



Statement on the

“Questionnaire” for the conference
Towards the Global Common Good: for a more inclusive economy

Title of the UNIAPAC-Statement:

“Prosperity for all”

**The role of business, government and civil society
in overcoming poverty**

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1) Introduction

God the creator has given the earth with all its natural resources to mankind as a whole.

„Man, created in the image of God, shares by his work in the activity of the Creator and (...) continues to develop that activity, and perfects it as he advances further and further in the discovery of the resources and values contained in the whole of creation“. (LE 25)

Thus, the human person is endowed with unimpeachable dignity. “The beginning, the subject and the goal of all social institutions is and must be the human person” (GS25). This Human dignity and the universal destination of goods form the basis of the global common good, “that is, the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment (GS 26).

Man’s ability to work and make productive use of the natural resources is key to live his life in dignity. In human history, the social as well as individual nature of the human person has led to an ever increasing division of labour. This has opened uncountable opportunities for the individual to make free personal choices and, hence, develop his or her personality. At the same time it brought about cooperation and mutual exchange in competition.

Entrepreneurship has developed naturally out of division of labor. An economy based on a sophisticated division of labour needs entrepreneurship in order to organize, to coordinate, to invent, to take risks etc. This has led to a tremendous increase in productivity and progress in terms of civilization. In the last 200 years this brought about unprecedented economic growth as a basis for a dramatic growth in the world’s population.

“Businesses produce many of the important conditions which contribute to the common good of the larger society. Their products and services, the jobs they provide, and the economic and social surplus they make available to society, are foundational to the good life of a nation and of humanity as a whole. Countries that do not have enough business activity tend to lose their best-trained people to other countries because they cannot see a future for themselves or their families in their present situations. Some societies do not produce enough collective and public goods to ensure human life in dignity. Businesses are therefore essential to the common good of every society and to the whole global order. They contribute best when their activities are allowed to be oriented toward, and be fully respectful of, the dignity of people as ends in themselves who are intelligent, free, and social.” (Voc 35)

Business leaders have a vital and indispensable function and their role is essentially a social one:

- meeting the needs of the world through the creation and development of goods, which are truly good and services, which truly serve, taking into account the special needs of the poor,
- organising good and productive work respecting and fostering the human dignity of the employees and promoting the integral development of the human person,
- and creating sustainable wealth and distributing it justly to the various stakeholders

The value of the business leader and entrepreneur willing to assume the risk of starting a new businesses in spite of having less daring alternatives providing safer returns must be acknowledged and highlighted. The “job of creating jobs” must be respected and, when possible, eased.

Business leaders, however, should not only respect their legal obligations and operate fully in accordance with laws and regulations, respect minimum social and ecological standards and accept local and foreign competition. They can go the extra mile and put resources and innovative creativity to the service of the poor by designing goods and services for the 'bottom billion' (Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, 2007). In doing so they have to be alert of the dangers of consumerism, that is the materialist(ic) reduction of the human person.

Already Pope John Paul II. has warned in his encyclical 'Centesimus annus' of the danger, to replace materialist socialism just by another way of materialism and by refusing human liberty and dignity: '... the affluent society or the consumer society (...) seeks to defeat Marxism on the level of pure materialism by showing how a free-market society can achieve a greater satisfaction of material human needs than Communism, while equally excluding spiritual values. In reality, while on the one hand it is true that this social model shows the failure of Marxism to contribute to a humane and better society, on the other hand, insofar as it denies an autonomous existence and value to morality, law, culture and religion, it agrees with Marxism, in the sense that it totally reduces man to the sphere of economics and the satisfaction of material needs' (CA 19).

The poor have to be seen as human beings with social, cultural and religious needs and not only as consumers of material goods. This implies the rejection of a simple welfare mentality, which degrades them to mere objects. They rather have to be seen as producers, too. Only if they can actively take part in the creation of wealth – either in gainful employment or as (small scale) entrepreneurs – they will be subjects of an inclusive economy. The fair and just distribution of wealth starts with the inclusion of the poor into the process of production and giving them access to the formal economy. It is a matter of dignity of the poor to recognize their own efforts to overcome their misery. Initiatives like micro finance, social entrepreneurship, mutual self-help etc. show that little support can make a big difference in that respect.

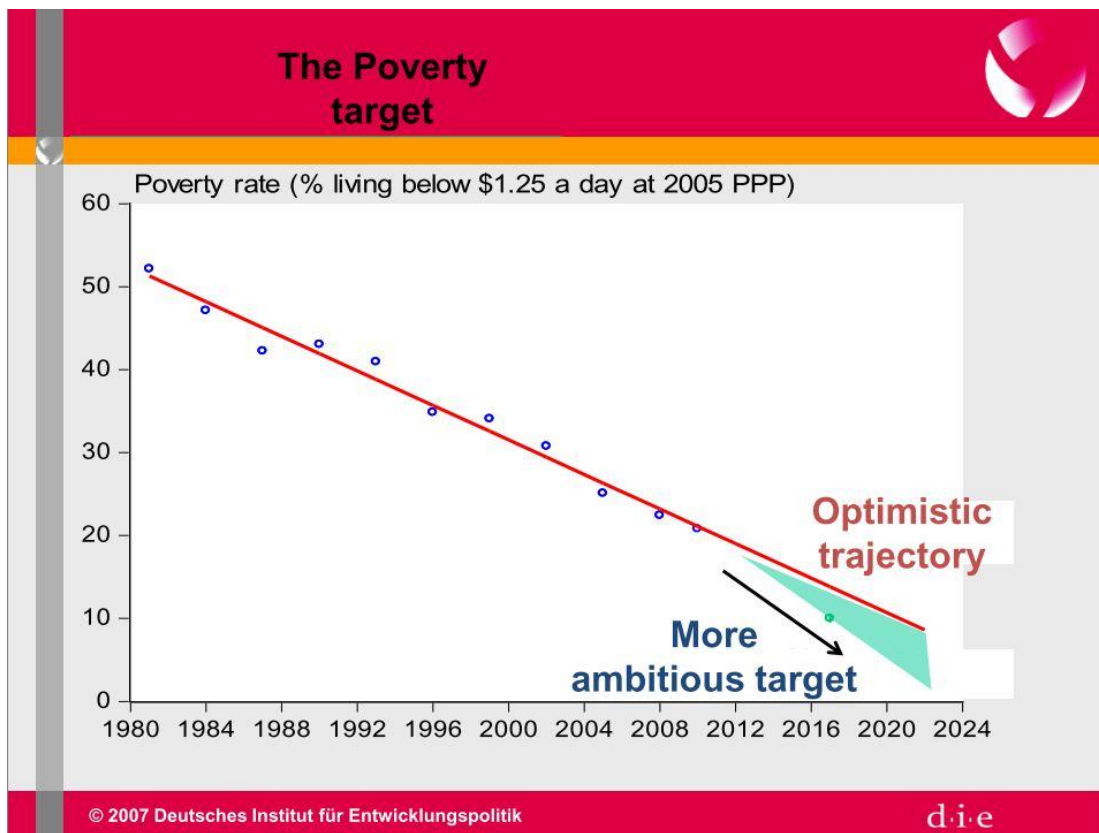
The environment and the natural resources of creation are currently being overused. There is a consensus, that if all inhabitants of the earth would live a life style like the industrialized countries, there would be a collapse of the eco-system of our planet. What can be the solution?

The erosion of the value of modesty and the explosion of materialism, individualism and hyper-consumption is an undeniable reality and one of the most important – if not the most important – factors behind "*the new idolatry of money*". It would be too simple, however, to attribute this phenomenon only to the "present market system or to "the empowerment of the strong over the weak".

Sustainability comprises the "three dimensions" of economic, social and environmental development. These three structural dimensions can only make sense when oriented around the "human person". There is a growing consensus that these three dimensions with the fourth focus (the person) should be considered in any business.

2. Fighting the scandal of poverty

Poverty is a real scandal, indeed, but the facts are overwhelmingly clear: Over the last 20 years, more than 750 million people were lifted out of extreme poverty (< \$1.25 a day) thanks to the economic development and dynamism of the modern market economy. Never in human history have we witnessed such a dramatic reduction of poverty. In fact, extreme poverty has been more than halved from 47% of the world population to 22%. These 22% remain an absolute scandal, but this reduction is a fact full of hope.

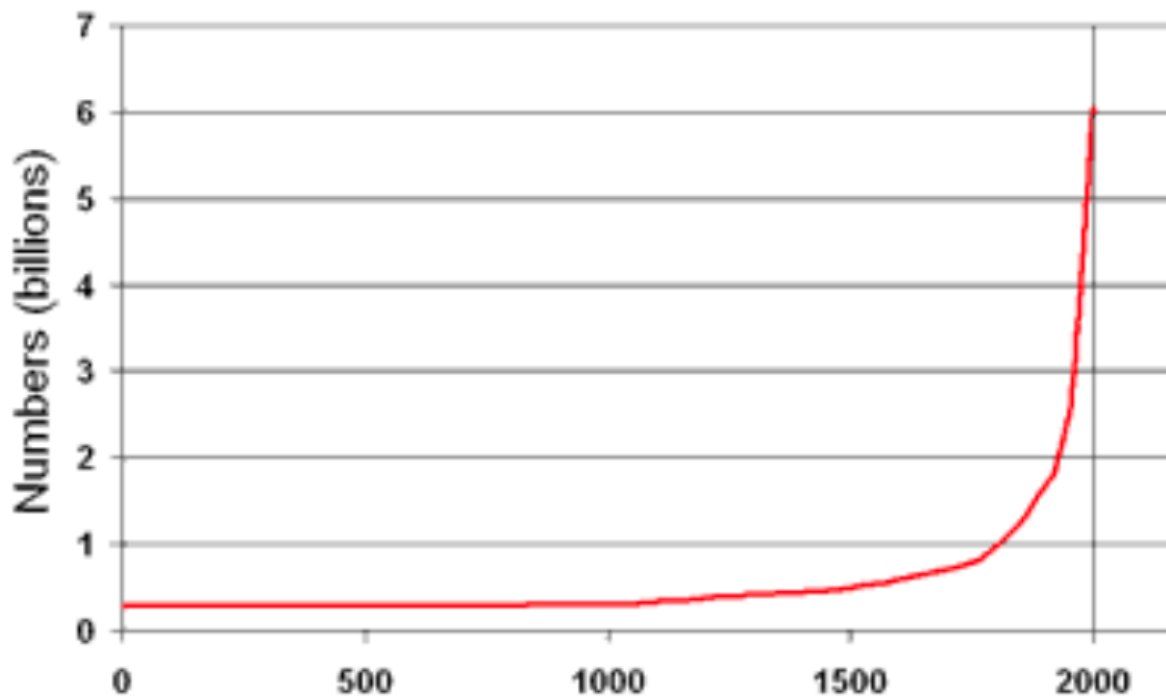


Especially successful were those countries that were able to integrate into the process of globalisation and the international system of division of labour. This is especially true for many countries in Asia. Not only there but in many other countries as well a new middle class has been emerging. In the former communist/socialist countries in Central and Eastern Europe the living conditions of the majority of people have improved significantly. Never before in human history have so many people been integrated into the modern economy than in the last 25-30 years.

As the two graphs below show, the emergence of a modern market economy brought about the exponential growth of both, the world population and income per capita. Only modern market economy made it possible for mankind to escape the 'Malthusian trap' (Every increase in growth was followed by an increase in population, thus making higher per capita income impossible and limiting the population growth for centuries.) and to create the living

conditions for an ever growing world population. In former centuries, they simply would not have survived and would never have had the opportunity to start families and have children. This economy enables life!

Past World Population growth



Source: Gregory Clark, *A Farewell to Alms. A brief economic history of the World*, Princeton 2007

Having said this, we have to admit that even though globalisation has narrowed the gap between the rich and the poor countries, it hardly narrowed the gap between the richest and the poorest within the “winner” countries to the same extent. Nevertheless, there are a number of countries that did not manage to get integrated into the globalized economy at all, especially in Sub-Saharan Africa. In the first graph they are represented by the down-sloped curve at the right lower side. There is still a ‘bottom billion’ living in extreme poverty.

Countries with high numbers of people still living in extreme poverty are mainly those in (civil) wars, with a (partial) break down of law and order (failed states), policies of harsh discrimination against ethnic, religious or social minorities or countries with a high correlation to ‘bad governance’ with little common good objectives which is the essence of “good governance”.

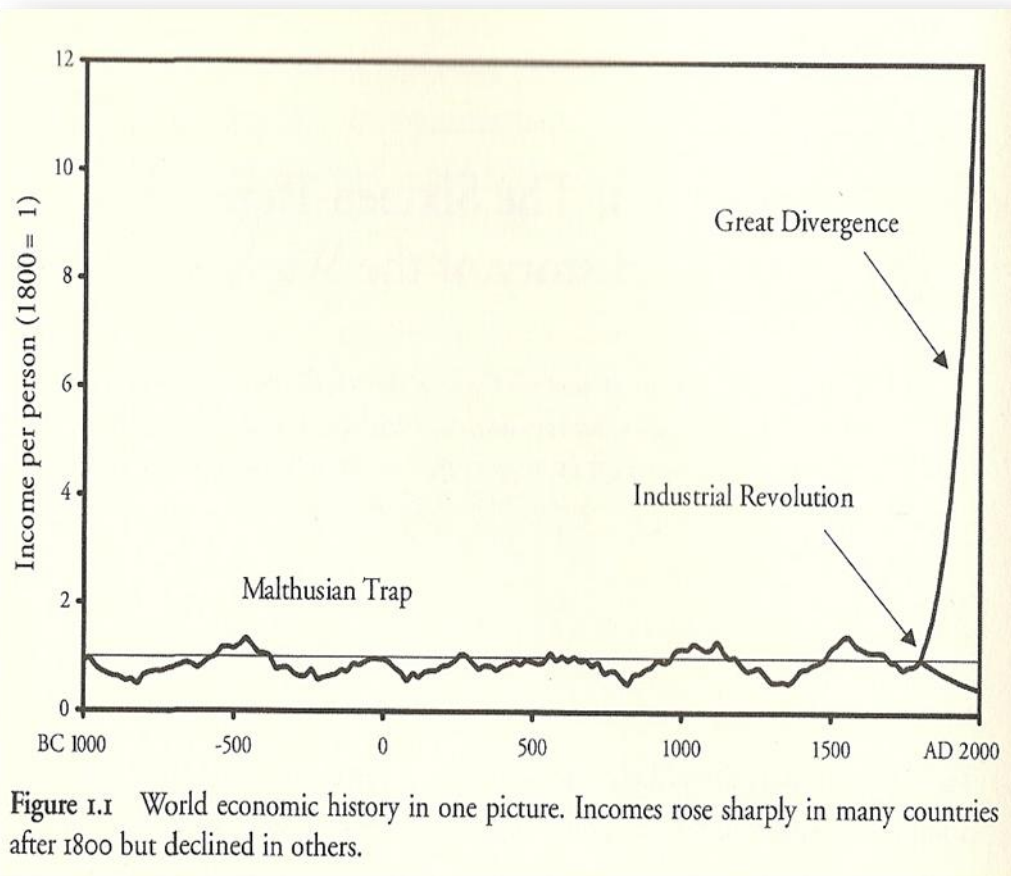


Figure 1.1 World economic history in one picture. Incomes rose sharply in many countries after 1800 but declined in others.

Employment, that is what an inclusive economy needs first and foremost. Since employment is primarily created by healthy businesses, these questions have to be asked: How can workers be trained and involved – especially the less educated - to continue being part of existing companies? How can existing businesses create more employment opportunities? How can new businesses be created and grow? How can the vast number of poor ‘self-employed’ people in the informal sector develop and get more included in the economy? Which political, economic, social and legal framework would enable such developments? What can be learned from countries that rejected both, socialism and (libertarian) capitalism, and have been practising successfully what is called ‘Social Market Economy’ or ‘Civil Economy’?

Competition is essential for the modern economy. It not only stimulates innovation and rising productivity, rather it also constantly threatens the position of the powerful: The one who is successful today may not be successful tomorrow, unless he invests in innovation and better goods and services. Only if he meets the demand of the customers, he will stay in business. Therefore, competition is not only serving economic goals like efficiency but it is serving social and ethical goals as well.

However, competition cannot be taken for granted. As ‘Quadragesimo anno’ already stated, completely free competition may induce its own destruction and can lead to the accumulation of economic power in the hands of a few: ‘Free competition has destroyed itself; economic dictatorship has supplanted the free market; unbridled ambition for power has likewise succeeded greed for gain; all economic life has become tragically hard, inexorable, and cruel. To these are to be added the grave evils that have resulted from an intermingling and shameful confusion of the functions and duties of public authority with those of the economic sphere - such as, one of the worst, the virtual degradation of the majesty of the State, which

although it ought to sit on high like a queen and supreme arbitress, free from all partiality and intent upon the one common good and justice, is become a slave, surrendered and delivered to the passions and greed of men.’ (QA 109) Thus, a legal order is needed to maintain an open competition and to allow new actors to participate in the market. Strong and independent public institutions are indispensable prerequisites for setting and enforcing the rules and regulations necessary for fair competition in open markets.

Having said this, it has to be stressed: The biggest threat to open and fair competition is not the ‘free’ competition on merits or the ‘invisible hand’ of the ‘free’ market, but ‘cronyism’ and the deliberate distortion of competition for ‘rent seeking’ without merits and the hidden (invisible) ‘iron fist’ of powerful special interests and unholy alliances of economic and political ‘pseudo elites’.

Opening markets is a prerequisite to create opportunities for their participation in a modern economy. For this purpose, however, the subtle mechanisms of oligarchic dominance over the national/local markets must be overcome. Only if national and local markets are inclusive, the positive effects of globalization can benefit the poor and the gap between the rich and the poor in each country be narrowed. In this regard, the rule of law is essential in order to have open and fair competition and inclusive markets accessible to all.

Inequality undoubtedly has risen in many countries. The growing gap between the richest and the poorest in many countries – even those benefitting from globalisation at the macro level – cannot be denied. But there are divergent views about the extent to which inequality jeopardizes the efficiency and stability of societies. Once the distinction is made between poverty (the absolute amount of goods accessible to the lowest paid individuals) and inequality (the distance between the richest and the poorest), there are several things to be looked at.

To attribute inequality to an ‘absolute autonomy of the markets’, seems not to be the right analysis. Yes, there is exclusion of those who do not have the purchasing power to consume. But why do they not have the purchasing power? Because they are being robbed of the opportunity to be productive and robbed of the opportunity to enter the market and take part in the competition. The worst and most deadly exclusion is to raise – often invisible – barriers to prevent others from accessing the local market and compete. The issue is often not so much the lack of rules and regulations, but their missing orientation towards the common good. In some cases there is even too much regulation preventing the poor from getting productive and entering the markets.

There is not one country in this world, where in reality there is an absolute autonomy of the markets. On average, around 40% of GDP are coming from the public sector, in some countries this figure is well above 50%. Key sectors of many economies are still handled by state owned companies and other sectors are rather over regulated. This is not a problem in all cases, but in many the public sector is not serving the common good but is in the hands of a ruling elite seeking their own ‘rents’. Rules and regulations are put in place by these ‘elites’ not to orient market forces towards the common good, but to practice external and internal protectionism and to deliberately exclude the majority of the people from productively taking part in these areas of the economy. The effects are disastrous: new business cannot spring up and flourish and new jobs are not being created. The free, open and inclusive market economy is being replaced by what one could call ‘crony capitalism’.

Hence, not any state is a good state. A ‘big’ state tends to become a ‘fat’ state and a ‘fat’ state tends to become a ‘corrupt’ state. In the words of St. Augustine: ‘What are kingdoms (states) without justice but organized brigandage?’ (City of God, IV, 4, 1). We therefore advocate an ‘athletic’ state: slim and focused on setting rules and, thus, a strong state able to enforce them against powerful special interests, and to effectively implement ‘affirmative’ – but subsidiarity based - action for the poor to develop.

In conclusion, there is not a problem with economic inequality as such – there will always be differences in income and property. The problem is rather the extend of these inequalities. However, the experience of the socialist countries in Eastern Europe has shown that misguided policies in the name of total equality result in the contrary: poverty, enviromental degradation, lack of innovation and wealth only for the privileged few. But again: Too much inequality and the concentration of economic and political power in the hands of a few show the same desastrous effects. The most dangerous consequences of such a situation is the threat to good governance. ‘Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men’, as Lord Acton once rightly observed. There are too many persons enjoying huge fortunes stemming from criminal or semi-criminal activities, cronyism or from behaviors that border the unethical (low wages of employees, tax evasion, monopolistic practices, market cornering, etc.).

An inclusive economy and society and an integral human development has to balance a certain, unavoidable and even necessary inequality with a certain degree of prosperity and social security for all, so that each and everyone can live a life in dignity. But most importantly: There will be no inclusive economy without common good oriented governance.

Economic growth is necessary for an integral human development. However, we admit that markets open to all are not a sufficient condition for an inclusive economy, a fair distribution of wealth and an integral human development. Complementary, it is necessary to prepare and enable people not only to be consumers but to be producers and to be part of a competitive economy. Even though the poor have a great potential in themselves to be economically active, their chances have to be enhanced by granting them access not only to the (labour) markets but also to education, health care, financial services, legal protection and physical infrastructure etc. This is another prerequisite for a just distribution of wealth.

An inclusive educational system for instance is absolutley indispensible to create a minimum of equal opportunities for every young boy or girl regardless the social, ethnic or religious background of their families. Education is key for the poor to develop. But education – especially basic education and vocational training – has been perceived in most countries as an exclusive government domain, hence, we observe a clear failure of the state! Experiences from more inclusive countries with a low rate of youth unemployment (e. g. Central Europe) show, that a well-organized cooperation of the public and the private sector as well as civil society institutions is important. It has proven to be very successful in integrating youngsters from less privileged parts of society into the economy.

A social security system for those who can not or no longer take part in the competitive market has to be put in place to make sure they have the purchasing power to live a life in dignity or can be taken care of by their families or other charitable institutions. This requires special policies and targeted measures adressed to groups discriminated against and the less privileged in society. However, Catholic tradition has always emphasized the importance of the subsidiarity principle in designing and organizing actions of solidarity for the less fortunate.

National, regional and local development plans will need to consider a special topic called “inclusion programs”: inclusion of knowledge, jobs opportunity, equal opportunities for human development of persons for their evolution process. With regards to welfare policies, they must be designed and implemented in ways that do not destroy the energies and incen-

tives to seek jobs and, last but not least, detecting and respecting the values carried by the poor.

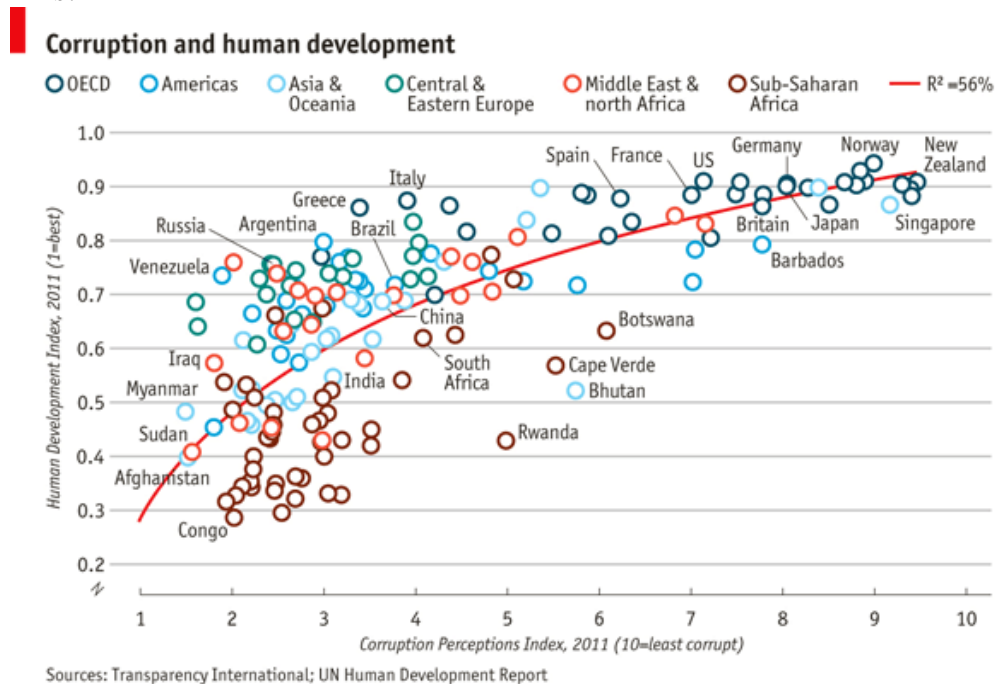
What is needed in this regard is a 'new deal' between state, civil society including the church and the private sector to create more efficient and more just social security systems. To avoid both, a 'laissez-faire' attitude to social security as well as a 'neo-statist' welfare mentality, a new equilibrium between solidarity and subsidiarity has to be established.

This is also necessary to address the fact that next to extreme rural poverty there are growing 'poverty belts' around the multi-million mega-cities. More than half of the world's population is now living in urban/metropolitan centers and this is bringing up entirely new challenges to human coexistence. Besides globalisation, urbanisation is a sign of the times in this 'change of epoch' we are witnessing.

3. Common Good oriented Governance

The role of the state, in fact, it's very 'reson d'etre', is to orient the activities of the citizens and all actors of civil society as well as the economy towards the common good. That presupposes that the institutions of the state and their decisions are neutral and not unduly influenced by special interest. In many countries, however, the reality is different and has more in common with the observations of St. Augustine many centuries ago.

Corruption stems from 'structures of sin' leaving many business leaders, even those of good will, we have to admit, guilty. From the corporate perspective, there is an almost unsolvable dilemma between staying in business or quitting and laying off people. It is not enough to appeal to the individual morale of the business leader, this dilemma can only be solved if the 'structures of sin' are dismantled and replaced by 'structures of the common good'. The biggest threat to the common good and to a more equal distribution of the wealth created is the combination of 'crony capitalism' and 'authoritarian and crony governance'. That is what kills!



The rule of law instead of the rule of the powerful can be the only solution. It is not enough to appeal to the individual moral of the business leader. 'Ethics' are both 'individual' and 'institutional'. In all situations, the individual morale can make a difference. People always have a choice to act in this or in that manner. However, 'structures of sin' can make it very difficult for the individual to stick to his moral principles and can overstrain his or her good will. If it needs to be a hero or a saint to act morally right, then the 'system' is wrong. We therefore need both: 'ethics' in the minds and the hearts of the people, but also 'ethics' in the structures and institutions of society and the state.

Thus, it is essential that the legislative process is oriented towards the common good and not distorted by lobbying and undue influence of special/parochial interests. But even the best laws are worthless if there is no executive capable of enforcing the law regardless of the person involved. And even if rules and regulations are enforced according to the law, independent and efficient judiciary is needed to protect the rule of law.

Corporate responsibility plays a growing role where the rule of law is deficient because governments fail to provide effective regulations, **businesses** must more and more issue reports or comply to certifications or international commitments, which leads them to take more and more into consideration the way they deal with their environment. One can name among many others: obligations for listed companies to report on working conditions, safety and now environmental impacts of their activities in their annual reports, information which must be certified by external auditors; ISO certifications including now the ISO 26000 on Corporate Social Responsibility, Global Compact on company behaviours, UNIAPC CSR person-centred protocol, etc. This trend is leading companies to integrate these responsibilities in their on-going management.

Indeed some of these set of rules are not compulsory and, for those which are compulsory, they can be met without incorporating them into the company real culture. But media pressure and importance of corporate images are making them more and more important, leading international companies to fight much better, corruption, unethical behaviors, and exploitation of local workforces.

Companies have a share of responsibility. They must within their sphere of influence respect the persons they employ through a management style which respects their paramount dignity (management inspired by the subsidiarity principle) and respect the social environment in which they operate (Person based Corporate Social Responsibility). Independent studies have demonstrated that global companies are most of the time way ahead of local laws and rules in developing countries in terms of pay, working conditions and environmental consequences of their activities, and furthermore that they are pushing their local suppliers to improve their own standards.

Small and medium enterprises (SME, the so-called ‘Mittelstand’) have been playing a crucial role in fostering the rule of law. The experiences of countries successfully minimizing corruption (eradicating it completely may be as impossible as eradicating human evil) show the importance of the emergence of competitive and healthy SMEs, since they usually suffer from discriminatory ‘structures of sin’ orchestrated by oligarchic hands. They have a vital interest in the establishment and enforcement of the rule of law.

Almost everywhere small and medium sized enterprises have good image and press. There is sympathetic attitude towards them. However in many countries bureaucracies paralyze them and make them lose their competitive edge. This eventually, and not infrequently, throws them into informality (evasion of taxes and other legal dispositions).

But if well organized, they can mobilize constant demand and pressure on political decision makers to replace an oligarchic system of rent-seeking by a system of open and fair competition. In this struggle for common good oriented governance, they have been entering alliances with other forces of civil society like workers unions, human rights activists, students organizations, religious bodies etc. Together they were able to force political decision makers to change course or to consequently be replaced through the electoral processes.

Independent media are another force promoting the rule of law. The experience in those countries is that a pluralistic landscape of media houses is creating transparency and enforcing accountability of political decision makers. In reality this independence of media strongly depends on a multitude of different advertisement clients, hence the importance of vibrant small and medium enterprises.

It is precisely this multifaceted importance of vibrant and healthy small and medium enterprises and companies that calls for and active support for and encouragement of these entrepreneurs. It is them who create the vast majority of jobs, and it is them who are the

beacon of a 'civil economy' as well a 'civil society and important proponents of a culture of common-good mindedness. All experiences around the globe show clearly, that true democracy usually goes along with a vibrant, informed and organized 'Mittelstand'.

Politicians are first and foremost those to practice common good oriented governance and to create 'structures of the common good'. But again, it is not enough to appeal to their individual morale. More importantly, the electorate should be educated to take more informed decisions when casting their ballots and to be able to hold their governments responsible and accountable in the years between the elections. What is necessary is a 'culture of political participation'. Even though politics is often regarded as a 'dirty' game, who else than committed Christian citizens can clean it up? The church should encourage the lay faithful to take keen and active interest in public affairs.

Civil Society is the mould from which the orientation towards the common good of both, market and government has to come. Open and inclusive markets and fair competition as well as the respective rules and regulations set and enforced by common good oriented public institutions are necessary but not sufficient. The institutions of the market and the state have to be enlivened and inspired by a culture of common good mindedness. In this sense, Caritas in Veritate highlights the importance of a vibrant civil society as the mould of such a culture. It needs individuals – politicians, business leaders, unionists, journalists, academics etc. – who carry the ethics of the common good into these institutions. And it needs the willingness of these different groups in society to cooperate and work hand in hand for this aim. True democracy needs true and committed democrats.

Business leaders of Christian faith and goodwill and their respective business organizations form part of civil society and will have to play a role in shaping 'structures of the common good' by making available their expertise of the financial and economic world to political decision makers and civil society including the church. For that purpose, they should get organized into local, national and global associations in order to educate one another on business ethics and cooperate with other players within church and society to shape a culture of levelled fields and common-good mindedness.

The church as an important player of civil society. Her commitment to the common good makes her a sincere mediator of cooperation between various sectors of society. The church should not be afraid to cooperate with business leaders of Christian faith and/or good will and other groups/forces of civil society and form 'alliances for the common good'. Such alliances are the only chance to break up the unholy alliances of rent seeking political and economic 'pseudo elites'. Also an important role of the church should be work closely with the politicians of good will in the search of the common good

The global common good requires a global regulation. But a global government is, by no mean, within reach. With regard to freedom, civil liberties and the principle of subsidiarity it is even questionable, whether a global government is desirable. But the global common good calls for better global governance. This holds especially true for the protection of the environment and natural resources, the financial and monetary systems and international trade as well as labor relations.

A first major step to push states to play their role, would be to demand that decisions are taken to give to the International Labour Organization (ILO) a real power to impose its social rules, that have already been commonly agreed upon. The WTO can impose its rules and can sanction the countries, which do not apply them. We should fight to impose as a condition for membership that any country adhering to the WTO is accepting the ILO rules and can be

sanctioned if it does not comply. WTO without ILO is freedom to create wealth without concern for Common Good, WTO + ILO is the basis of a more inclusive economic world.

It has often been said that labor is not as mobile on a global scale than goods and services and especially capital.

The financial crisis since 2007 has shown that there is a need for better global financial governance. The Financial system and particularly banking, are leading examples of activities that due to number or reasons (opaqueness, asymmetry of information, externalities, contagion, etc.) cannot be left to market forces alone. Precisely, the extraordinary guarantees and facilities granted by governments to the banking industry – unknown to other industries – and, furthermore, the performance of massive rescue operations that may result in important losses to be charged to taxpayers are only justified by the extraordinary character and roles performed by this industry. It is the sum of these exceptionalities that justify the unusually heavy regulation and intense supervision to which the industry is subjected, as well as the need for excellence in skills and ethics in the regulatory and supervisory bodies of the banking system. A lot has been achieved to that effect in recent years, but a lot is still to be done. The issue of “to big/connected to fail” has not yet been adequately solved and the “shadow banking system” has not been pulled into the lime light sufficiently. The recapitalisation of financial institutions is still ongoing, but the vicious circle of public debt and banking crisis will not be solved, unless financial institutions are obliged to hold risk adjusted underlying equity for government bonds as well. The supervisory bodies for the financial markets still have to be strengthened, both in terms of excellent skills as well as regarding their ethics. Most importantly, the international cooperation of the supervisory bodies has to be improved further. Needed is more regional/continental cooperation (EU, Mercosur, ASEAN etc.), and the international financial institutions like the IMF, World Bank, Basel committee etc. have to be strengthened to develop into an effective structure of global financial governance.

Another important area of international cooperation and governance is fiscal administration. Competition is undoubtedly reasonable also in the field of taxation and the principle of subsidiarity has to be followed here, too. But this must not lead to the creation of tax havens on little and scarcely populated islands eroding the fiscal basis of many countries to the benefit of a little group of already wealthy individuals.

In general, for achieving the global common good we need a new equilibrium between solidarity and subsidiarity and redefine the roles and responsibilities of the ‘state’ and governance structures on the global, regional/continental, national and local level. But beyond that and a newly defined role for the respective international organizations, there is a need for a global civil society as well. The church is a global player who could facilitate global cooperation in that respect and work towards global alliances for global ‘common good oriented governance’.

4. Conclusions

To achieve the global common good and a more inclusive economy and society, it is important to take into consideration the four dimensions – economic, social, ecological and human - of sustainability. But it is necessary to add a dimension: Good Governance! Or better: Common Good oriented Governance!

To realize this, the roles of business, state and civil society have to be clarified and well defined. Catholic social thought and its four key principles – human dignity and the person centeredness, the common good, solidarity and subsidiarity - can give good guidelines in this regards.