

## Understanding the modern state

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I have been asked to talk about the compatibility between a free economy and Catholic social teaching but especially in the context of the modern state. As such, I shall start off with some general points, but then I want to put those in the context of the “signs of the times” as the Catholic social teaching jargon goes.

I would like to make clear at the outset what I am and am not doing. I am definitely not claiming that Catholic social teaching unequivocally supports the worldview that I will sketch out. Others who talk in this field often claim the support of the Church for their political model: I do not. The Church does not offer political models – she makes that clear. I am merely suggesting that there is a compatibility between strands of Catholic social thought and teaching and the particular political economy perspective that I shall describe. This is a compatibility that, in its modern form, has strongly European roots. Secondly, my position is that I think that Catholics should consider having a *favourable disposition* towards a free economy underpinned by the rule of law, private property and efficiently administered justice. That does not mean we should believe in private defence, or anarchy, or zero taxation and

government spending, or that we should not consider certain interventions in economic life necessary for the common good and human dignity. It simply means that we should look upon a free economy favourably.

Why should we have this disposition? Firstly, entrepreneurship, the mark of a free economy, is, at its best, an expression of the creative powers given to us by God exercised in the economic sphere. Economic activity, takes our gifts of reason, insight and ingenuity, and allows them to be put into action in free co-operation with others. That is a pretty good starting point.

This does not mean, of course, that all human action in the economic sphere is licit. The fruits of all business activity are certainly not pleasing to God – we can immediately think of drugs, pornography, sharp-selling techniques, and so on. As such, the Church criticises particular actions within, or particular products of, the free economy. But, the main restraint on economic activity that is not pleasing to God should be moral rather than legal. We may not like what goes on in a free economy, just as we probably do not like quite a lot of what goes on when people make choices with regard to how they use their sexual desires. But, we are human persons, made in the image of God and can choose between right and wrong. The state should only step in when the freely chosen actions of

some persons threatens the human dignity of others.

It happens that a free economy is generally more prosperous than one that is overly restrained by the government. This is a by-product and not the most important intrinsic reason why we should be favourably disposed towards a free economy. The most important reason was very succinctly described by John Paul II in *Centesimus annus* and might be termed the “anthropological justification” for the free economy. John Paul asked the rhetorical question whether capitalism is the system to be adopted after the decline of the Soviet system. The answer is quite direct: “If by ‘capitalism’ is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a ‘business economy’, ‘market economy’ or simply ‘free economy’.” The last is the term I prefer.

When free will is circumscribed in the economic sphere, we are less able to use our will and our reason to do the good which God has called us to do in the economic sphere. We are, indeed, less human. It is the nature of the person that was at

the heart of Pope John Paul II's rejection of socialism when he said: "the fundamental error of socialism is anthropological in nature. Socialism considers the individual person simply as an element, a molecule within the social organism...Socialism likewise maintains that the good of the individual can be realised without reference to his free choice, to the unique and exclusive responsibility which he exercises in the face of good or evil."

Of course, there are tensions. And *Centesimus annus* explores these tensions and suggests situations in which the state may well intervene in economic life. We may discuss some of these later.

One of the advantages of a free economy in the context of fallen human nature is that economic resources are allocated by agreement, peacefully. That should be rather attractive to the Christian. I buy a pound of sausages from the butcher; he sells them to me. We both benefit from the transaction, but we are not in conflict – this is quite unlike the situation where a government allocates a fixed set of resources deciding how much should be spent on this and that. The process of mutual contracting in a free economy also substantially limits the damage caused by the pursuit of unrestrained selfishness in the context of our fallen human nature. A business can only

prosper by co-operation with others and by serving others – therefore, business is inherently social: it does not have to be made so. This should be a cause for reflection. With regard to self-interest, John Paul II pointed out: “The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony.”

Of course, self-interest is not the motivation for all economic activity. In a theme developed in *Caritas in veritate*, the importance of other motivations such as reciprocity or the concept of “gift” was discussed. A free economy is an arena in which different motivations can be the spur for economic activity and it is a richer and more diverse place for that and this is very important.

### **Do we need to tame the market?**

A free economy is also not just a jungle where people are only motivated by the pursuit of their direct financial interests. We often hear it said – especially by Christian commentators - that the market cannot regulate itself. They should look more closely. Regulation not only comes from the self-restraint that we expect all people of goodwill to exercise, it comes from deep and sophisticated social institutions that evolve within a free economy for the mutual benefit of all those involved. One

such example is the stock exchanges that developed in the late 18<sup>th</sup> century. So successful was the London exchange, and so demanding was it, that its motto became “my word is my bond”. Who would seriously argue in the wake of the financial crisis that government regulatory bureaus in this area – which were given statutory responsibility from 1986 – and which have churned out literally millions of paragraphs of regulation, have been more effective in promoting the common good than those institutions – exchanges, friendly societies, mutual societies, trustee savings banks and so on - that developed from within the community itself and which were destroyed by government? In other areas, there are professions, unions and so on. Indeed, the Catechism describes these non-governmental regulatory forces as having the *prime* responsibility for regulation in the economic sphere. The Church does – and should – celebrate these institutions as authentic manifestation of the big society. And what is interesting about these institutions is that, though they are not generally profit making, it is the same attribute of entrepreneurial alertness that is so important in the market economy which gives rise to them. People see a human need and respond. They start small and grow big.

To assume that governments can, through regulation, manage markets to deal with the effects of our sinfulness is a fundamental error. Government officials and politicians are not free from original sin. There are, of course, a number of areas

where prudential judgements need to be made in this regard. But, we should not forget that, once a general regulatory role is given to government, restraining it becomes very difficult – governments like to regulate the market, but who regulates the government? A government is disciplined only by a quinquennial election and by the very imperfect mechanisms of feedback through public opinion – which, of itself can turn into self-interested lobbying as noted in *Caritas in veritate* (5). If you want to see disordered self-interest at work, yes you could observe businesses in action, but you could just as easily observe lobbying in Washington or Berlusconi's Italy.

To put it another way, government intervention in the economic sphere is generally the wrong tool to deal with a problem of a lack of virtue in the free economy: remoralisation and evangelisation are the correct tools. In an interesting passage in the Bishops of England and Wales' pre-election address it was said: "In place of virtue we have seen an expansion of regulation. A society that is held together just by compliance to rules is inherently fragile, open to further abuses which will be met by a further expansion of regulation." I think this is true and it was very obviously true in the highly regulated financial sector at the time of the financial crash.

## **Solidarity**

It should be clear by now that my vision is not a vision of

atomistic individuals all seeking God's will in an environment of radical individualism. A free economy is necessarily social. And our obligations go beyond those of contract and reciprocity within the market place. They extend to love and charity. Catholicism is *radically* social without being socialist.

The virtue of solidarity *demands* that we promote the common good through the world-wide brotherhood of man. This may well mean that certain things have to be provided by the state. However, the primary responsibility for the promotion of the common good lies with the individual, the family and society – which is quite distinct from the state in Catholic social teaching.

Solidarity is not that virtue by which we campaign for a state bureaucracy to take income from the people across the road to redistribute to the people in the next town. That is not what the early Church did and it is not what the Church today teaches. As *Caritas in veritate* says: 'Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone, and it cannot therefore be merely delegated to the State.' The primacy of charity was a fundamental principle of the early social encyclicals and has been reiterated time and again by Pope Benedict. The state is the last resort because it can only achieve its objectives using coercion and because it is so remote from the needs it is trying to meet.

It is the principle of subsidiarity that qualifies the principle of solidarity and that makes it consistent with the pursuit of the common good which is not a common blue-print for society but a situation in which we all can flourish in the way God intends. The principle of subsidiarity is the process by which the state helps private and intermediate groups attain their legitimate ends, never supplanting their initiative, only facilitating it. The first way in which it does this is by providing a legal framework of justice, contract and private property so that people can safely fulfil their legitimate plans - the greatest cause of extreme poverty in the world, of course, is the absence of such frameworks, together with the absence of peace and the rule of law in so many countries. Secondly, of course, the state may help the less-well-off finance the purchase of those things they need to sustain life – education, healthcare and so on. But, the state does not need to step in and provide these things itself, thus crowding out others.

*One area where these issues are being increasingly understood is in the area of environmental science. Nobel Laureate Elinor Ostrom, who died earlier this month, after visiting the UK and making quite an impact, won her Nobel Prize for work showing how the state facilitating the community management of natural resources – even in incredibly primitive communities - was so much more effective than management*

*by the state itself. Her work predicts the environmental catastrophe that we see with the Common Fisheries Policy in the EU just to give one example.*

### **The signs of the times**

Now, of course, the post-war era is marked very much by a huge expansion of the state in the field of welfare. Government spending as a proportion of national income has converged at around 50% right across the EU. When talking about interpreting Catholic social teaching in the context of the signs of the times, we cannot ignore this. This is a huge transfer of responsibility from the family and society to the state. It is happening at a time when many of those responsible for decision-making in the state are radically secular. This transfer of responsibility goes far beyond what is suggested in Catholic social teaching. Not only have control of healthcare and education been passed to the state in many countries, welfare states are constructed in such a way that work, family formation, education and saving – four essentials for the flourishing of the human family, at both the individual and societal level are heavily penalised. Any two parent family with three children earning between £8,000 and £39,000 per annum loses between 73 pence and 85 pence in every pound they earn in lost benefits and additional taxes. It is no wonder that 20% of British children grow up in workless households and the

average number of children born to families where nobody is in work is greater than that for households where somebody is in work.

EU explicit government debt is converging at between 80% and 120% of national income – unprecedented in peacetime in developed countries. But the accumulated health and pension costs obligations amount to about 500% of national income in most EU countries as birth rates fall. This is the present that we are leaving the next generation from the perversion of the concepts of solidarity and subsidiarity in western society. These things greatly disturbed John Paul II who pointed out that, as he put it, the malfunctions and defects in the welfare state are the result of an inadequate understanding of the tasks proper to the state.

### **Summary**

To summarise, none of the great pillars of Catholic social teaching point in the direction of a state that is very active in economic life. Indeed, as the *Compendium* puts it: “state action in the economic sphere should also be withdrawn when the special circumstances that necessitate it end”. What those circumstances are and when they apply are prudential matters on which the Church has given us some principles for guidance. There is a wide field for debate about if and, if so how, the government should deal with big business, the production of certain products, wage-earner poverty, the

problem of the unemployed and so on. However, it is very clear in Catholic social teaching that the state is there to serve the family and society – not the other way round.

The government should not be attempting to design the economic architecture in order to bring about a particular ordering of society. That is a task that is simply beyond the gifts that God has given us. We should have the humility to recognise that. Instead, we should ask the government to create a just order, based on the rule of law and private property, in which human persons, families, communities and society can flourish. This is within our grasp. Of course, we may not always like the outcome which will be imperfect, reflecting as it must both our goodness, our diversity and our sinfulness. But such sinfulness and selfishness exercised at the heart of a government that seeks to dominate rather than serve is far more dangerous.