Caritas in Veritate, Work Still in Progress?

Jérôme Vignon

Eighteen months after its proclamation at the eve of a G8 summit, the latest social Encyclical remains as a complex, sometimes barely accessible but obvious masterpiece. It conveys this impressive feeling, commends several readings, each of them opening new avenues, not least because of its consistency with the needs of the present phase of historical global world development. As the E rightly points in its final chapter, the human social and political dilemma of to day has an anthropological dimension. At the various crossroads where leading actors or modest players as well need to take option for a sustainable process, their responses reflect, consciously or not, a vision about what is life, what the meaning of the human being is, what is the vocation of nations and mankind altogether. Therefore the core message of the E, from its start is anthropological.

In its depth, the economic and social crisis requires more than a pragmatic reaction, even if such a move is of course needed. It brings all responsible Christians and people of good will to question the real drivers of their lives, the foundation of their connections with the various communities and the foundations of those communities themselves. What makes our time unique derives from the fact that the global dimension of those questions is no more a mater of intellectual or spiritual representation. They are echoed by the reality of global interdependence of the various communities across the world. This situation, proper to our times, even if its premises could be perceived at the time of the Populorum Progressio vision brings to the fore the issue of trying to define patterns of worldwide sustainability. Indeed such attempts have taken place within the so called “international community” which underpins United Nations large gathering, driven by the search for a common interpretation of Human rights. The “Agenda 21” perspective agreed upon at the Rio Conference in 1992 was perhaps the most sophisticated attempt to coin such a pattern of humanised interdependence, insisting upon the need to properly combine a global vision of intergenerational solidarity, mediated by environmental concerns, and the ability of local communities to design their own sustainable development process.

However, the still unresolved question at that time, was anthropological: which common truth could ensure the consistency between those long term global goals and the concrete steps taken at local or national levels? This is where the E brings its full value to be considered by those in search of a consistency which might pass the test of the diversity of our beliefs and cultural traditions, beyond the formal expression of human rights.

This common truth does exist, the E says. It exists because it has been laid down wit the foundations of humanity, as the gift of God to each person. Thereof, gift of oneself, openness to the other, awareness of other’s need, particularly of those poorest with the greatest needs, is a genuine guide for ethical behaviour, Veritas in Caritate. But conversely, because such a Truth has a constitutive dimension for mankind and is available to all, be they Christian or not, good will and altruism are not sufficient per se to heading towards the achievement of the human destiny: they should be inspired, governed by the search for truth as such a search, accessible through the instruments of human rationality supported by the accumulated

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1 Caritas in Veritate, called “E” in the rest of the text
wisdom embedded in social sciences will tell how goodwill, altruism or love could be rightly translated into action. Caritas, but in Veritate.

The particular point which we want to make in this contribution starts here. It takes note of the “anthropological “parti pris” of the E. The truth for humanising the globalisation of economic and social interdependence is to be looked at in the self, in the interiority of each person. At least, the availability of each individual to recognize that truth inspired by gift or generosity in his or her everyday experience of her or his relations with others, should be the starting point of any attempt to put globalisation on the right tracks, whatever the particular aspect or actors of globalisation: trade, finance, agriculture, migration, energy, environment.

By so doing, each person starts to orientate itself in accordance to a global harmony. This movement of individual responsibility is, the Pope says, decisive, and should by no mean be subordinated to an abstract ideology putting first the role of “institutions”. This hierarchical order, individual responsibility first, then institutionalised frame of economic or social relations, is fully consistent with the anthropological dimension of the E, and its spiritual roots. But it should not mean that individual responsibility alone will achieve the search for truth in the society, in other words, the search for justice. This search should also consider the political dimension without which individual responsibility will fail to address the complex realities of interdependence, as revealed by social sciences. By setting partially aside the specificity of politics in complementing the role of personal responsibility, the E risk missing an important point, at least in chapter 3, the one which is most orientated towards the responsibility of entrepreneurs or business leaders. May be, the E does not misses that point totally, but it requires, to say the least further developments. This is what this paper aims at suggesting. This argument will be developed as follow:

- The logic of gift should be restored in the heart of the functioning of the market economy, including what is called the social market economy. This is altogether a matter of compliance with the Truth, but a condition for sustainable business.
- Personal responsibility of economic and social players and a diversification of enterprises operating on free markets are the main drivers to achieve that restoration.
- Short terms, i.e. the spontaneous trend of “financial capitalism «to focus exclusively upon the highest possible “value for money” in a very short period of time, instead of considering financial rewards on a longer period, has been in recent time the main impediment against the logic of gift and other important drivers of the catholic social teaching.
- In specific, but strategic markets, such as financial markets, the competitive logic defeats the ability of individual, even very influential personal responsibility, to act against short terms, therefore defeats the logic of gift. The example chosen suggests even that the competitive logic under which the banking system operates in most countries is detrimental to the poorest consumers of financial services complementing personal responsibility with appropriate compulsory legislation seems unavoidable.
- Diversity of enterprises is important to disseminate within a market economy the logic of gift. However, it is not up to a situation with a decisive role of large investors, such as pension funds and more generally, a situation in which financial market are expected to continue to play an important role. Therefore a question arises on how shareholders, represented by institutional investors, will act according to long term goals allowing for a prevalence of the logic of gift.
1. **The logic of gift, at the heart of steering the economy out of the crisis.**

A striking and, in my view, fundamental point of the E was to insist, especially in chapter 3, that the main causes of the recent crises was not greed or immoral behaviour, but rather the absence of the sense of the other, the absence of gift and generosity. This absence had lead progressively to a failure of mature “Social market economy “to achieve the equilibrium between efficiency and social justice which they were aiming at. Instead of questioning global governance failures, the Pope offers a fruitful diagnosis pointing at the heart of the functioning of western liberal economies, notably western European Economies. Because of a structural division of tasks across its three pillars (charity, market, redistribution), the gift and generosity dimension had been evacuated from the market (and redistributive) pillar. This had left entrepreneurs with the exclusive driver of making the highest possible financial result, disregarding their responsibilities regarding the needs of other than financial stakeholders. Such an exclusive driver not only failed to take into account the imperfection of rules aiming at ensuring the basic protection of those stakeholders, but also undermined those protections through the process of “deregulation”: such a general description of the social shortcomings of the European Union during the last decade perfectly illustrates the Pope’s point. The Pope’s argument, however, goes beyond the social democratic arguments, as it refers to the anthropological truth of enterprises and entrepreneurship.

2. **Personal responsibility and diversification of enterprises are key to restoring within market economies the logic of gift.**

Following that diagnosis, not deregulation is responsible for the disfunctionning of social market economies, loosing ground altogether on efficiency and social justice. Deregulation is only a consequence of a general lack of sense of the other. In addition, there were some sensitive arguments in the criticism of regulation: as always occurs, regulations, when not properly monitored and updated, might overprotect insiders and do not serve necessarily the common good. In highly regulated and sophisticated economies (not everywhere in the world) responses to the needs of the various stakeholders, notably the most vulnerable, through an adequate use of regulations is dependent from the personal responsibility of market players in a broad sense. We can by no doubt understand the insistence of the E on that particular point: this is equivalent to insisting upon the fact that the human being, in that case the responsible manager, should be at the heart of the economy.

Some new forms of enterprises have been recently developed, which, in, their very nature, subordinate profit to the achievement of ethical or social goals which go beyond commutative justice. Social businesses have flourished recently on this basis and there are many signs that they are attracting a great deal of commitment from the new generation. In their nature, they exactly conform to the revival of gift as a driving force in market economies. They could, in the Pope’s view, act as a catalyst of the reinvigoration of the logic of gift across the economy as a whole, as they clearly do not contradict the values of efficiency, innovation, and effectiveness, which are at the centre of current business practices.

3. **“Short termism,” a structural bias of market economies against the logic of gift.**
Whereas previous arguments focus on an alteration of the aims of social market economies, due to its excessive specialisation across three pillars, a sort of “maladie de vieillesse”, there are other grounds for evacuating the logic of gift out of entrepreneurial management. They are linked with global competition and the standardisation of efficiency criteria which it has spread, notably through the uniformisation of audit criteria, and the subsequent uniformisation of management practices, in line with the maximisation of “value for money” from the point of view of anonymous shareholders.

This structural short termist bias is now firmly established. Its damaging effects bear not only against the logic of gift, but also against the requirements of a sound human management of the labour force, involving that working contracts ensure that workers are not confronted with permanent precariousness. This is why “short termism”, in a general manner is also criticised in the E. In the same vein, a considerable author, such as Steffen Green, former CEO of HSBC, insists in his latest writings that fighting “short termism” should be a goal both for world institutional governance, but also for companies. These are very valid points. What we want to show here is that the commitment of companies, based upon genuine corporate responsibility practices, will not be enough to instil the logic of gift. Instead of developing a general argumentation, I prefer to illustrate this point with one example drawn from the management of financial retail services.

No need to remind the condition under which the “subprime” crisis has occurred: vulnerable customers have been trapped in unsustainable lending contracts, which apparently were perfectly in line not only with business practices, but also with consumer protection legislations. This situation has led social research to investigate further the twin and rising phenomena of on one hand “excessive indebtedness” and “lack of access to basic financial services”. To make a complex story short, social research has shown that those two phenomena were linked. They were primarily due, not to the insufficient education or responsibility of weak borrowers, but to the conception of risk management, under competitive pressure within the banking system. Weak or precarious borrowers represent a higher risk than wealthy ones. In addition the day to day operation of their small accounts is relatively more costly, all things being equal. Risk management implies charging higher rates for weak consumers, implying for them the risk of over indebtedness or default which in turn leads to penalties and reduced access. Finally cost reduction and rational human resource management means that modest customers with precarious resources, who would most need counselling, will in fact receive less attention. Of course, some banks will continue to offer dedicated services to customers, independently from their wealth, thanks to their “cooperative” or “mutualist” origin. But they stand at the margin of the banking system.

In this particular case, we see that not the logic of gift, but exactly its opposite is at work, even if top CEO ‘bankers would like to behave otherwise: just because the earnings of the banking system in retail banking are one of its main sources of revenues. Should one single important bank decide to act along the logic of gift and provide weak customers with adequate support, then it would be soon at risk of being over fled with “bad risks” customers, nothing being said about the acceptance of its shareholders. In that particular case, the logical conclusion of the research is that to improve over indebtedness and prevent lack of access to basis financial services, there is a need to establish across a country, or even across a transnational market where banks operate, a kind of “universal access to financial services scheme”, setting quality standards for the support to weak customers and ensuring that those banks who do not engage in such a scheme provide a financial compensation to those who do. To say it otherwise, there are lot of examples, where the pressure of competitive forces tends
to impose behaviours or management habits detrimental to the poorest. In such cases (access to health, to housing, to energy for example), it is clear that the principle of subsidiary commends not to rely upon personal sense of generosity, but upon commonly agreed and fairly enforced rules, implying a political initiative.

4. The case for a responsibility towards the enterprise.

Finally, we need to address the most controversial and difficult issue implicitly risen by the E. when it calls for the logic of gift in business relations. This call is clearly not limited to those stakeholders working in a company or running it. As it clearly states that the strategic goals of the company should comprise non reciprocal criteria taking into account in a fair way the needs of its partners, it is also addressed to the shareholders who are to a large extent responsible for the shaping of those goals. They are requested therefore to manage their shares along the principles of the universal destination of goods: a sort of “responsibility towards the companies”\(^2\) whose short and long term behaviour is in their hands. Some of those shareholders can clearly be identified with individual persons and the call of the E. Is a call to them as persons? But more and more, shareholders are mediated by institutions, such as pension funds, which are not ready, in a global context, to be constraint as to their asset portfolio policy beyond prudential rules, mainly geared at protecting their shareholders, not precarious workers, nor vulnerable customers. Also, hedge funds, which are by nature orientated by the search for the highest rewards, tend to play a leading role as to the financial market inclinations and criteria.

This raises the issue of how protecting companies from the abuse of power of their shareholders. This is a controversial issue as North American and continental European cultures quite differ, on how to look at shareholder power. Therefore, any practical proposal: aiming at rebalancing the powers between shareholders and other stakeholders within large companies faces important objections. It is the case, for example, for suggestions made in France by private think tanks suggesting that investors, committed not to withdraw assets during several years, should receive privileged treatment, or for reforms aiming at a diversification of the board of directors, some of them with a specific strategic responsibility. By no doubt, such reforms of the nature of capitalism would have no future, if they could not be extended to a significant group of nations. They require therefore concerted action involving national government and institutional organisations, which means that they are political by nature and go beyond the limits of personal responsibility. Conversely, such concerted initiatives will have absolutely no chance of any kind of development, if they would be faced, from the start, by strong opposition of the business community.

Conclusion: harnessing individual commitment and political responsibility.

Coming back to the title of our contribution, “Caritas in Veritate, work still in progress? “, we should stress that the Encyclica rightly puts its finger where the change, as to the social market economies should start. It should start within companies, at the level of enterprises, engaging in new forms of organisation, or in new strategic orientations, explicitly encompassing the logic of gift, in search of what can be done to take on board the fundamental needs of the various stakeholders, in order to promote their ability do develop, to contribute with their own capacities, to the common good.

\(^2\) This expression is coined from Father Baudoin Roger, responsible for catholic social teaching at the Bernardins College in Paris.
One might think that this cultural revolution of attitudes looking at the needs of workers, customers notably the weakest, the quality of environment, notably access for all too basic goods and utilities, even under the constraint of ensuring sound sustainable business practices, would be, per se sufficient.

We have tried to show that this is indeed not enough, given the competitive environment in which companies operate. At the end, such a move will be consistent with a significant response to the crisis, only if it also aims at being translated into common rules or enforceable codes ensuring that those who initiate new avenues along the logic of gift will not be penalised for this.

By so saying, we are not advocating in favour of coming back, in a pendulum movement, towards pure state interventionism, might the state be replaced by transnational bodies. Quite the contrary, the complexity of world interdependence shows, as confirmed also by the European experience of cross national rule making, that adequate common rules will only be properly designed while taking into account the experience of those who are working with the market. A revolution of rule making is needed, in which private actors have a distinct, “first mover” role to play. Only on the basis of their “best practices“ could the design and adaptation of common rules framing the international markets be reached safely, at least in the most complex cases which require international cooperation. Until now transnational companies have acted as opponents to any kind of strengthening the relevance of the common rules required by subsidiarity. Could this evolve?