and the like operate. This absurd conceptualization – itself the offspring of the theoretical error that confuses the market economy, which is the *genus*, with its major *species*, namely the capitalist system (Zamagni, 2010) – is responsible of the well-known dichotomous model of social order. According to this model the economic sphere is the locus of the production of wealth (a locus whose governing principle is efficiency) and the social sphere the locus of its redistribution (a locus where the fundamental canon of behavior is solidarity). (It may be of interest to recall that J.S. Mill (1848) was the first economist to distinguish between laws of production and laws of distribution of income). One reads in *CV*: "Perhaps at one time it was conceivable that first the creation of wealth could be entrusted to the economy and then the task of distributing it could be assigned to politics. Today that would be more difficult … Hence the canons of justice must be respected from the outset, *as the economic process unfolds*, and not just afterwards or incidentally" (n. 37; italics added).

The consequences of this separation are under our eyes. As the economic historian Angus Maddison (2001) has shown, in the last thirty years the indicators of social inequality, both between and within nations, have risen to scandalously high levels, even in those countries where the welfare state administers a substantial share of resources. Indeed, while it is certainly true that globalization is a positive sum game that increases aggregate wealth, 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, unknown until recently: positional competition, according to which the "winner takes all and the loser loses everything" – the so-called "superstar effect". Why is it that the literature on this subject is so hotly divided? A credible answer comes from the work by B. Milanovic (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 individual countries ("Concept 3 inequality"). It is world (or global) inequality which is increasing as a consequences of globalization; not so much international inequality.

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, as indicated by Maddison (2001)). 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 A. Polachek and B. Seiglie (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 2005), is a duty that economists cannot escape or forget about.

The conclusion one can draw from the above is that the well-known aphorism that "a rising tide lifts all boats" and its neo-liberal corollary, the "trickle-down" effect, according to which wealth, like rain, eventually benefits all, even the poorest is untenable in most cases. What is wrong in such a belief? That it does not take into consideration the explosion of pecuniary externalities following globalization.[1] Only technological externalities (e.g. environmental degradation) are receiving great consideration and this cannot be accepted on ethical grounds. To understand the nature of pecuniary externalities, it might be of interest to recall what Adam Smith wrote in *The Wealth of Nations* on the consequences of the discovery of America and the passage of the Cape of Good Hope – "The two greatest and most important events recorded in the history of mankind" (1950 [1776], p. 141). Dealing with the consequences of these events, Smith remarked: "What benefits or what misfortunes to mankind may hereafter result from those great events, no human wisdom can foresee. By uniting, in some measure, the most distant parts of the world… their general tendency would seem to be beneficial. To the native, however, both of the East and West Indies, all the commercial benefits which can have resulted from those events have been sunk and lost in the dreadful misfortunes which they have occasioned… At the particular time when these discoveries were made, the superiority of force happened to be so great in the side of the Europeans, that *they were enabled to commit with impunity every sort of injustice in those remote countries*. Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which… can alone overawe the injustice of independent nations into some sort of respect for the rights of one another". (1950, p.141; italics added). I consider this passage a remarkable anticipation of the argument according to which nowadays we need a more prudent (and wise) approach in order to acknowledge both the gains and losses from globalization. Indeed, if it is certainly true that we enjoy to-day enormous "gains from trade", it is also the case that we are facing "pains from trade". It is not acceptable that only the first component is taken into consideration in the public debate.

Caritas in Veritate makes it clear that the solution to the problem of endemic increase of inequalities consists in putting back together what has been astutely separated. Endorsing the conception of the market typical of the civil economy tradition of thought,[2] according to which social bonds cannot be reduced to the mere "cash nexus," the Pope suggests that we can fully experience human sociability within normal economic life, not outside it as it happens in the dichotomous model of the social order. The challenge to accept is neither to see the economy as in ontological conflict with the good life, as if it were but a locus of exploitation and alienation, nor to view it as the only solution for all the problems of society, as the anarchic-neoliberal school of thought would have it. In other words, the challenge is to go beyond the two main conceptions inherited from modernity about the relationship between the economic and social spheres. The first conception – the neo-liberal one – considers the market as an institution basically *asocial* whose main duty is to produce wealth irrespective of the modes and ways it is obtained. Government – according to this conception – should take care of the redistributive function. According to the other conception – the neo-structuralist one – the market is essentially an *antisocial* institution. With the famous words of Karl Polanyi taken from *The Great Transformation*: "the market advances on the desertification of society". As such, the market is nothing but a necessary evil.

The perspective adopted by *CV* rejects the reductionist stance of the two streams of thought. It shows that market is capable of hosting, within its own institutions, in addition to the principles of exchange of equivalents and of redistribution, also the principle of reciprocity:

> "What is needed, therefore, is a market that permits the free operation, in conditions of equal opportunity, of enterprises in pursuit of different institutional ends. Alongside profit-oriented private enterprise … there must be room for commercial entities based on mutualist principles and pursuing social ends to take root and express themselves. It is from their reciprocal encounter in the marketplace that one may expect hybrid forms of commercial behavior to emerge, and hence an attentiveness to ways of *civilizing the economy*" (n. 38; italics in the original).

3. *The financial ethos versus the ethics of work.*

Let me go on to the second type of separation. For centuries humankind held to the idea that the origin of wealth lay in human labor – one kind of labor or another, it didn't matter. In fact, Book I of Adam Smith's *Wealth of Nations* (1950[1776]) is devoted precisely "the improvement of the productive powers of labour." What novelty has the financialization of the economy that began about three decades ago ultimately brought? The idea that speculative finance creates much more wealth, and much faster, than work. Countless episodes confirm this thesis. Consider the phenomenon of de-industrialization which has negatively affected so many countries that have literally changed their productive structure. In the past few decades the world's greatest universities have seen the explosive growth of study areas such as business finance, financial markets, financial econometrics and the like, crowding out and impoverishing other fields of economic study. Just observe the distribution of funds by research area, or the professional choices of the majority of economics students. And so on. The spread of the financial ethos, with the complicity of the media, has helped establish the belief that getting rich does not take work – better to fly high, gamble, and above all eschew moral scruples. As I have shown previously (2010), the ethos of finance has led to the legitimation of greed – a specific form of avarice – as a sort of civic virtue: "Greed is good;

greed is right", cried Gordon Gekko, the protagonist of the 1987 movie *Wall Street*. The result has been a movement from the notion of *free market* to that of *greed market*. At the same time, the ethos of superiority of finance has led to a systematic alternation between greed and panic. As more than one commentator has explained, panic is no more than euphoria with the minus sign; therefore, if euphoria is rational, so is panic. (The fact is that it is the economic theory supporting the ethos of finance which is aporetic, as I demonstrated in the paper above).

The consequences of this cultural revolution are now glaringly evident. One is the maladroit attempt to displace the figure of worker within the social order in favor of that of citizens-consumers. Today, for instance, we no longer have a broadly shared notion of labour that can help us understand the transformations under way. We know that starting with the commercial revolution of the eleventh century the idea of craft work gradually gained ascendancy, with its combination of knowledge and activity, of production process and *mestiere* – a term which itself refers to the mastery of the master craftsman. With the advent of the industrial revolution and then of the Ford-tayloristic mode of production, what gained currency was the idea of "tasks" (the mark of parcellized labour) and not craft and with it the central notion of freedom *from* work as emancipation from the "realm of necessity". In the Fordist era, workers worked on a production line, performing specialized tasks repetitively as beautifully illustrated by F. Taylor in his fundamental book on the scientific organization of labor published in 1911. Today, in the post-Fordist era, what idea do we have of labor? Some propose the idea of *skill* in terms of professional capabilities, but they are unaware of the perilous implications, signalling the confusion of meritocracy with meritoriousness, as if these terms were synonyms. Western civilization is based on a powerful idea, the idea of the "good life," whence the right-cum-duty of each person to plan his or her life with a view to happiness. But what possible starting point towards this objective can there be, if not labor as the central category of the good existence? The flourishing of the human spirit – Artistotle's *eudaimonia* – must not be sought *after* work, because men and women encounter their human condition *while* they are working. Hence the urgent need to elaborate on the concept that work is not only pain and effort, a concept that on the one hand overcomes the hypertrophy of labor typical of our times (work filling an expanding anthropological void) and on the other declines the idea of liberty *at* work (the freedom to choose those activities that can enrich the heart and mind of the person engaged in work – an idea that was already anticipated by A. Smith in his critique of alienating labor).[3]

Clearly, the acceptance of the eudaimonic paradigm implies that the purpose of an enterprise – whatever its legal form – cannot be reduced to profit alone, though of course not excluding profit.[4] That is, accepting this paradigm implies the possible birth and development of enterprises with a civil vocation, capable of transcending self-referentiality and thereby expanding the scope for people's effective ability to choose their type of work. "The very plurality of institutional forms of business – one reads in *CV* – gives rise to a market which is not only more civilized but also more competitive" (n. 46). It may be of interest in this regard to quote from a recent essay by Michael Porter (2011): "A big part of the problem lies with companies themselves, which remain trapped in an outmoded approach to value creation that has emerged over the past few decades. They continue to view value creation, narrowly, optimizing short-term financial performance in a bubble … The solution lies in the principle of *shared value*, which involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges. Business must reconnect company success with social progress" (2011, p. 4).

Our having forgotten that no human society is sustainable where everything is reduced, on the one hand, to improving transactions based on the principle of exchange of equivalents and, on the other, to increasing public paternalistic transfers explains why it is so hard to advance from the notion of labour as activity to that of labour as work (*opus*). It also explains the tremendous spread of greed in our societies as a cultural habit in the last quarter of a century. In the Judean-Christian tradition, greed as a form of avarice is the capital vice held responsible for the many forms of (secondary) scarcity and the consequent distributive conflicts. (Zamagni, 2009). There is a two-way link between avarice and scarcity: on the one hand, scarcity prompts more and more self-interested conduct, as the possession of scarce goods heightens one's prestige, on the other hand, avarice aggravates scarcity through its adverse effect on the availability of goods and the difficulty in distinguishing, in practice, between needs and wants (or desires). Interestingly, the Hebrew word for money – the main object of avarice – is *damin*, which in the Talmud and the cabalist tradition is the plural of "blood". And blood is life only if it circulates: if it stagnates, it is certain death. The analogy with the metaphor of the well used by Basil of Caesarea in his famous homily "On the good use of riches" delivered in 370 A.D. could not be a better fit: "The wells that are drawn from most often are those from which water gushes most readily; left unused, they go putrid. And riches kept idle too are useless, while if they circulate they are useful to the common good and bear fruit." Avarice keeps the blood from circulating, as it keeps us from drawing water from the well.

The doctrine that intended to minimize the role of ethics in financial activity is based on two fallacious tenets. First, the assumption of perfect competition would make agents' moral responsibility superfluous, i.e. irrelevant. The second is that self interest and greed are necessary conditions for market's efficiency. However, the discovery – so to speak – of enduring incompleteness of markets and the existence of substantial market failures empties these tenets of any empirical basis. Given what markets are in reality, agents' greed – along with their bounded rationality – entails opportunistic and moral hazard behavior that generate negative externalities for the whole economy and are also self-defeating for the agents themselves. It is noteworthy what one reads in *CV*: "Finance, therefore, … now needs to go back to being an *instrument directed towards improved wealth creation and development* … Above all, the intention to do good must not be considered incompatible with the effective capacity to produce goods. Financiers must rediscover the genuinely ethical foundation of their activity, so and not to abuse the sophisticated instruments which can serve to betray the interests of savers" (n. 65).

To conclude this section on a positive note it can be said that, after a long period of disfavor, the notion of virtue is witnessing a vital revival of interest in very recent times. Thanks to persuasive interventions of contemporary moral philosophers such as Philippa Foot, Alasdair McIntyre, Martha Nussbaum, Bernard Williams, Charles Taylor and others, the virtue ethics, originally formulated by Aristotle, is gaining new grounds in the debate on ethical finance. It is certainly true that there are different versions of virtue ethics. However, what is common to all versions is to oppose those ethical approaches that appraise actions, atomistically, either in terms of consequences, as done by utilitarianism, or in terms of compatibility with deontological codes of behaviour. In other words, where the basic unit of moral evaluation for rival frameworks is individual action, the basic unit for virtue ethics is the human person, in its entirity. (Zamagni 2011).

4. *When the market divorces from democracy*

Finally, the present crisis results from a third major separation, that between market and democracy. Economic theory – especially the neo/Austrian school of thought – has always maintained that a society's success and progress depend crucially on its ability to mobilize and manage the knowledge and know-how dispersed among all its members. The principal merit of the market as a socio-economic institution, in fact, is that it offers the best solution to the problem of knowledge. As F. Von Hayek made clear in his renowned essay *The use of knowledge in Society*, (1945), to effectively channel local knowledge – the one that is possessed by individuals – a decentralized mechanism of coordination is needed, and the price system exactly serves this purpose.

Yet this point of view, very common among economists, tends to conceal an element of central importance. That is, the operation of the price mechanism as an instrument for coordination presumes that economic agents share, and consequently understand, the "language" of the market. This suggests that the market needs not one but two types of knowledge in order to perform its appointed task. The first type is lodged in every individual and, as Hayek noted, can be managed by ordinary market mechanisms. The second type is the knowledge that circulates between and among the various groups that make up society, which has to do with the common language that enables a multitude of individuals to agree on and share the meaning of the categories of discourse that are used and to understand one another when they come in contact (see C. Tognato, 2005).

Every society involves the coexistence of many different languages, and the language of the market is just one of them. If it were the only one, there would be no problem. All you would need to efficiently mobilize individual local knowledge would be the standard market instruments. But this is not so, for the simple reason that contemporary society is a multicultural framework in which individual knowledge must cross linguistic borders, which raises formidable obstacles. The neo-Austrian school of economic thought could abstract from this difficulty by implicitly postulating that community knowledge does not exist because, say, all the members of society share the same value system and accept the same principles of social organization. But where this is not the case – as in reality we must acknowledge – it follows that in order to govern a "multi-language" society another institution apart from the market is necessary, to bring out that language of contact in which members belonging to different "linguistic" communities can conduct a dialogue. This institution, basically, is deliberative democracy. This helps us to see why the problem of knowledge management in today's society, which is in the end the problem of human development itself, posits the need for two institutions – democracy and market – to be able to work jointly, side by side. Instead, the separation of market from democracy that has taken place over the past quarter of a century, on a wave of exaltation of a certain type of cultural relativism and an extreme individualistic ideology has convinced many, including many thinkers and scholars, that it is possible to expand the area of the market without worrying about the need to strengthen democracy.

Two main consequences have followed. First, the pernicious idea that the market is some kind of morally neutral zone – to use the famous expression of D. Gauthier in (1984) - that is not subject to ethical judgment, because its hard core already contains the moral principles needed for its social legitimacy. However, this is simply not true. The reason lies in a particular interpretation of the celebrated Böckenförde's paradox: the market economy lives and constantly feeds itself with presuppositions – sympathy, trust, benevolence, to use Adam Smith's trilogy – that it is not capable of generating and guaranteeing by itself (E.W. Böckenförde 2007). It follows that when the market cuts off its vital link with democracy – i.e. with the locus where those presuppositions are cultivated and spread among citizens – it becomes self-referential and its degeneration becomes inevitable.[5]

The second consequence has to do with the wrong idea that democracy, once in existence, will continue to remain forever. The Aristotelian notion of fragility of the good comes to mind in this regard. The fact is that democracy is a fragile good that needs to be managed with care and protected. Since if the fragile good of democracy is subjected to a slow deterioration, because of lack of educational investments on it, it may come about that the market will be prevented from gathering and managing knowledge efficiently; so society may cease to progress not because of some defect in the market mechanism but because of a deficit of democracy. The current economic and financial crisis strongly suggests the empirical validity of this proposition. Just think of the domination in present-day culture of short-termism in both economics and politics, while democracy necessarily presupposes a long-term time horizon. Essentially, we need to rejoin market and democracy to cope with the many threats of the present epoch. The warning of Pope Paul VI that *CV* recovers in n. 53: “The world is in trouble because of the lack of thinking” seems to me up to the point. Let me remind that not one but two are the types of thought: calculating thought and thinking thought. We need both of them; yet it is a well-known fact that in recent times the first type has crowded out the second type. We need to restore the balance, since as Plato wrote in his *Phaedrus*: “The furrow will be straight [and the crop will be abundant] if the two horses dragging on the plough proceed at the same speed”.

Before leaving the argument of the present paragraph, a final point deserves some attention. In section 66 of *Caritas in Veritate* it is stated that: “global interconnectedness has given rise to a new kind of political power led by consumers and consumer associations…Individuals must realize that the act of purchasing is a moral and not merely economic act. Therefore, consumers have specific social responsibilities alongside social responsibility of companies…A more effective role of consumers is desirable as a tool for economic democracy”. The quoted excerpt marks the first time social responsibility of consumers is mentioned in a Pontifical document. It symbolizes an important step and must be given due weight. Specifically, it is important to stress that Benedict XVI urges all “men of good will” to accelerate the transition from a *consumption society* where consumers’ freedom of choice is theoretical rather than real to a *consumers society* in which consumers are entitled to “steer” production in a given direction. As Alfred Marshall had foreseen in his *Principles of Economics* (1890), by applying the principle of substitutes and complements in consumption, consumers choose among different companies, in the same way as the producer chooses the best combination of productive inputs. Let us not forget that consumers are first and foremost buyers that collect information and narratives associated to goods.

What is the connection between what has been just pointed out and consumer social responsibility? In order to reply to this question, it is crucial to focus on the two options we are faced with in the present historical conditions. The first option entails feeling satisfied with the state of things and embraces the slogan “buy more, pay less”. The motto of the second option, on the other hand, is “buy more, be happy”. It is common knowledge that our society tends to diminish spare time, as it deems consumption a “classic” economic activity. However, this creates a problem: in order to foster happiness, consumption requires time. In the last quarter of a century, the formation of so-called “complex societies”, generated lifestyles based on densification, where the idea of ostentatious consumption recedes in favour of consumption acquiring a deeper significance, as a means to increase consumer’s experience. In this sense, the ultimate aim of consumption is not to show off but, rather, to live symbolically. This is why marketing tends to increasingly focus on selling “events” or “experiences” rather than goods. In the latter set of observations lies the potential to create something positive and truly innovative. If we use as a starting point the latin etymon *cum-sumere* - where *cum* means ‘hug’ and *sumere* means ‘to take without depriving’ – consumption can be experienced as a form of interpersonal communication.

The strong relational role played by consumption in our present society poses a great challenge: a balance must be struck between work and spare time, between *otium* and *negotium*. Indeed, the way the social surplus is allocated between leisure time and money time constitutes a real challenge for advanced societies. In the past, on the contrary, the key challenge concerned the division of social surplus between consumption and savings. How to overcome the *otium* – *negotium* dichotomy is one of the major challenges of the present generation.

5. *By way of conclusion*

The central message stemming from the argument sketched above is to call for a deep rethinking of the issue concerning the anthropological foundation of economic discourse. This issue is attracting a growing interest among economists. This is partly motivated by the recognition that a viable and effective strategy to cope with the problem of integral human development presupposes a getting over the reductionist stance of a great deal of contemporary economic theory. Such a reductionism expresses itself in the fact that in modern economics relations among human beings are reduced to relations of exchange of equivalents, as if these were the only ones worthy of economic interest. As it is well-known, the economic universe is made up of various economic worlds, each characterized by the prevalence of a specific type of relations. Yet, the (ontological) assumption still prevailing in economics is that all types of social relations should be modelled as some variant or another of exchange relations. In so doing, the discipline is imposing upon itself a constraint that prevents a thorough investigation of economic relations which are of great economic relevance in our societies. Think of the relations of reciprocity. It is the compound figure of relational individuality (i.e. personalism), as stemming from Christian Social Teaching that, while permitting to overcome the apories of individualism on the one side, and collectivism on the other side, would enable economic theory to be reconstructed on more solid bases.

It is now a well-recognized fact that market systems are compatible with many cultures defined as tractable patterns of behaviour. In turn, the degree of compatibility of market systems with cultures is not without effects on the global efficiency of the systems themselves: in general, the final outcome of market-coordination will vary from culture to culture. Thus, one should expect that a culture of extreme individualism will produce different results from a culture where individuals, although motivated by self-interest, entertain a sense of solidarity. But cultures are not to the taken as given and beyond analysis. Cultures respond to the investment of resources in education, so much so that in many circumstances it may be socially beneficial to engage in cultural engineering. For, how good the performance of an economic system is depends also on whether certain conceptions and ways of thinking have achieved dominance. I posit that a society that provides opportunities for virtuous behaviour is one that is more conducive to virtuous individuals. Not only this, but the practice of effective virtuous behaviour tends to lead to more people adopting virtues as their own by way of a process of imitation. That is why the presence in a system of economic agents basing their actions on intrinsic as well as transcendent motivations offers not only a remarkable way of overcoming many social scarcities, but serves as a context for positive character formation.[6]

As in all human endeavours, it would be naive to think that radical processes, as those hinted at above, do not entail high rates of conflictuality. Indeed, the interests - scientific and political - involved are enormous. Not without cause a sort of distress concerning the future of economic life, and in particular the possibility of humanizing market economy, is spreading today in many circles. This concern is being used by some, in the name of a "culture of crisis", as a device producing a sort of market Machiavellism that lies at the heart of the many forms of market - fundamentalism. It is precisely against this neo-Machiavellian culture and its underlying ethical relativism that those who, like the Christians, are the bearers of a specific message of hope should put up a fight. Catholic Social Thought would acquire significance and credibility, even with the non-believer, whenever it is accompanied by actual experiences which do not merely represent traditions of moral reflection, but turn into laboratories for innovating practices of life.

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Executive Summary

Various interpretations of the present financial crisis have been offered so far. Most of them focus, albeit from different angles, on its proximate causes. This paper takes a different route by considering the remote causes of the crisis, that is basically systemic rather than cyclical. It would be practically impossible to get out of an entropic (i.e. systemic) crisis unless one considers the ultimate factors responsible of it. To this regard, the essay assumes the Encyclical *Caritas in Veritate* (*CV*) by Pope Benedict XVI as a sort of special glasses by means of which to read and to interpret the *res novae* of the present times. *CV* identifies a triple divorce that has occurred in the last few decades in the Western world. First, the divorce between the economic sphere and the social sphere, which justified the idea that economic activity has no need to submit itself to ethical consideration or social assessment. Second, the decoupling between human labor and the origin of wealth, which legitimized greed as a more rational pattern of behaviour. Third, the separation between market and democracy, which provided the foundation of the thesis about the self-referential and self-regulating nature of markets. The essay defends the thesis advanced in *CV* according to which only by reuniting what has been violently separated it is possible to cope with the many challenges stemming from the crisis. Needless to say, such a perspective points to the urgency to reconsider the anthropological foundation of economic discourse, whose reductionist stance is nowadays perceived by many scholars and business men as one of the major impediment to both economic and moral progress of our societies.

Short Bio

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[1] On the notion of pecuniary externality see Barrera (2011).

[2] See Bruni and Zamagni (2007).

[3] On this question, see the penetrating argument developed by Illanes (2003).

[4] On this specific point see Dierksmeier and Pirson (2009).

[5] See on this Bruni and Sugden (2008).

[6] See Argandona (1998).