PROSPERITY, POVERTY AND THE RESPONSABILITY OF BUSINESS

Stefano Zamagni
University of Bologna and
Johns Hopkins University, SAIS Europe

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. Indeed, poverty is not something new; however, it is intolerable today in a way that it has never been in the past. The reason is that today's poverty is not the consequence of a "production failure" at a global level. It is not the scarcity of natural and human resources at the world level that causes hunger and malnutrition. Rather, poverty has to do with specific "institutional – both political and economic – failures". To recognise this novelty means to increase our responsabilities, since institutions are man-made, not a natural *datum.*

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 the elegant technicalities of mainstream economics.

Second, the economic machinery continues to operate in an intolerable 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 sustainability 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 above all 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 recent years, neither economic theory nor empirical evidence have been able to confirm the presumed trade-off between equality and efficiency, as it was exposed in the classic work by Arthur Okun (*Equality and efficiency: the big tradeoff,* 1975). In 2014, the IMF produced empirical results showing that greater equality is associated with faster subsequent medium–term growth, both across and within countries.

Third, the scaffolding of present-day 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 the problem. It is revealing what Mark Carney – the governor of the Bank of England – has declared in July 2014: "Just as any revolution eats its children, unchecked market fundamentalism can devour the social capital essential for the long-run dynamism of capitalism itself".

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 pursue it on the basis of a specific concept of human being. One is reminded of the prophetic book by the philosopher Walter Benjamin (*Capitalism as religion*, 1921), where the Author clarifies that capitalism serves to satisfy the same worries, anguish, and disquiet formerly answered by religion. Today, the masking of the ideological nature of global capitalism takes place in two ways, as posited by P. Williams "Christianity and the global economic order" in P. Oslington (ed.), *The Oxford Handbook of Christianity and Economics,* Oxford, OUP, 2013. On the one hand, decisions with moral content are presented in technical terms (e.g.: human rights have to be limited for the sake of efficiency). 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). I do believe that it has become 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 economic discipline still lacks a full-fledge theory explaining how a traditional society plagued with endemic poverty could evolve towards an advanced economy. We know how to compare different economic systems and we also know which factors are strategically important for progress. Yet, a full knowledge of how to enhance the transition of a given society from an old to a new social equilibrium is still missing. This a real paradox of capitalism's intellectual life.

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 not 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. (S. Zamagni, "Financial integrity and inclusive capitalism: civilizing globalization", *Journal of Catholic Social Thought,* 2015, 2).

As observed by M. Brunnermeier and Y. Sannikov "International credit flows and pecuniary externalities", Princeton University WP, Sept.2, 2014). For a long period, the "Washington consensus" held the view that free trade and full capital account liberalization were 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 we might soon experience the resurgence of a kind od rentiers society where economic and political power is concentraded in the hands of a small minority of rich heirs. 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 – not to be confused with technical externalities of Pigouvian type - are particularly detrimental to poorer countries.

So what can 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*). Few general remarks about the importance of vision will conclude the paper. Visions are like maps that guide us. A vision is not a dream or a moral imperative. Rather, a vision is a sense of causation and a theory is the working out of the consequences stemming from it.

2. *Poverty in the age of globalization*

Globalization is a novel complex phenomenon bringing with it an array of significant facts characterising our time. Coined in 1983 by the American economic journalist Theodore Levitt and popularized 1988 by Kinichi Ohmae in his works on the global strategies of multinational companies, the term "globalization" identifies a worldwide process of magnification of the movements not only of outputs – which is the phenomenon of internationalization of economic relations – but also of all inputs, especially labor and financial capital. The process has been enhanced by the breakdown of trade barriers in many countries, following the agreements of the first G-6 summit in November 1975 at Rambouillet Castle (Paris); the spread of digital technogies; the emergence and rapid diffusion of neo-liberal doctrine withim the economic discipline. For reasons of space, let me focus on a couple of consequences stemming from the globalization process – those that are mostly relevant to the present argument.

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. One can conjecture 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 effects of the above. 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. (See A. Maddison, *The world economy: a millennial perspective,* Paris OECD, 2001). 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 – as clearly documented in Thomas Piketty's book, *Capital in the XXI Century*, 2014. 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" due to Sherwin Rose. The notion of positional competition was introduced by Fred Hirsch in his important study, *The Social limits to growth* (Harvard University Press, 1976). As A Tocqueville foreshadowed with great insight (*Democracy in America*, 1835), positional competition "arises from equality as a prerequisite and aims at overcoming it: equality in principle sets in motion the quest for *de facto* inequality". The worrying side of positional competition is that: instead of improving, it worsen both individual and social well-being by producing waste and above all the so-called "surplus people", people expelled from productive process.

Why is it that the literature on inequality 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 J. Polachek and W. 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" (T. 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 T&. 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 merely their *conditions* of life.

The relationship between nutritional status and work capacity deserves special attention since itexplains why some people become poor and remain poor. 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 (*Well-being and destitution,*Oxford, OUP, 1993), 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 antipoverty policies*

Although some notion of poverty must have been current for a long time, - it would be sufficient to remind Confucius writing in the sixth century BCE that "In a country well governed, poverty is something to be ashmed of. In a country badly governed, wealth is something to be ashamed of. "(*Analects*, VII) – the notion of poverty as a *social problem* society should do something about is quite modern. According to the United Nations definition of absolute poverty (an income less then 1.25 US dollars per day), over 20 per cent of the world's population remains poor. (World Bank, *Povcal/Net: an outline poverty analysis tool*, Washington, DC: 2013). Another 40 per cent have an income less then 2 US dollars per day, while, even within the European Union, 120 million persons are recognized to be at risk of poverty or social exclusion. (Eurostat, *People at risk of poverty or social exclusion*, 2013).

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. There is a general agreement on the fact that poverty does not allow a person or a family to follow the sort of consumption practices which are customary in the community in which they live; but what should or should not be in a poverty measure remains contentious. This problem is addressed by Amartya

Sen’s notion of capabilities. For Sen, poverty is basically the lack of freedom of people to achieve basic capabilities of a minimum level consistent with that affording them dignity. Poverty, from the human rights perspective, is, therefore, the non-fulfilment of rights to basic freedoms due to inadequate resources, economic and not economic. It follows that the choice and priority of capabilities to be taken into account should be determined not in a paternalistic way, but consulting with people having direct experience of poverty. (A. Sen, *Commodities and capabilities,* Oxford, OUP, 1999 and A. Sen, “Human rights and capabilities”, *Journal of Human Development*, 6, 2005).

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 - because of structural factors or of personal failings - 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. In particular, the many measures of poverty so far advanced in the literature do not take into consideration the psychological and social dimensions of poverty and the contention that there is a strong link between poverty and shame. As R. Walker (*The shame of poverty,* Oxford, OUP, 2014) correctly stresses, the vast majority of authors writing on poverty tend not to consider the implications of shame for understanding the nature and persistence of poverty and to assess the effectiveness of policies to fight it.

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 (the father) can give he can withdraw. The important transition is to argue for the idea that there are three fundamental aspects to integral human development: the material, the social-relational and the spiritual. Now, while GDP (Gross Domestic Product) as a measure of human development is capable of giving account of the first of these three aspects of well-being, it is plainly incapable of accounting for the other two. Moreover, since the three different aspects are related in a multiplicative, rather than an additive, manner, it is inconceivable that an increase in material wellbeing may in some way “compensate” for a reduction in relational and/or spiritual wellbeing. In fact, the factors constituting such a multiplication cannot be traded off against each other without this altering the character of the end product (unlike the addends in a summation).

An example here should help clarify this point. Consider the case of economic irrelevance. People are deemed to be economically irrelevant if their actions do not contribute towards the production of wealth. Irrelevance is today the new face of an emerging social degradation obvious to everyone, a phenomenon evident above all in the workplace. The removal of millions of people from productive activity over the long-term is not just evidence of the inefficient allocation of resources, and hence of a loss of aggregate output, i.e. of GDP, but introduces a genuine rationing of freedom into advanced societies, as von Hayek himself recognized in his work *The Constitution of Liberty* (1960). Indeed, it is by now clear that people who remain unemployed for long periods of time suffer psychologically, a suffering that has nothing to do with their reduced income, but with their capacity to act and to learn. According to Sen's capabilities approach, this means that the long-term unemployed’s ability to function is modified, in the sense that their actual ability to carry out previously set tasks is reduced drastically – a circumstance that no official figure for GDP is ever going to reveal.

Our taking the socio-relational dimension and the spiritual dimension into consideration prevents us from placing the availability of an income from work and that of a transfer income (such as unemployment pay, minimum guaranteed income, etc.) at the same level. When values such as self-esteem or personal autonomy are at stake, it is important to know where one's income comes from. As A. Margalit (*The decent society,* London, Macmillan, 2000) acutely observed, it is not enough to try and create a just society. A more important goal is a "decent society", that is, a society that does not humiliate its members by distributing benefits and privileges whilst denying them their identity, as often occurs when their social preferences, or their cultural roots, are not taken into account. When this happens, as unfortunately it does today, this invariably leads to a weakening of social rules of behaviour and the spread of cynical practices. In situations of this kind, the GDP of a country may indeed rise, and with it the average material wellbeing, but poverty, both absolute and relative, not necessarily will diminish.

Several and of different nature are the proposals so far advanced to reduce the extent of poverty, in all of its dimensions. A very articulated and feasible – in the sense of being compatible with a market economy – set of such proposals has been recently advanced by A. Atkinson (*Inequality. What can be done?,* Cambridge (Mass.), Harvard Univ. Press, 2015). One the 15 policy proposal deserves particular attention. It deals with the basic income theme as a political right. Under the title of q “negative income tax” such a proposal was advocated separately by two famous American scholars – Milton Friedman (a monetarist economist) and James Tobin (a Keynesian economist) – already in the sixties of last century. (The tax would become negative in the sense that people below a legislated threshold would be receiving a payment rather than paying tax).

The key to implement a negative income tax scheme is to exploit a specific contradiction still present in our societies: the contradiction between market and democracy. The fact is that the market is built on the principle of formal and juridical equality among all, and substantive inequality in asset distribution. If citizenship were a contractual relationship, then certain entlitements would be conditional upon satisfying certain other prerequisites – property ownership; cultural level, gender, ets. (In the *agora* of the ancient Greece *polis*, only a minority of people could take part to political deliberation). But history teaches us that after many struggles the unconditional right to vote was established, irrespective of any qualification different from citizenship. This right has only been won fairly recently. Consider to-day's dichotomy: in the democratic sphere the principle in operation is "one head, one vote"; in the market sphere the principle is "one dollar, one vote". This means that citizenship does not translate as of right into income entitlements. So the target to pursue is to establish a universal income entitlement as unconditional as the right to vote.   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 – income. In a recent and interesting paper, N. Yoshida, H. Uematsu, C. Sobrado ("Is extreme poverty going to end? ", The World Bank, WP6740, Jan.2014) discuss what is needed to achieve the target of ending extreme poverty by 2030. The Authors stress that this end, it is crucial to not only accelerate growth but also improve shoring of the growth within and across countries, in particular between rich and poor countries. Which is exactly what pope Francis advocates in his recent encyclical letter *Laudato sì*, (2015) where it is warmly recommended that both economists and policy-makers explore policies to improve sharing of growth among countries.

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 welfare systems without a careful scrutiny of the economic argument. Time and circumstances dictate that we get our acts together and construct the theoretical basis of a new wave of reforms. In doing this we have better to remember the ethical assessment that Hannah Arendt made of that epoch marking event which she considered in *On Revolution* where she wrote that "the men of the eighteenth century did not know that there exists goodness beyond virtue and evil beyond vice".

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. Indeed, entrepreneurs of all kinds play a critical role in bringing ideas to life. 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. (On the specific issue on how to apply subsidiarity in business, see the inspiring work by M. Naughton, J. Bucheye, K. Goodpaster, D. Maines, *Respect in action,* Univ. of St. Thomas, 2015). 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 an entrepreneur generator of civic culture 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, since 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. (See L. Bruni and S. Zamagni, *Civil Economy*, Oxford, P. Lang. 2007).

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. One of the most important distinctive characteristics of the wise, i.e. prudent, business leader is his/her capacity to understand the difference between "unequal" and "diverse". While inequality is opposed to equality, diversity is opposed to uniformity. Human beings are equal and diverse at the same time: equal in that they partake of the same nature; diverse, since each human being is unique, one-off. It follows that a diverse human being has the "right" not to be subjected to uniformity. This is precisely where the solidarity principle is not to be confused with the fraternity principle: the former contents itself with uniformity: the letter demands unity. Blaise Pascal got the point in a most efficacious way when he wrote: "Equality without diversity is useless to others; diversity without equality is ruinous for ourselves. The former is noxious outside; the latter inside. The principle of equality can be useful to define a generic equivalence of fundamental rights within the framework of legal norms, but it is hardly adaptable connoting the fundamental human right which should rather be called the "right to diversity". Here lies the ontological fundament of the principle of subsidiarity in business.

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. (S. Zamagni, “The economy of communion project as a challenge to standard economic theory”, *Portuguese Journal of Philosophy*, 2, 2014).

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. It may be of interest to report a passage from an interview to Peter Drucker: “Above all, we are learning very fast that the belief that the free market is all it takes to have a functioning society – or even a functioning economy – is pure delusion. Unless there is first a functioning civil society, the market can produce economic results for a very short time. For anything beyond this time a functioning civil society, based on organizations like churches, independent universities, or peasant cooperatives – is needed for the market to function in its economic role, let alone its social role”. (*Ottawa Citizen, Dec. 31st, 1996)*..

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. As well explicated in L. Bruni (“Young executives sacrified”, *Avvenire*, Jan. 18, 2015). 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 corporations 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.

This situation is akin to that described as the “displacement of goals” in a bureaucracy. (R. Merton, *Bureaucratic structure and personality*, 1962). The rules and procedures that initially served to prevent administrative and financial chaos become goals of their own. The bureaucrat works toward rules and regulations as an immediate goal the way many of today's managers work toward maintaining structures that are dated and found wanting in the digital age. Few years ago, Sumantra Ghosal criticized the current management ideology, including the "competitive strategy" by Michael Porter, with the following argument: "If companies exist only because of market imperfections, then it stands to reason that they would prosper by making markets as imperfect as possible. This is precisely the foundation of Porter's theory of strategy that focuses on how companies can built market power, i.e. imperfections, by developing power over their customers and suppliers, by creating barriers to entry and by managing the interactions with their competitors. It is market power that allows a company to appropriate value for itself and prevent others from doing so. The purpose of strategy is to enhance this value – appropriating power of a company". (S. Ghosal, *Sumantra Ghosal on Management* , ed. by J. Birkinshow and G. Piramol, Harlow, U.K., Prentice Hall, 2005, p.15).

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* (2009) 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 represents another instance of sin structure. And so on.

It is not yet clear what is going to be the ultimate 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. 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 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 technical 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. Over hundred years ago, Lawrence Lowell, the President of Harvard University, argued that: “Institutions are rarely murdered; they meet their end by suicide…They die because they have outlived their usefulness or fail to do the work that the world wants done”. (*Inaugural Address,* Oct. 10th., 1909). CST suggests that quite a number of economic and social institutions, today, need to be put on suicide watch!

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 consideration that I draw from a recent piece of empirical research by J. Gaudal and A. Roccas, from Tel Aviv University (2014). 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 ambitious, 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 solidarity, benevolence, promoting the well-being 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.

It is by now a well recognized fact that market systems are consistent with many cultures, conceived as organized systems of values. In turn, the type and degree of congruence of market systems with cultures is not without effects on the overall performance 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 of reciprocity where individuals, although motivated also by self-interest, entertain a sense of solidarity. In the same way, a culture of cooperation will certainly produce different results, on the economic front, from a culture of extreme positional competition.

But cultures are not to be taken for granted. Cultures respond to the investment of resources in cultural patterns. Indeed, how good the performance of an economic system is depends also on whether certain conceptions and ways of life have achieved dominance. Thomas Eliot once observed that culture is like a tree: you can't build a tree; you can only plant one, tend it and wait for it to spout in due time. This is certainly true; however it is possible to speed its growth up with "proper watering". Indeed, unlike animals which live in time but have no time, human beings have time; i.e. they have the ability to alter their time – as St. Augustin wrote a long time ago.

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 and in shapir the future. But, fortunately, people who continue to entertain a hope in the future have not disappeared altogether: those participating to this 9^{th} Conference on "CST and Business Education" are such a people.