

Ethics and Economics: Towards a New Humanistic Synthesis for Business

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ABSTRACT. The Encyclical-Letter *Caritas in Veritate* by Pope Benedict XVI suggests to advance towards a new conceptualization of the tenuous relationship between economics and ethics, proposing a “*new humanistic synthesis*.” Where social encyclicals have traditionally justified policy proposals by natural law and theological reasoning alone, *Caritas in Veritate* gives great relevance to economic arguments. The encyclical defines the framework for a new business ethics which appreciates allocative and distributive efficiency, and thus both markets and institutions as improving the human condition, but locates their source and reason outside the economic sphere. It places a clear accent on the ontological connectedness of the economic and ethical dimensions of human action. It is the proper ordering of means towards the end of integral human development that allows mankind to leave a vicious circle of consumerism and enter a virtuous circle that applies the creativity fostered by markets. This vision implies a new model of business management that integrates considerations of vocation, purpose, and values at a theological level.

KEY WORDS: *Caritas in Veritate*, Catholic social thought, business ethics, economic efficiency, humanism in management, papal encyclicals

Introduction

Not only since the events of September 11, 2001, the conflict between economic rationality and religion has taken centre stage in the public debate. Some religious devotees violently oppose modern economic society as a demonic threat to their identity while secular groups, on the other hand, denounce religion as a whole as a dangerous factor

for peaceful development. These events have brought to our attention that the supposed emancipation of social and political thought from religious values and sentiments may only exist on the surface. This realization defies the self-understanding of the disciplines of economics and business administration. Where classical economics was still grounded in moral philosophy, the development of the discipline into a “science” was accompanied by the conviction that it could and should be conducted positively, i.e. by eschewing any foundation in values and normative reasoning. Although much of “political economy,” as an academic discipline, had its origin in natural theology (*theologia naturalis*) as based on reason and ordinary experience, economics increasingly came to be seen as a substitute for this (Oslington, 2008). The emergence of business administration followed this pattern. Its classical authors such as Fredrick Winslow Taylor, Henri Fayol, Lillian Moller Gilbreth, Henry Gantt, Eugen Schmalenbach, Yoichi Ueno, or Herbert Simon may have diverged in areas and methods of research, but they concurred in their belief that the science of management had only one legitimate goal – the increase of efficiency. In defending the objectivity of scientific theory, the sociologist and economist Max Weber (Brubaker, 1984, p. 54) insisted on a sharp separation between ends and means, and on social science being value-neutral with regard to ends. Economics has since become “self-consciously non-ethical” (Sen, 1987, p. 2). Although some currants in neoclassical economics have recently begun to question this dichotomy, Weber’s methodological stance has dominated in the various areas of business administration until the present day (Albach and Bloch, 2000). It explains the reluctance of management scientists to consider questions of value or meaning ensuing from business decisions, particularly

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if these questions derive from a foundation in religion. Some critics believe that there have been significant costs associated with this growing divide between management and ethics, and a strong orientation of business researchers towards value-free economics has been identified as part of the problem (Ghoshal, 2005).¹

Against the background of a widening disconnect between economics and religion, it is auspicious that Pope Benedict XVI in his Encyclical-Letter *Caritas in Veritate* employs economic arguments to underpin his ethical and ultimately religious argumentation. Previous social encyclicals have justified policy recommendations by arguments from moral theology, including arguments taken from natural law or positive divine Revelation, following the teaching of the Roman Catholic Church. They included economic arguments only peripherally and hardly derived any moral conclusions from them (Yuengert, 1999). Pius XI's encyclical *Quadragesimo Anno* (1931), for example, introduced several principles of social ethics: just wages and worker participation in capital (§§ 63–74), subsidiarity (§§ 79f.), and occupational (vocational) organization (§§ 81–87), in addition to “social justice and social charity” (§§ 88, 126). However, the justification for all of these was exogenous, by referring to the natural law or to theological teachings. By first arguing endogenously, i.e. from within “economic logic” (§§ 32, 36), *Caritas in Veritate* opens up innovative types of deliberation. Most importantly, the Encyclical departs from the traditional assumption in economics and business administration that the goal of efficiency would necessarily exclude other values from being pursued. This article traces these new arguments of papal teaching in the context of Benedict XVI's comprehensive theological reasoning and investigates their underlying rationale. The importance of the document will then be shown as lying in a new conceptualization of the tenuous relationship between economics and ethics, proposing a “*new humanistic synthesis*” (§ 21).

Economic arguments

The principal economic arguments of *Caritas in Veritate* are the following, either in their original formulation or in paraphrase:

- (1) “Profit is useful if it serves as a means towards an end that provides a sense both of how to produce it and how to make good use of it. Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty” (§ 21).
- (2) A greater disparity in wealth is counter-productive, because “through the systemic increase of social inequality, both within a single country and between the populations of different countries [...], not only does social cohesion suffer, thereby placing democracy at risk, but so does the economy, through the progressive erosion of ‘social capital’” (§ 32).
- (3) The “access to steady employment for everyone” must be safeguarded, since “economic science tells us that structural insecurity [of workers] generates anti-productive attitudes wasteful of human resources, inasmuch as workers tend to adapt passively to automatic mechanisms, rather than to release creativity” (§ 32).
- (4) Economic exchange under conditions of trust reduces transaction costs and allows for a greater efficiency of outcomes (§ 35).
- (5) An economic system is not a zero-sum game in which one party wins what the other loses. Thus it is “erroneous to hold that the market economy has an inbuilt need for a quota of poverty and underdevelopment in order to function at its best” (§ 35). Economic development is a positive-sum game in which all parties can achieve higher levels of development.
- (6) Sustainable business policies are different from a “speculative use of financial resources,” i.e. from “seeking only short-term profit, without regard for the long-term sustainability of the enterprise, its benefit to the real economy and attention to the advancement, in suitable and appropriate ways, of further economic initiatives in countries in need of development” (§ 40).
- (7) “The so-called outsourcing of production can weaken the company's sense of responsibility towards the stakeholders – namely

the workers, the suppliers, the consumers, the natural environment and broader society – in favour of the shareholders, who are not tied to a specific geographical area and who therefore enjoy extraordinary mobility” (§ 40).

- (8) A “morally responsible openness to life” is justified by the fact that “the decline in births, falling at times beneath the so-called ‘replacement level,’ also puts a strain on social welfare systems, increases their cost, eats into savings and hence the financial resources needed for investment, reduces the availability of qualified labourers, and narrows the ‘brain pool’ upon which nations can draw for their needs” (§ 44).
- (9) “To consider population increase as the primary cause of underdevelopment is mistaken, even from an economic point of view” (§ 44).
- (10) An internalization of environmental externalities (under inter-generational equity) is needed to achieve the most efficient use of natural resources (§ 50).

As these passages show, economic reasoning in the Encyclical does not have a merely illustrative role. Rather, the Pope argues that efficiency itself is good, because it is required by a good stewardship over resources (§ 50). Since much of current economic activity is inefficient, “economic logic” requires the first step to be that of achieving greater efficiency, although economic action must not stop there. The Encyclical also describes the normative implications of positive economics, for example by stating that “human costs always include economic costs, and economic dysfunctions always involve human costs” (§ 32). This mutual implication amounts to a “convergence between economic science and moral evaluation.” The argument here appears to be within the framework of neoclassical economics, parts of which have indeed dropped any strict distinction between positive and normative analysis (Sen, 1987; Van Staveren, 2001). The defence of the market economy against Marxist and socialist reproaches of exploitation is explicit and follows indications given already by Pope John Paul II in his encyclical *Centesimus Annus* (1991). With the collapse of socialist command economies still

fresh, this document had taken a more positive attitude towards entrepreneurship and a regulated market economy. Yet Benedict XVI makes it clear that the Church “does not have technical solutions to offer” (§ 9). His Encyclical uses economic arguments to warn of problems but not to construct alternatives. Instead it has a “mission of truth to accomplish” (§ 9) from which also follow important criteria for social and political arrangements.

What *Caritas in Veritate* proposes is nothing less than a new basis for business ethics. Instead of retreating to the narrow arguments of individual virtue ethics, Benedict holds the claims characteristic of the tradition of Catholic social thought (CST) that a faith-based view helps to get the priorities right also in the creation of legal and social institutions. Since *Rerum Novarum* (1891), as the first of the series of social encyclicals, it had become obvious that the claim of the Christian message was not restricted to orientations concerning issues of morality or personal life. In fact, no magisterial document distinguishes between personal and social ethics. Benedict XVI now went further than his predecessors by proposing a system of ethics rich in cultural meaning and supported by faith rather than mere moralism, as will be shown below.

The structure of reasoning

Even if we take this important widening into consideration, it would be a grave misunderstanding to read *Caritas in Veritate* as simply an adaptation to current mainstream economics. Though making use of economic language, it does not accept the utilitarian underpinnings of the neoclassical paradigm. Ends are not arbitrary, and Benedict XVI is far from endorsing consequentialism or utilitarianism. He concedes that the search for utility as such may well be beneficial, and this is fully consistent with the Catholic theological tradition. Aquinas had advised to seek what is useful, believing that the will has a natural inclination towards the good (*De veritate*, q. 24, a.8). But not only must ends be good, means directed towards these ends must be effective, efficient, and come at minimal human costs. *Caritas in Veritate* neither denounces efficiency nor implies that striving for it is an idol that drives out true values.² But it does place human persons into a category that

is not reducible to labour as a factor of production, and here one finds a crucial difference from some important lines of neoclassical theory: “the *primary capital to be safeguarded and valued is man*” (§ 25). The Encyclical is not built on ontological or methodological individualism; its social ontology assumes a complex congeries of persons, institutions, and relations between these. Any assumption of a free pursuit of individual utility leading to an optimum social equilibrium without an institutional framework is an ideological illusion. To this extent, the Encyclical argues from the vantage of institutionalist political economy.

Caritas in Veritate employs economic reasoning but at the same time criticizes an economistic conception of man and society. Persons are not merely economic agents defined by preference functions. At the centre of CST has always been a relational view of the person as embedded in communities such as families, villages, professional groups, firms, and nations, all generating respective rights and duties. Economic decision-making can therefore not simply be seen as an abstract allocation of scarce resources but occurs in a social space filled with institutions and normative structures. Markets are such social spaces, and as mere institutions that permit persons to exchange goods and services in order to satisfy needs and wants, they are morally neutral (§ 35).

The Encyclical thus identifies two causal loops that describe opposing options to use markets (Figure 1).

Many people are caught in a vicious circle of consumerism and media trash, which only creates those “needs” which it presumes to satisfy. The Pope denounces elements of a vulgar “popular” culture as a pathology of Western societies – a theme which he had visited in his previous writings (Rowland, 2010, p. 33ff.). In doing so, he accommodates reservations which many religious people around the world – especially from emerging and developing countries – have raised against the models of development which are offered to them by secular progressivism. They object to certain types of “value propositions” which ignore human dignity, religious symbols, traditional family structures, and moral feelings, all of which are to be sacrificed to facilitate marketing strategies of companies based in highly developed industrialized countries.

While markets can produce depravity and despair, they can also foster attitudes of self-discipline and human creativity, which allow for prosperity and integral human development. The cardinal question is that of how to set the course between the two trajectories. Since markets cannot by themselves generate the values that allow for a transition from a vicious to a virtuous circle, they must be complemented by appropriate institutions. Religious values transmitted by families, schools, churches, or civic organizations can, quite independently of government intervention, hone the creativity, determination, and vision of economic agents to build

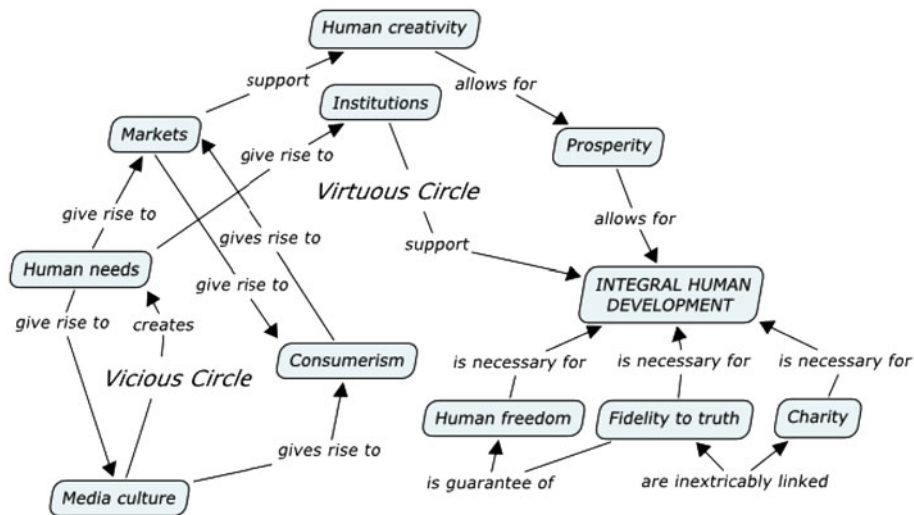


Figure 1. Structure of principal arguments in *Caritas in Veritate*.

prosperity and contribute to integral human development (§ 7, 53f.). The Encyclical relies neither on an “invisible hand” nor on spontaneous market forces creating economic order. In Benedict’s Augustinian theology, such models of economic theory are figments that are ruled out by a view of the person as a relational being created for a purpose, by the reality of sin, and by ineradicable failings in human nature (§§ 34, 48). They rely on an erroneous view of man, who is seen to be “completely controlled by the binding laws of the market while believing he acts in freedom from them” (Ratzinger, 1986, p. 200). Adam Smith’s “liberal” model is in fact “deterministic in its core” in believing “that the free play of market forces can operate in *one* direction only [...], namely toward the self-regulation of supply and demand, and toward economic efficiency and progress” (*ibid.*). In the spirit of Augustinian realism about man and the world, Benedict doubts such progress and questions the “perhaps even more astounding presupposition, namely, that the natural laws of the market are in essence good” (*ibid.*). Rather than relying on spontaneous market forces, *Caritas in Veritate* sees the human need for security (or, more generally, Keynes’ “animal spirits”) lead society to develop social, economic, and governmental institutions that, if employed prudently, are able to overcome sinful propensities and support human development. Yet the Encyclical does not rest on a Pelagianism that promises self-salvation through institutions. Human freedom is indispensable for the good life, and it is guaranteed by fidelity to the truth, which in turn is inextricably linked with charity: “Intelligence and love are not in separate compartments: *love is rich in intelligence and intelligence is full of love*” (§ 30). The main arguments of *Caritas in Veritate* may then be depicted in a graphical form (Figure 1).

One of the contributions the Encyclical makes to business thought is that economic actions in markets do not confine consumers and producers to the vicious circle but open up the virtuous circle towards integral human development. The moral potential of business activities is even emphasized in an astonishingly informed way that is based on current findings. For example, efficiency is credited with improving the allocative function of markets, which is a precondition for achieving ethical goals. The Pope points out the benefits of international trade, which by lowering prices through a substitu-

tion effect increases consumers’ purchasing power and standards of living. Yet the mobility of factors of production that enables trade again has positive and negative impacts, and both need to be balanced in the interest of integral human development (§§ 24f., 58). Since trade is to serve humankind, no inexorable laws are “built into the system.” Moral considerations may well constrain certain deals. Business deals in the abstract are not evil; concrete human actions may be.

In previous documents of Catholic social teaching, the exact role of efficiency had remained somewhat hazy, particularly with regard to the ordering between economic and moral criteria (e.g. *Compendium of the Social Doctrine of the Church*, § 344). A tendency towards a moralistic ethics prevailed, with many mandates and prohibitions slapped onto business. *Caritas in Veritate* introduces a greater clarity here which reflects its being more explicit about the theological matrix of ethical reasoning. Business ethics may, based on St. Augustine, nearly be reduced to one overriding maxim: Be guided by charity, and let your other decisions follow.³

The rationale for economic arguments

The openness towards economic reasoning, which exceeds that in all earlier works of papal social teaching, may come as a surprise. Benedict’s focus is on love (*caritas*) rather than on justice, which had served as the cornerstone of the German social ethics tradition since the Jesuits Gustav Gundlach and Oswald Nell-Breuning influenced Pius XI’s social encyclical *Quadragesimo Anno* (von Nell-Breuning, 1986). Some recent critics among journalists and theologians, especially in Benedict’s home country Germany, have indeed interpreted the changing architecture as “inward-looking” and as an expression of a rarefied and moralistic virtue ethics aloof from social reality (Deckers, 2009; Drobinski, 2009). In their eyes, *Caritas in Veritate* falls below the level of interdisciplinary sophistication which had been reached by that earlier tradition that focused squarely on social justice. However, particularly the Augustinian stream in which Benedict stands is far from any trite moralism that, as Max Weber and others have shown, is distinctive of nations with a Puritan heritage (Weber, 1930, p. II, chap. 4.A). In fact,

economic arguments are an antidote to it, as proofs that an exogenous (or extrinsic) moral code need not even be invoked if certain economic policies already fail the endogenous test of efficiency. And the Encyclical itself emphasizes continuity: “[...] clarity is not served by certain abstract subdivisions of the Church’s social doctrine, which apply categories to Papal social teaching that are extraneous to it” (§ 12).

We suggest that the logic of *Caritas in Veritate* lies in the rejection of the separation between positive and normative arguments, which again derives from a coherent view of social reality. The supposed autonomy of economic “science” is at the base of what is presented as an “economist fallacy”: “the conviction that the economy must be autonomous, that it must be shielded from ‘influences’ of a moral character, has led man to abuse the economic process in a thoroughly destructive way” (§ 34). Economics is no more separate from social goals than economic agents are from concrete persons embedded in social and political reality.

Previous papal teaching had already dismissed economists’ claims to the isolation of positive analysis from values, criticizing them for denying its normative content (Yuengert, 1999, 35ff.). A distinction between positive and normative economics may well be held at the level of methodology, but not at the underlying level of ontology – for the economic order depends on the moral order (*Quadragesimo Anno*, § 42). Benedict expresses this by saying that “*the economy needs ethics in order to function correctly*” (§ 45) whereas morally justified behaviour can occur under different economic régimes. He argues that “all social action involves a doctrine” (§ 30) and that supposed “value-free” economic thought is actually theory-laden: “The economic sphere is neither ethically neutral, nor inherently inhuman and opposed to society. It is part and parcel of human activity, and precisely because it is human, it must be structured and governed in an ethical manner” (§ 36). Already in 1985, the then Cardinal Ratzinger had warned that a decline in ethics “can actually cause the laws of the market to collapse” (Ratzinger, 1986, p. 204). All this points to the precedence of ethics, which is divinely ordained, over economic systems.

With this argument, *Caritas in Veritate* in fact appears curiously pre- or post-modern. Modernity

from Hume to neopositivism drew a distinction between fact and value, “is” and “ought,” or the positive and the normative. Modern economic analysis of whatever methodological direction – from Ludwig von Mises to Milton Friedman and Paul Samuelson – relied on it without fail, and the same stance was adopted by management theory. However, even in economics, there are nowadays few who would uphold the claim to a merely positive science. It has been largely recognized that economic efficiency and Pareto-optimality themselves are normatively chosen means towards the end of maximizing consumption or production rather than being unproblematically value neutral. Work that reveals the normative commitment of economic research even at the methodological level has become abundant (Brennan and Eusepi, 2010; Dean and Waterman, 1998; Sen, 1987; Van Staveren, 2001). The debate has rather shifted to the choice of a normative framework within which to conduct an analysis which, if no longer value-free, often still takes its cues from physics. Any mechanistic approach, however, is contrary to CST, which builds on the goal-orientation, responsibility, but also spontaneity of human agents.

For Benedict XVI, the distinction between fact and value does not only break down at the methodological level or that of the philosophy of language. The papal position is starkly different here from that of some contemporary philosophers and economists such as Hilary Putnam and Amartya Sen, who accept this breakdown but refuse to explain it by an ontological continuity (Putnam, 2002; Sen, 1987). For Benedict XVI, the factual and normative spheres of reality cohere, and values are part of reality. *Homo oeconomicus* as a self-interested utility maximizer is not a truly ontological construct of man; decisions on economic matters are taken by the same humans who take them on moral, aesthetic, or simply family matters. But this implies that there is also no domain of the “economic” with its own facts and laws. The illusion that the economy was somehow “autonomous” and insulated from moral considerations “has led man to abuse the economic process in a thoroughly destructive way” (§ 34). Segregating charity from the marketplace, and treating justice as an afterthought that might “correct” the outcome of the market process instead of defining its end and determining every step in the

process, leads inevitably to social injustice and lack of true freedom. Government paternalism is as problematic here as is an ideological orientation towards efficiency for its own sake. A value-free science is thus not only undesirable; it is impossible. If this is so, intellectual activity necessarily involves making moral choices.

The Encyclical uses economic reasoning to strengthen its arguments and at the same time criticizes economic concepts which go against basic values of Christian humanism. Most of all, however, it does not treat economic reasoning as an exclusive basis to model human relationships in a modern economy. Rather, it argues for an integral understanding of economic activities which also includes the role of “relationships of gratuitousness, mercy and communion” (§ 6) (Habisch and Adai, 2010). Production, consumption, and exchange are integral parts of human existence, as are moral valuation and the quest of meaning. The Encyclical does not separate economic activity from other spheres of life. It is for this reason that Benedict XVI in the same document, and with the same logic, addresses issues of migration, technology, energy, or bioethics.

Already in the 1920s, the Austrian theologian, jurist, and economist Johannes Messner proposed an interdisciplinary methodology which, in a manner very innovative for his time, presented economic theory as an important device for clarifying ethical reasoning in the social domain (Messner, 1927, 1965). Messner was confronted with an anti-economic approach of large parts of his church-related contemporaries. He tried to show, however, that Christian convictions and arguing in the economic mode are by no means contradictions. For the identification of concrete policy goals, social ethics (as a heuristic) and economic analysis (as an analysis of restrictions) should interact (Homann and Blome-Drees, 1992). The goal of helping needy groups, for example, must acknowledge their personal dignity; however, it should also employ economic analysis to determine whether a certain policy instrument proposed really strengthens their position or rather weakens it because of unintended side-effects. Protecting elderly workers from dismissal may grant them more security; however, it may also hinder younger people from finding a job and augment youth unemployment, which is especially problematic since young people may feel that they are not

welcome in society. Helping single parents who rely on welfare payments might enable them to live a better life with their children; however, it might also nurture long-term dependency and an attitude of “acquired helplessness”. The Christian concept of a human person and of solidarity may serve as a heuristic orientation for development – a long-term orientation which every market economy urgently needs.

On the contrary, if it disregards the ultimate goal of integral human development, the market system suffers from imperfections. Markets are efficient instruments for the production and exchange of goods, and thus for wealth creation. However, free exchange only allows for commutative justice (§ 35). Externalities, the limited time horizon of decision-makers, unintended consequences, bounded rationality, and other restrictions lead to market failures. And the Encyclical adds that profits undermine the otherwise desirable creation of wealth if they do not recognize the common good as their ultimate goal (§ 21). The market needs social cohesion for its proper functioning but cannot produce it by itself (§ 35). Since economic action gives rise to both virtuous and vicious circles, the problems it creates must be resolved through the political process, which aims at distributive justice.

To be sure, *Caritas in Veritate* does not haphazardly tap into some opaque forms of argumentation; rather, the tradition of CST offers very intriguing lines that open up a dialogue between religion and economic analysis but that somewhere fell into oblivion during the recent decades. *Caritas in Veritate* paves new roads for religious engagement in modern society. Understanding the context of a market economy not as a contradiction but as a possibility as well as a constraint for the realization of their goals is a challenging learning process. At the same time, a dialogue with social ethics serves as an efficient corrective for managers.

The new view of management

Caritas in Veritate calls for nothing less than for “a profoundly new way of understanding business enterprise” (§ 40). This suggests a view of business activity that emerges from previous papal teaching but is distinctive or new in at least the following characteristics:

- Entrepreneurial or managerial action cannot be dissociated from economic goals, which in turn must contribute to integral human development (§§ 34, 41).
- Ethics is deeply integrated into the structure of entrepreneurial or managerial action such that any attempt at arriving at decisions on merely “technical” grounds must fail (§§ 36, 70–73).
- Business activity “is present in all work, understood as a personal action,” and management should therefore foster the creativity of employees, for example through “cross-fertilization between different types of business activity” (§ 41).
- The search for ever more efficient solutions on which classical management theory has embarked is justified but limited in that it is a necessary but not sufficient condition for good management (§§ 50, 70).
- Business must again find stabler structures of corporate governance built on a responsible management over longer periods of tenure (§§ 40, 47).
- Businesses must again find stronger roots in the territories they serve rather than being footloose; even though globalization cannot be stopped, a commitment to particular territories can be developed (§§ 25, 33, 37, 47).
- Corporate social responsibility, which truly rests on personal virtues, cannot be reduced to attitudes towards specific groups of stakeholders but extends to the entire value chain and all stakeholders (§ 40).
- Management must not be practiced (and studied) in isolation from its proper ends, for good objectives are intrinsic to good management, and the micro–macro link is crucial to recognizing these objectives (§§ 38, 58).
- Good decision-making depends on a proper order of virtues, with charity being the chief one that animates all others (§§ 30–34; 1 Corinthians 13).
- Culture has a crucial role of mediation by providing incentives for the correct ordering of values to be implemented in virtuous entrepreneurial or managerial actions, where efficient results are a criterion of virtue (§§ 32, 36f.).

- Ultimately only revealed religion can provide meaning to the proper roles of entrepreneurs and managers, which are understood as vocations (§§ 7, 11, 16–19, 52, 69).

With this new interpretation, *Caritas in Veritate* introduces a powerful corrective to mainstream management thought. It is both path-dependent by emphasizing efficiency and transcends the tradition by suggesting a different rationale for ever more efficient solutions. Management thought must depart from any reliance on rational choice theory with its formalistic and ultimately utilitarian notions of rationality. Management at the micro-level of the economic system must serve integral human development at the macro-level. And business ethics loses its role as a putatively independent corrective of managerial action that includes its own justification.

What the economic arguments of *Caritas in Veritate* proclaim is that our failings to support integral human development and a just society are grave, but that they are all the more serious because we have not even created a truly efficient economy by the standards we have believed to be the right ones. Before our moral failings come our intellectual failings – “man’s darkened reason” (§ 36). Economic development, for example, is by any account a very complex issue; simple solutions such as a mere redistribution of wealth are bound to fail because poverty is not reducible to lack of material resources: “At the same time, in some poor countries, cultural models and social norms of behavior persist which hinder the process of development” (§ 22). But we can in principle understand the roadblocks to development. Benedict XVI sounds an optimistic message because he shows confidence that the problems we face have solutions.

If “new solutions” (§ 32) are to be promising, they must overcome the blockages in economic efficiency first, for markets can be beneficial institutions (§ 35) and the instruments of business are in themselves good (§ 36). But economic forces are not the only ones in society, and they must be ordered towards good ends. This cannot be expected of the economic system itself nor of any secular ethics that makes ultimate values depend on human consensus. The reason for this lies in the impossibility known from systems theory for any system to explain itself or define its own rules.

When *Caritas in veritate* calls for a “new humanistic synthesis” (§ 21), this implies also a new and dynamic equilibrium between economics and religion. Earlier papal teaching saw the economic order depend on the moral order and yet economics and moral science both employ “each its own principles in its own sphere” (*Quadragesimo Anno*, § 42). Benedict XVI goes beyond a static mirroring of the moral order by social science. Economic analysis in turn may challenge the faculty of ethical judgment, as it may inform about unintended consequences of certain social or political postulates. It may also strengthen the reasoning of social teaching because it shows that it corresponds to the inherent economic logic of a truly sustainable development. The envisaged synthesis is a dynamic two-way relationship.

This new model of business constitutes not only a stark corrective of the forms of management entrenched in capitalist societies, particularly as these have led to the economic crisis that has been the historical setting for the Encyclical. It also suggests entirely new forms of business. The suggestions of *Caritas in Veritate* on gratuitousness (§§ 6, 34, 36, 38f.), the “civil economy” (§§ 38f., 46f.), and the “economy of communion” (§ 46) are strongly integrated into the theological argument of the Encyclical. They follow from Benedict’s thought on the nature of economic action, which in turn derives from his theological anthropology. They are by no means a mere “add-on,” as critics of the Encyclical have claimed (Weigel, 2009). The focus on reciprocity and on alternative business enterprises sustained by civil society rather than, much more narrowly, the owners of financial capital, flows from the underlying orientation towards charity. A traditional “social justice” orientation of the Thomistic tradition restricted itself to calls for an authoritative interference by the government administration into distributive outcomes. Charity, on the other hand, is preemptive by inviting personal engagement, social entrepreneurship, ethical investment, and creative management techniques such as an unequal distribution of workloads over the life- and family-cycle or true employee participation in the share capital.

The new models of enterprise that *Caritas in Veritate* advocates, for the first time in the history of CST, cannot simply be relegated to the “non-profit” sector, for they are meant to assume a place in the mainstream (§ 46). The third sector of gra-

tuitous giving and volunteerism breaks the binary model because of an underlying anthropology which sees humans not only as social but also as spiritual individuals. Since “commercial logic” evidently cannot solve all social problems, it follows “that in *commercial relationships* the principle of *gratuitousness* and the logic of gift as an expression of fraternity can and must find their place within normal economic activity” (§ 36). This implies that even the old distinction between “for-profit” and “non-profit” enterprise erodes, as a hybrid third category has established itself that combines properties of both. Gratuitousness is at work in many “for-profit” operations as well, for example, in cooperatives, in family businesses, in social enterprises, in employee stock ownership plans, etc. And it stands behind a series of business strategies like stakeholder dialogues, certain types of engagement as corporate citizens, ethical investment funds, or corporate volunteering, which may certainly also be analysed in economic terms. Economic reasoning must not limit its applicability by exclusively assuming selfishness. Regard for the common good, too, is “demanded by economic logic” (§ 36). There is now already a voluminous economic literature on factors of “social preferences” such as altruism, intrinsic motivation, fairness, and reciprocity (Fehr and Fischbacher, 2002; Frey, 1994; Kolm and Mercier Ythier, 2006).

In breaking down traditional boundaries, Benedict XVI also rejects an ontological division between a realm of “value-free” economic analysis and an area of “ethical preferences,” the latter remaining vague and subjective and seemingly having no impact at all on the social and political structure of a society. Instead he proposes integration and methodological sequencing – first the selection and justification of policy proposals by economic arguments, then that of economic goals themselves by ethical reasoning, with adequate considerations at all levels being motivated by charity. This new understanding of the proper nature of economic action has many implications for decisions about investment, market entry, organization, corporate governance, marketing, and other functions of business enterprises, that will now have to be studied in detail. Special consideration will have to be given to those new types of businesses in the “economy of communion” to which *Caritas in Veritate* has now drawn our attention (§ 46). And finally, bridges will have to

be built to those approaches in management theory that are germane to the new magisterial teaching. The various movements of humanistic management (Melé, 2009; Rosanas, 2008; Spitzbeck et al., 2009) must be engaged here, in full knowledge that only “authentic humanism” (§ 78) will suffice to justify authentic goals, as must be attempts at developing practical wisdom (*phronēsis*) in management (Nonaka and Toyama, 2007), and some of those approaches in the functional disciplines of business that go beyond a narrowly “technical mindset” (§ 71). Those enterprises that, at least to some degree, have already achieved this “new humanistic synthesis” can serve as a guideline. One may think of the “economy of communion” but also of many for-profit and non-profit enterprises that seek to integrate principles of reciprocity, mutuality, and solidarity (Alford and Naughton, 2001; Benefiel, 2008; Cornwall and Naughton, 2008).

The new view of business ethics

The new understanding of the role of business that *Caritas in Veritate* presents has important implications for the role of business ethics. Most previous authors have defined the relation between business and morality in terms of an ordering – subordination of one to the other or co-ordination between the two. Morality has been located in economic actions, respectively the mental dispositions underlying them. Consequently, business ethics has been regarded as a discipline in relative autonomy from business administration that ought to mediate between managerial realities and ethical exigencies.

Pope Benedict XVI takes a radically different approach. He does not postulate dichotomies between the domains of economics (or business) and morality. The Encyclical does not condemn efficiency, rational choice, the market, or even self-interest. Rather, it points to their limitations and emphasizes that a correct ordering of these means towards a transcendent goal is necessary. Efficiency is not good simply because it allows for greater outputs with fewer factor inputs. Rather, it is an imperative of creation, ennobles the calling of human beings, and may in some cases be required by the precautionary principle. Efficiency is thus only a methodological antecedent, not an ontological prior, to

other criteria in policy analysis. The basic problem in a market order is not seen to lie in a categorical contradiction between economic goals and ethical constraints, as many approaches to business ethics would have it. Secular ethics attempts to develop rules for conduct in business. Much of *Caritas in Veritate* is dedicated to the demonstration that such rules are without foundation if they do not derive from a transcendent order (§§ 11, 29, 34, 45). Before he became Pope, Ratzinger wrote: “A scientific approach that believes itself capable of managing without an ethos misunderstands the reality of man. Therefore it is not scientific. Today we need a maximum of specialized economic understanding, but also a maximum of ethos so that specialized economic understanding may enter the service of the right goals” (Ratzinger, 1986, p. 204). Goals, however, cannot be defined and justified by a system of rules itself that is purely instrumental. He objected that the selection and ordering of values that make up an ethical system is itself founded on an ultimate justification. Ethics requires a foundation: “An economic policy that is ordered not only to the good of the group – indeed, not only to the common good of a determinate state – but to the common good of the family of man demands a maximum of ethical discipline and thus a maximum of religious strength” (Ratzinger, 1986, p. 204).

Caritas in Veritate builds on Benedict’s long-standing teaching that religion must not be reduced to a social or individual ethics, as Kant proposed to do, and that morality must be distinguished from moralism. Expecting too much of man means moving him into the sphere of the divine. By expanding the distance between divine and human standards, morality becomes increasingly “foot-loose” and serves a social or political purpose rather than being embedded in a comprehensive vision of meaning. Already long before the beginning of his papacy, Cardinal Ratzinger had argued not only that economic decisions must not be divorced from an ethical perspective. Rather, he entertained the bolder claim that true morality requires economic analysis: “A morality that believes itself able to dispense with the technical knowledge of economic laws is not morality but moralism. As such it is the antithesis of morality” (Ratzinger, 1986, p. 204). Ethics is the pursuit and practice of morality under reason, not merely reflexive obedience to rules and

customs. Against any moralism, *Caritas in Veritate* proposes instead an Augustinian understanding of morality in business, which originates at a deeper – anthropological and theological – level, namely in love as “desiring another person’s good and taking effective steps to secure it” (§ 7). Such morality is not defensive, protective, or obsequious, but is motivated by being ordered towards action.

Much of business ethics has consisted in a *post factum* analysis and critique of business decisions, with managers and organizations usually in the dock. Corporate interests have often brushed it aside as uninformed moralizing. Much as this caricature is unwarranted, the dominant model has been rather that of a prosecutor than of an advisor to business. According to the logic of *Caritas in Veritate*, business ethics should seek a deep integration of ethical thinking into the mindset of managers and should thus become preemptive. The discipline is itself called to participate in the creative work of developing alternatives – in an offensive and entrepreneurial rather than a narrowly defensive and prosecutorial spirit. Benedict XVI reminds us time and again that business as such can have great value for integral human development if it can leave the vicious and enter the virtuous circle. The biggest defect of most businesses is not one of commission but of omission – that they do not live up to their potential in contributing to human flourishing (Kennedy, 2006).

The Encyclical itself provides examples of this new thinking. In discussing the economic recession of 2007–2010, for example, the Pope does not see the fatal flaw of the investment banks in having sought profit; he sees it in their pursuit of profit without productivity. They were not doing what they were supposed to do – provide capital to drive the economy. The financial sector is by its nature and calling an “*instrument directed towards improved wealth creation and development*” (§ 65). The billions of dollars invested in derivatives might have been used instead to set up new firms, hire new workers, and furnish new products, and thus to make life better for millions of people. The crisis was an instance of finance having lost its proper purpose (§ 40; Zamagni, 2009). Business ethicists, one may conclude, limit themselves beyond reason by merely addressing the relations between means and ends in business if they not also answer which ends are

proper to the human person. Attempts at providing merely a procedural blueprint for decision-making lack a sufficient foundation. The choices here are basically between a rather arbitrarily defined basis in secular humanism and a deeper one in revealed religion.

The new basis of business ethics proposed in the Encyclical lies in two *data* – “the inviolable dignity of the human person and the transcendent value of natural moral norms” (§ 45). But again the Pope prefers to argue with an endogenous logic: “When business ethics prescind from these two pillars, it inevitably risks losing its distinctive nature and it falls prey to forms of exploitation; more specifically, it risks becoming subservient to existing economic and financial systems rather than correcting their dysfunctional aspects” (§ 45). In other words, any business ethics that does not rest on firmer foundations than mere human convention will itself fail because of its own ineffectiveness. And it is unlikely to attenuate the clash between religion and economics that has become the challenge of our century.

Conclusion

Caritas in Veritate makes a stronger use than previous encyclicals of economic arguments, emphasizing especially perceived inefficiencies in current economic conditions. It thereby breaks down the antithesis between efficiency and morality on which both the insistence on autonomous economic analysis and the opposition to market forces were based. But enhancement of efficiency is only the first step in an “economic logic” or “commercial logic” that has a clear purpose – to contribute to integral human development. Economic activity is embedded in society and culture and must therefore neither be reduced to a “pure” logic of action nor be seen as by its nature suspicious or sinful. In this sense, the Encyclical bridges the gap between religion and economics, and between religion and business, by refocusing on their proper purpose.

The Encyclical mentions several business models and strategies that are within “commercial logic” but differ from the shareholder-dominated model. Further studies should investigate these. While there is much work on the application of CST to business at the macro-level, there is little on its impact on

tactical and operational decisions. Few studies have considered how CST relates to theories of management, organization, marketing, or finance (Porth and McCall, 2001). Even the “economy of communion” that Benedict celebrates as an innovative business model has received little attention (Bruni, 2010; Gold, 2010).

If there is no longer a chasm between efficiency and equity, or economics and ethics, the traditional view of business ethics as an incidental corrective of business decisions *post factum* becomes moot. If charity influences decision-making at all stages within a relational view of business, considerations of ethics become indeed deeply integrated into the conduct of commerce. Much further work needs to be done to bring the theological vision of *Caritas in Veritate* to fruition in economic reality. It is work that is of great importance and urgency.

Notes

¹ Ghoshal made this claim specifically for two theories of supposedly value-free economics, i.e. agency theory and transaction cost theory, which have been widely applied in business administration.

² Romantics about social justice raised this critique for decades in opposition to economics and the market (Messner, 1965).

³ “Love, and do what thou wilt” (*Dilige et quod vis fac*) (In *Epist. Joann. Tractatus*, VII, 8) in *Patrologiae Cursus Completus*, Series Latina. Ed. J.-P. Migne, Vol. 35 (1841) (Garnier, Paris).

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