

IS POPE FRANCIS A COMMUNIST? Economics in the Apostolic Exhortation *Evangelii gaudium*

Antonio Argandoña

IESE Occasional Papers seek to present topics of general interest to a wide audience.

IESE Business School – University of Navarra

Av. Pearson, 21 – 08034 Barcelona, Spain. Phone: (+34) 93 253 42 00 Fax: (+34) 93 253 43 43

Camino del Cerro del Águila, 3 (Ctra. de Castilla, km 5,180) – 28023 Madrid, Spain. Phone: (+34) 91 357 08 09 Fax: (+34) 91 357 29 13

Copyright © 2014 IESE Business School.

IS POPE FRANCIS A COMMUNIST?

Economics in the Apostolic Exhortation *Evangelii gaudium*

Antonio Argandoña¹

Abstract

Pope Francis' Apostolic Exhortation *Evangelii gaudium* has elicited many reactions – some positive, others negative – for his criticism of the economic system currently prevailing in Western countries and many emerging countries. This paper is not an attempt to explain the Pope's economic thought beyond the political, media and academic debate that his criticism has produced. The thesis outlined here is that when the Pope asks “How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?” he sees an ethical failing that, first of all, harms the people responsible for that death, but also harms other people and, indeed, society as a whole.

Keywords: equity premium; equity premium puzzle; required market risk premium; historical market risk premium; expected market risk premium; risk premium.

¹ Emeritus Professor, "la Caixa" Chair of Corporate Social Responsibility and Corporate Governance, IESE

IS POPE FRANCIS A COMMUNIST?

Economics in the Apostolic Exhortation *Evangelii gaudium*

Introduction

The Apostolic Exhortation *Evangelii gaudium*, of November 24, 2013, has elicited many reactions, both positive and negative, in the field of Economics. Pope Francis criticizes certain conducts, attitudes and ideas held by individuals and institutions within the economic system currently prevailing in Western countries and most emerging countries. The tone of the comments has depended primarily on the political leanings of the people making them, particularly in the United States, where the polarization between left and right, conservatives and progressives, is particularly acute. The Pope's criticism of "a crude and naïve trust in the [...] sacralized workings of the prevailing economic system" (no. 54),¹ of the "ideologies which defend the absolute autonomy of the marketplace and financial speculation" (no. 56), and the rejection "of the right of states, charged with vigilance for the common good, to exercise any form of control" (no. 56), as well as statements like "such an economy kills" (no. 53), and "the socioeconomic system is unjust at its root" (no. 59) were bound to draw reactions from advocates and detractors of the capitalist system alike. In the heat of the media debate, some have even said that the document's ideas are Marxist.

My intention in this paper is not to perform a detailed analysis of Pope Francis' economic ideas; my only intention is to give a personal interpretation of what the Apostolic Exhortation says, from the perspective of a Catholic who has devoted himself professionally for many years to understanding and explaining the capitalist economy, with its strengths and weaknesses.²

It should be stressed from the beginning that the Pope speaks as a religious leader; he does not attempt to elaborate any economic theory, nor does he defend a political position (even though his words may clearly influence the ideas and actions of politicians and rulers [cf. no. 208]). Nor does he seem to be concerned about the precise use of language, which has led him to make some statements that may have created misunderstandings.

¹ The citations are given with the corresponding number in the Apostolic Exhortation (Vatican City, Vatican Press, 2013).

² Nor have I broadened my field of interest to other possible sources of Pope Francis' ideas.

What is Pope Francis Concerned About?

The methodology of the *Evangelii gaudium* is not that of the social sciences but of “evangelical discernment,” which the Pope defines as “the approach of a missionary disciple, an approach ‘nourished by the light and strength of the Holy Spirit’” (no. 50).³ His analysis arises from faith but also draws on social science, because faith and science, faith and reason, are not two incompatible ways of apprehending reality.⁴ In the document, he wishes “to encourage the Christian faithful to embark upon a new chapter of evangelization” (no. 1) and gives two reasons for devoting attention to the failings he observes: first, because “certain present realities, unless effectively dealt with, are capable of setting off processes of dehumanization which would then be hard to reverse” (no. 51) – in other words, there are social forces in motion that may have a destabilizing effect – and second, because these forces “can restrain or weaken the impulse of missionary renewal in the Church” (no. 51).

What he is concerned about is the eternal salvation of souls and the suffering and loss of dignity experienced by any individual.⁵ For example, he states that “it cannot be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points” (no. 53). Such a statement will raise eyebrows among many economists because, in applying the consequentialist criteria by which most of our analyses are usually governed, the impact of a fall in the stock market on human wellbeing can be much greater than that of the death of a homeless person. But the Pope is not guided by the criterion of the greatest welfare for the greatest number of people. At the risk of misinterpreting his thinking, I venture to present it as follows.

His analysis starts with the problems he detects in society: an elderly homeless person dies of exposure in the street, another person is starving, and yet another has no work or any opportunities to lead a decent life (cf. no. 52ff). The human sciences offer diagnoses and solutions for these situations, which are probably useful in many cases but in others will be incomplete because they do not address the good of all man and all men.⁶ The Pope goes further, claiming that these problems prove the existence of “a profound human crisis: the denial of the primacy of the human person!” (no. 55) Thus, in such problems he perceives an attack on human dignity and a violation of basic rights. This is something that the different sciences are incapable of seeing, because they are unable to take a holistic view of problems or to formulate a conception of the individual that includes all his dimensions – material and spiritual, immanent and transcendent; this is the task of philosophy and theology, but these have become separated from the development of the sciences.

³ The quotation in this sentence is from John Paul II's Postsynodal Apostolic Exhortation *Pastores dabo vobis*, March 25, 1992, no. 10.

⁴ Cf. Benedict XVI, Encyclical Letter *Caritas in veritate*, June 29, 2009, no. 56; also Cardinal Joseph Ratzinger's addresses at the Paris-Sorbonne University (November 27, 1999), the Madrid Convention and Congress Center (February 16, 2000), the University of Regensburg (September 12, 2006 as Pope Benedict XVI), the Westminster Hall in London (September 17, 2010), etc.

⁵ Further on, he adds another reason: the conversion of those who cause the evils he identifies. He states: “I am interested only in helping those who are in thrall to an individualistic, indifferent, and self-centred mentality to be freed from those unworthy chains and to attain a way of living and thinking which is more humane, noble, and fruitful, and which will bring dignity to their presence on this earth” (no. 208).

⁶ Cf. Benedict XVI, Encyclical Letter *Caritas in veritate*, no. 18; Paul VI, Encyclical Letter *Populorum progressio*, March 26, 1967, no. 14.

This brings us to what seems to me to be the crux of the analysis contained in the Apostolic Exhortation: behind the more serious problems (although not necessarily those that most attract the attention of the media), there are often personal or collective behaviors and attitudes as well as social, economic and political structures that are the root causes of these problems. If “an elderly homeless person dies of exposure,” if “food is thrown away while people are starving,” or if “masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape” (no. 53), it is because “someone” is not abiding by an ethical duty now or has not done so in the past.

The problem we have identified is an indicator, a warning sign for society, because ethical failings have consequences. First, for those who cause them: because they are neglecting some of their duties as individuals; because they are “learning” to neglect those duties, to not question whether their actions are licit, to ignore their duties to others – in other words, because they are spoiling their virtues or acquiring vices which will condition their future actions. Second, for other people, those who are harmed or to whom a bad example is given. Third, they have consequences for society, because personal actions affect culture, social norms and perhaps even society’s positive laws and structures. And fourth, consequences for the church, because these processes “can restrain or weaken the impulse of missionary renewal” (no. 51). This seems to me to explain why Pope Francis deplores that “certain present realities, unless effectively dealt with, are capable of setting off processes of dehumanization which would then be hard to reverse” (no. 51).

Returning to the problem of the homeless person who may die of exposure, the Pope seems to expect us all to consider our responsibility (cf. nos. 187-188), first to provide a solution for the immediate need (that the person does not spend another night sleeping out in the open) and then to look for longer-term solutions.⁷ What these solutions will be is left to each individual’s responsibility as a citizen, expert, politician, etc., taking into account the nature, proximity and acuteness of the need, the public and private resources available and the fundamental moral conditions, such as respect for personal dignity, so that each individual can take on responsibility and ownership for his or her own future, within the scope of his or her possibilities.

From Problems to Diagnoses and Solutions

After what has been said above, it seems reasonable that Pope Francis should devote many pages of the *Evangelii gaudium* to identifying problems (cf. no. 52ff) and seeking their anthropological and ethical causes. We will mention just three examples here. The first: “Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless” (no. 53). This is an economic and political problem, with a clear moral content. The second: with exclusion, “Human beings are themselves considered consumer goods to be used and then discarded.” This “ultimately has to do with what it means to be a part of the society in which we live; those excluded are no longer society’s underside or its fringes or its disenfranchised – they are no longer even a part of it” (no. 53). This too is an ethical diagnosis. And the third example: “To sustain a lifestyle which excludes others [...], a globalization of indifference has developed. Almost without being aware of it, we end up being

⁷ The solution to the problem of poverty “means both working to eliminate the structural causes of poverty and to promote the integral development of the poor” in the long term, “and small daily acts of solidarity in meeting the real needs which we encounter” (no. 188) in the short term.

incapable of feeling compassion at the outcry of the poor, weeping for other people's pain, and feeling a need to help them, as though all this were someone else's responsibility and not our own" (no. 54). The ethical lapse blocks the exit, the capacity to solve problems. Many more examples can be found in the pages of the document.

The examples we have given show that the Pope considers himself qualified to consider diagnoses. One example is shown in no. 54 of the *Evangelii gaudium*: "Some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world." This echoes the theory that "with a rising tide, all boats will float." The Pope's reticence has triggered reactions by some economists, who have sought to show how free markets have fostered economic growth and raised the standard of living for millions of people in emerging and developing countries, as opposed to the manifest failure of the interventionist policies of communist regimes.

Of course, Pope Francis is aware of the positive effects of the free market, insofar as it has improved people's standard of living and provided opportunities for human development and the eradication of poverty. However, by focusing on the anthropological and ethical dimensions, he also draws attention to the economic model's limitations, which will ultimately cause deeper problems.

His thinking could perhaps be summarized as follows: there are no automatic and impersonal mechanisms in human affairs (cf. no. 204); people are always an important factor, for their motivations, preferences and incentives. Let us assume that the experts succeed in designing the best possible legal, institutional and cultural framework for the free market, capable of providing strong, generalized and equitably distributed economic growth in a given country. However, such a design does not guarantee the system's long-term sustainability. We have already explained why this happens: people learn from their own behavior and that of others. This changes their preferences, motivations and incentives and, consequently, their society's culture, laws and norms – in other words, the framework within which the free market moves. The process can take a long time, but its effects can be very destructive because "certain present realities, unless effectively dealt with, are capable of setting off processes of dehumanization which would then be hard to reverse" (no. 51).

Thus, the Apostolic Exhortation is not saying that the free market is bad or that planned economies give better results. It does, however, express a definite distrust of the "sacralized workings of the prevailing economic system" (no. 54) for at least two reasons: first, because these mechanisms can be manipulated by "those wielding economic power" (no. 54). When the economy grows, some find a way to profit more from that growth than others. This in turn may have a positive reading (they are innovators who are contributing to this growth) and a negative reading (they are "rent seekers" who appropriate the rents created by others).

The other reason for the Pope's criticism goes deeper: this "crude and naïve trust" has engendered the "globalization of indifference [and consequently], almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor [– the alarm signals that are indicating that something is not working in our economic system –] or of weeping for other people's pain and feeling a need to help them, as though all this were someone else's responsibility and not our own" (no. 54). Here, there is at least a lack of the virtue of prudence and a neglect of responsibilities, which may mask the attempt to "sustain a lifestyle which excludes others" (no. 54) – in other words, a negative learning produced by the

structure of the economic system: the lapse in social ethics derives from a lapse in personal ethics and vice versa.

To summarize, it seems to me that Pope Francis is saying to social scientists and government leaders that we should not place unlimited faith in our economic models; we should not let ourselves be dazzled by the logical robustness of our theories; we should not limit the goals pursued by our policies to aggregate material results along the lines of “the greatest good for the greatest number.” We should use “evangelical discernment” to detect the warning signs, some of which we have referred to above, such as scorn for individual dignity or the denial of universal rights (“meanwhile, the excluded are still waiting” [no. 54]), and other signs that are emerging now, such as the creation and growth of the power of elites – which can adversely affect an environment that was originally efficient and fair – and the degradation of society’s moral culture or the relinquishment of personal and societal responsibilities. Ethics is concerned with the equilibrium of systems, whether they be people, families, companies, governments or countries; the omission of ethics implies that any equilibrium achieved in the short term may not be sustainable in the long term.

“In her dialogue with the State and with society, the Church does not have solutions for every particular issue,” Pope Francis clarifies, but adds that, “together with the various sectors of society, she supports those programmes which best respond to the dignity of each person and the common good” (no. 241). With this, he is showing the moral criteria that should be used to rate the solutions implemented: the dignity of each person and the common good of society.

On the Role of the State in the Economy

Nothing that we have said so far would give grounds for including the Pope in a particular ideological or political category, whether left- or right-wing, liberalist or socialist, among others. However, there remain a number of points that should be clarified.

First, the role of the state. The Pope criticizes theses that reject “the right of states [with respect to markets], charged with vigilance for the common good, to exercise any form of control” (no. 56). Does this mean that he subscribes to the socialist thesis of a large, omnipresent state?

The answer, it seems to me, is that he does not. All economists acknowledge a role for a political authority, which we call “the State,” in the regulation of markets and the establishment of rules such as the rule of law, right of ownership, performance of contracts, legal security, etc. Beyond this minimum framework, the experts’ preferences could add other regulations or interventions aimed at achieving results in terms of efficiency, growth, income distribution, etc.

Pope Francis claims that “it is the responsibility of the State to safeguard and promote the common good of society” (no. 240). The Social Doctrine of the Church defines this common good as “the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfilment more fully and more easily.”⁸ This is an economic and political concept, but also an ethical one that does not align with the variables we have mentioned earlier, which are those considered by economists and politicians. For the Social Doctrine of the Church, it is not enough to have strong, environmentally sustainable growth, a

⁸ II Vatican Council, Pastoral Constitution *Gaudium et Spes*, December 7, 1965, no. 26; cf. Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Vatican City, Libreria Editrice Vaticana, 2004, no. 164.

balanced income distribution or equal opportunities for all citizens, because none of these goals necessarily enable all citizens, whether considered individually or in the communities to which they belong, to “reach fulfilment more fully and more easily.”

In other words, even when all the conditions for an economic optimum are met, when all agents exercise perfect economic rationality, when companies are successful in maximizing profit and do not generate externalities or other social costs, when the markets for all goods, factors, assets and services are able to regulate themselves perfectly and maximize efficiency, even then, the common good could still not be adequately served. This is another way of explaining what we have discussed above: there are no infallible automatic mechanisms in human affairs. So “someone” is needed to do the job of furthering the common good.

From the very beginning, the Social Doctrine of the Church has given this role to the state. So when Pope Francis demands “the right of states to control” the markets, because they are “charged with vigilance for the common good” (no. 56), he is not arguing for a large, interventionist state but a need for an authority that cares for the common good, and this authority cannot be, as we have just observed, citizens, companies or the free market.

Yet neither is it an unconditioned proposal; the Pope is fully aware that the state will never perform this function satisfactorily.⁹ That is why the Social Doctrine of the Church maintains that “the common good therefore involves all members of society, no one is exempt from cooperating, according to each one’s possibilities, in attaining it and developing it.”¹⁰ How the functions will be distributed between state, citizens, intermediate communities and experts will depend on the specific circumstances of each case.

Money and Human Motivations

“One cause of this situation is found in our relationship with money, since we calmly accept its dominion over ourselves and our societies” (no. 55). This sentence has also struck many economists, because money is a means of payment, an instrument for facilitating exchange and preserving wealth, and, viewed under this light, the Pope’s criticism would seem to be meaningless.

To understand what the *Evangelii gaudium* is saying, I believe we have to distinguish between the different uses of the term “money” in our society. In popular language, money may refer to a person’s or a family’s income (“He earns a lot of money every month”); to wealth or estate, the value of assets (“He’s very rich; he’s got a lot of money”); to the means of exchange (“I couldn’t take the bus because I didn’t have enough money for the fare”), or to the motivation behind different types of behavior (“I want to earn more money”). The first three concepts are ethically neutral; the Pope’s sentence about the dominion of money in our lives refers, or so it seems to me, to the fourth meaning.

This helps us to better understand what the Pope is talking about: “The worship of the ancient golden calf [...] has returned in a new and ruthless guise in the idolatry of money” (no. 55). Our

⁹ As Leo XIII states: “By the State we here understand, not the particular form of government prevailing in this or that nation, but the State as rightly apprehended; that is to say, any government conformable in its institutions to right reason and natural law, and to those dictates of the divine wisdom which we have expounded in the encyclical on the Christian constitution of the State” (Encyclical Letter *Rerum novarum*, May 15, 1891, no. 42).

¹⁰ Pontifical Council for Justice and Peace, *Compendium of Social Doctrine of the Church*, no. 167.

society and our economic models are based on the preferences of individuals, preferences that are usually taken for granted and which nobody has the right to judge or criticize from outside. So, the *idolatry of money* would mean the absolute autonomy of the agent's individual preferences, which determine his motivation and induce him to increase his rent and his wealth, to the point of reducing "man to one of his needs alone: consumption" (no. 55).¹¹

As such, *Evangelii gaudium* is not a technical criticism of the system but rather an ethical criticism that reflects "a profound human crisis" (no. 55): "Behind this attitude lurks a rejection of ethics and a rejection of God. Ethics has come to be viewed with a certain scornful derision. It is seen as counterproductive, too human, because it makes money and power relative. It is felt to be a threat, since it condemns the manipulation and debasement of the person" (no. 57). As we observed above, ethics is the condition of equilibrium of a society: "Ethics – a non-ideological ethics – would make it possible to bring about balance and a more humane social order" (no. 57). If ethics is not present, society loses its equilibrium and that is what is shown by the "dominion [of money] over ourselves and our societies" (no. 55).

To show that capitalism is superior to any other system as a creator of wealth and a driver for improving the standard of living of millions of people is not a valid answer to the Pope's criticism: what concerns him is whether the system is stable, whether it is held by the necessary counterweights, and whether it is governed by moral rules, because if it is not, the system will cause harm. Or rather, it is already causing harm, because if "the socioeconomic system is unjust at its root [...] the toleration of evil, which is injustice, tends to expand its baneful influence and quietly to undermine any political and social system, no matter how solid it may appear. If every action has its consequences, an evil embedded in the structures of a society has a constant potential for disintegration and death. It is evil crystallized in unjust social structures, which cannot be the basis of hope for a better future" (no. 59).

The Pope concludes by showing that the rejection of ethics is also the rejection of God, insofar as "ethics leads to a God who calls for a committed response [... but] God can only be seen as uncontrollable, unmanageable, even dangerous, since he calls human beings to their full realization and to freedom from all forms of enslavement" (no. 57). In other words, ethics must be founded on God, or at least be compatible with that truth. To quote Benedict XVI, "God is the guarantor of man's true development."¹² This is not meant to discredit human sciences or secular ideologies but it does remind us that ethics must be based on an anthropology, and that an inappropriate anthropology leads to an ethics that is unable to assure a stable equilibrium of the person and of society.¹³

¹¹ In no. 56 of the Apostolic Exhortation, the Pope links this to other problems, such as inequality ("While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few"), the attempt to preserve and increase the opportunities for gain (for example, by defending "the absolute autonomy of the marketplace and financial speculation"), the excessive indebtedness of families and countries, "widespread corruption and self-serving tax evasion, which have taken on worldwide dimensions," environmental degradation and the links between economic and political power, etc.

¹² Benedict XVI, Encyclical Letter *Caritas in veritate*, no. 29.

¹³ "The economy needs ethics in order to function correctly – not any ethics whatsoever, but an ethics which is people-centred [that is, based on a correct anthropology ...] On this subject the Church's social doctrine can make a specific contribution, since it is based on man's creation 'in the image of God' [...], a datum which gives rise to the inviolable dignity of the human person and the transcendent value of natural moral norms. 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" (Benedict XVI, Encyclical Letter *Caritas in veritate*, no. 45).

Conclusions

The Apostolic Exhortation *Evangelii gaudium* addresses the Christian faithful “to invite them to embark upon a new chapter of evangelization” (no. 1). It reviews the present situation of this world, which needs to be evangelized, and recognizes that the people charged with this task must overcome a series of difficulties, which Pope Francis describes as follows: “The desolation and anguish born of a complacent yet covetous heart, the feverish pursuit of frivolous pleasures, and a blunted conscience [...], [an interior life that] becomes caught up in its own interests and concerns, [where] there is no longer room for others, no place for the poor. God’s voice is no longer heard, the quiet joy of his love is no longer felt, and the desire to do good fades” (no. 2). So, from the very first paragraphs, problems emerge that are at once moral, economic, political and cultural in nature.

It is therefore logical that Pope Francis should devote many pages to analyzing and criticizing the capitalist system, which is the environment in which the new proclaimers of the Gospel must move. It is not an ideological or political criticism but rather an anthropological and ethical one, and the fact that it does not criticize other economic systems owes more, in my opinion, to their lack of relevance in the present context. People at the two extremes of the political spectrum – conservatives and liberals on the one hand, socialists and interventionists on the other hand – have sought to discredit or praise him. Yet it seems to me that his message has not been understood, or people have not wanted to understand it.

This paper is an attempt to interpret Pope Francis’ economic thinking, as it is portrayed in the *Evangelii gaudium*. This document contains a series of ideas that, in my opinion, are important for those of us who seek to understand the economic evolution of the world. The Pope uses a much richer anthropology than that used by the social sciences. This anthropology includes learning (acquisition of virtues or vices) that changes people’s preferences and motivations, which ultimately leads to changes in institutions and laws, that is, in the societal *rules of play*. There is, therefore, positive moral learning, which facilitates the smooth functioning of the economic system, and negative learning, which degrades it.

Pope Francis’ criticism of the present economic system focuses on identifying those behaviors, motivations, incentives, rules and institutions that hamper positive learning and favor negative learning. It is ethics that ultimately provides the rationale for this learning and, therefore, establishes the conditions for the system’s equilibrium. The Pope addresses situations and problems that may seem irrelevant to economists but that reveal ethical failings which, if they are not corrected, will eventually push the economic system into a state of unstable equilibrium and will in turn cause harm to people; this is what lies at the root of the Pope’s concern.