The Church and Wall Street

By DENNIS P. McCANN

A dialogue between the church and Wall Street could develop a responsible business ethic for the investment industry through a constructive reformulation of the legitimate insights contained in the traditional condemnations found in Catholic social teaching.

Both defenders and critics of the American Catholic bishops’ pastoral letter, “Economic Justice for All,” have noted that it does not provide a systemic analysis of the U.S. economy. The policy proposals outlined in Chapter Two of the letter, however controversial, were offered merely in order to illustrate the policy implications of the bishops’ religious and moral perspective. Indeed, the issues actually discussed, “Employment,” “Poverty,” “Food and Agriculture” and “The U.S. Economy and Developing Nations,” all represent areas of long-term concern to specific constituencies within the church, and reflect historic commitments that the church has acted upon through the United States Catholic Conference and its predecessors.

Though these issues are extremely useful for dramatizing the bishops’ insistence that the economy is first and foremost “a human reality,” they are not the sort of thing that an economist would go after first in developing a systemic analysis of U.S. macroeconomic policy. The focus, instead, would shift to relatively more abstract questions concerning money supply, savings and investment, interest rates, exchange rates and the impact of government fiscal policies and the national deficit on all of these.

It is far more difficult, of course, to make sound moral judgments on these abstract issues. They are not easily personalized, and the answers that they would generate to the bishops’ questions, “What does the economy do for people? What does it do to people? And how do people participate in it?,” are controversial, even among the experts. I point out the pastoral letter’s failure to provide a systematic analysis of the

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economy, not in order to disparage it, but to dramatize the work yet to be done, if the dialogue initiated by the bishops is to proceed fruitfully.

In the first wave of response to the pastoral letter, such complaints about a lack of systemic perspective might have been dismissed as sour grapes over the bishops' refusal to subscribe wholly to the critic's particular brand of analysis. Events subsequent to the publication of the letter, however—notably, last October's stock market crash and the general disarray in the world's financial markets since then—have convinced me that any moral judgment on the performance of the U.S. economy will remain woefully implausible so long as it fails to take full account of these events and the highly abstract macroeconomic explanations that they require.

What follows cannot pretend to be a systemic analysis of money, banking and financial markets. It is, instead, an attempt to scrutinize Catholic social teaching, including the pastoral letter, for what it already has had to say about these things, in the hope of fostering a public moral dialogue between the church and Wall Street. My preliminary report is meant to be a disturbing one, for I am forced to conclude that Catholic social teaching suffers from a deeply ingrained prejudice against the world of finance—typically, an incomprehending hostility that is as archaic and irrelevant as medieval moral judgments on usury. As in so many other areas, the U.S. bishops' pastoral letter makes substantial progress toward overcoming this prejudice, but its potential contribution to a discerning critique of financial institutions remains limited by its failure to develop a constructive approach to their routine functions and practices.

My remarks were initially presented at a conference sponsored by the University of Notre Dame's Center for Ethics and Religious Values in Business, Nov. 9-11, 1987, on the topic of "Ethics and the Investment Industry," and the Notre Dame Press will publish the conference papers in book form this summer. Though the conference originally had been planned as a response to Wall Street scandals involving insider trading, in the wake of the stock market crash it became a forum for a broad-ranging discussion of the ethos of the whole range of financial markets, and the moral implications of their recently achieved interdependence.

As the conversation progressed, it became apparent that the phenomenon of insider trading is, at best, one of a number of symptoms of the extraordinary recent expansion of financial market activity worldwide. Though making a moral judgment on insider trading itself is fairly straightforward, coming to grips with the context in which such a practice could occur is a far more serious challenge. The question of context, however, is precisely the issue upon which Catholic social teaching could make an indispensable contribution. For as the discussion among business ethicists and industry representatives at Notre Dame suggests, what is most needed now is a suitable moral vision.

There exists no systematic treatment of savings and investment, money, banking and financial markets in the whole of Catholic social teaching. These topics are touched upon only in passing, in an approach to economic and social justice that has been shaped primarily by the Roman church's concern for the working poor of the industrialized nations, and more recently, the destitute majorities of the so-called third world. Catholic social teaching's perspective, however, consists for the most part in prophetic protest. The tradition typically directs its criticisms equally against both Marxist socialism and laissez-faire capitalism. Since the core of the protest concerns the godless "materialism" that is explicit in the one and allegedly implicit in the other, it is difficult to determine what the constructive alternative might be. The encyclical of Pope Pius XI, Quadragesimo Anno (1931), comes closest to defining it, but the modified "corporativism" that would organize society along the lines of some sort of vocational guild system seems so uncomfortably close to the aspirations of Italian Fascism that this alternative has usually been referred to ever so vaguely as "Tercerismo." The spirit animating this tradition is that of a humane aristocrat profoundly uneasy with modernity in all its forms.

What Catholic social teaching has to say on topics related to the investment industry is not very promising. The low point comes fairly early on in the tradition, with Quadragesimo Anno's condemnation of the "accursed internationalism of finance" (QA, par. 109). Yet this encyclical, written at the height of the Great Depression, at least is aware of the role of financial markets in modern industrial economics. After having defended in classical terms the right to private property, Rerum Novarum, an encyclical written by Pope Leo XIII in 1891, warns the "wealthy" that "the just ownership of money is distinct from the just use of money" (RN, par. 35). The point is made by way of introducing an exhortation to almsgiving: "No one, certainly, is obliged to assist others out of what is required for his own necessary use or for that of his family, or even to give to others what he himself needs to maintain his station in life becomingly and decently: 'No one is obliged to live unbecomingly.' But when the demands of necessity and propriety have been sufficiently met, it is a duty to give to the poor out of that which remains. 'Give that which remains as alms'" (RN, par. 36). It is striking that this passage could still have been written in 1891. Wealth is conceived in essentially static terms as is the social order as a whole. One's station in life seems fixed for all eternity. It simply does not
occur to the Pope that one might actually help the poor more by saving and investing one’s surplus in some form of productive enterprise.

_Quadragesimo Anno_, on the other hand, does mean to take into account “the changes which the capitalist economic system has undergone since [Pope] Leo’s time” (QA, par. 104). But at the core of Pope Pius XI’s condemnation of “the accused internationalism of finance” lies the conviction that an economic “dictatorship has succeeded free competition.” The investment industry serves as the high command in this economic dictatorship: “In the first place, it is obvious that not only is wealth concentrated in our times but an immense power and despotic economic dictatorship is consolidated in the hands of a few, who often are not owners but only the trustees and managing directors of invested funds which they administer according to their own arbitrary will and pleasure.

“Thus, this dictatorship is being most forcibly exercised by those who, since they hold the money and completely control it, control credit also and rule the lending of money. Hence they regulate the flow, so to speak, of the lifeblood whereby the entire economic system lives, and have so firmly in their grasp the soul, as it were, of economic life that no one can breathe against their will” (QA, pars. 105-106).

I have quoted these passages in full because I want you to feel the sting of the papal rhetoric. Such statements later were to provide the pretext for the paranoid fantasies of the Catholic “Radio Priest,” the Rev. Charles Coughlin, who enthralled and harangued American listeners during the early years of the New Deal era. Father Coughlin, in my view, merely added color and even cruder invective to a papal perspective that in the climate of the 1930’s all too easily lent itself to anti-Semitic exploitation.

Nevertheless, there are subtleties in _Quadragesimo Anno_’s teaching that should not elude us, even if they did escape the likes of Father Coughlin. The discerning, if not forgiving, reader can find in this encyclical the basis for a more constructive approach to savings, investment and financial markets. In a brief section devoted to “Obli-gations With Respect to Superfluous Income,” the letter expands upon _Rerum Novarum_’s exhortation to almsgiving. Now the list of medieval virtues commended to the wealthy is expanded to include “beneficence and munificence.” The latter, in particular, suggests that the reservation of savings for investment sometimes can promote the common good: “Expending larger incomes so that opportunity for gainful work may be abundant, provided, however, that this work is applied to producing really useful goods, ought to be considered” (QA, par. 50).

Further on in the encyclical, the point is restated as a general principle: “Those who are engaged in producing goods, therefore, are not forbidden to increase their fortune in a just and lawful manner; for it is only fair that he who renders service to the community and makes it richer should also, through the increased wealth of the community, be made richer himself according to his position, provided that all these things be sought with due respect for the laws of God in accordance with faith and right reason. If these principles are observed by everyone, everywhere and always, not only the production and acquisition of goods but also the use of wealth, which now is seen to be so often contrary to right order, will be brought back soon within the bounds of equity and just distribution” (QA, par. 136). Taken out of context, this principle might seem to require an endorsement of capitalism as such; but, in the Pope’s view, capitalism must be severely criticized precisely for failing to demonstrate “due respect for the laws of God in accordance with faith and right reason.”

When we turn from these Depression-era statements to those of the 1960’s and beyond, the tone of condemnation is less evident, but the lack of understanding for the positive role of money, banking and financial markets remains. The encyclical of Pope John XXIII, _Mater et Magistra_ (1961), for example, echoes its predecessors’ distinction between just use of property and its just ownership, but now the point is expressed as the familiar concern for the consequences of separating the ownership of “capital in very large productive enterprises...from the role of management” (MM, par. 104). _Mater et Magistra_’s response is not to abolish private ownership, but to distribute it more widely through “all the ranks of the citizenry” (MM, par. 113). What role financial markets might play in such a redistributive process is never clarified. Indeed, Pope John mentions the investment industry only in discussing the plight of farmers: “Wherefore, the general welfare requires that public authorities make special provision for agricultural financing, but also for establishment of banks that provide capital to farmers at reasonable rates of interest” (MM, par. 134).

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Presumably, financial markets cannot be relied upon to deliver capital to this sector of the economy at a fair return to investors.

So far, then, the papal perspective addresses the investment industry, if at all, mostly to protest the sufferings endured by industrial laborers and farmers, whose lives too often must bear the brunt of the dynamism—what economist Joseph Schumpeter called the “creative destruction”—generated by free-market activity. Among its other achievements, the Second Vatican Council endowed Roman Catholicism with a self-consciously global sense of mission.

Since the council, the church has become a strong advocate for the poor of the third world. Gaudium et Spes, one of the most impressive documents to emerge from the council, made these comments on the role of financial markets in third-world development: “Investments for their part must be directed toward providing employment and sufficient income for the people both now and in the future....They should also bear in mind the urgent needs of underdeveloped countries or regions. In monetary matters they should beware of hurting the welfare of their own country or of other countries. Care should also be taken lest the economically weak countries unjustly suffer any loss from a change in the value of money” (GS, par. 70).

Ever faithful to the traditional pattern of Catholic social teaching, Gaudium et Spes thus addresses the investment industry out of a sense of solidarity with the apparent victims of modern capitalist development. Neither here, nor anywhere else in the tradition, is there an attempt to understand money, banking and financial markets on a systematic basis.

Pope Paul VI’s encyclical, Populorum Progressio (1967), which was published shortly after the closing of Vatican II, dramatizes the church’s new concern for “underdeveloped” nations, and in this context further qualifies the church’s traditional defense of the natural right to private property. This right, for example, cannot be used to justify the rapacious conduct of third-world elites: “[The Second Vatican Council] teaches no less clearly that...plans for excessive profit made only for one’s own advantage should be prohibited. It is by no means lawful, therefore, that citizens with abundant income derived from the resources and work of their native land transfer a large part of their income to foreign countries, looking solely to their own private advantage, giving no consideration to their own country on which they inflict obvious harm by this conduct” (PP, par. 24). Although the encyclical does not make the point explicitly, the investment industry, of course, would have to be considered an accomplice in this “unlawful” activity, to the extent that it provides the means by which such transfers can be made quickly and at relatively low cost.

The papal passion for social justice, however, is not matched by any clarity in economic analysis. Rather than breaking new ground in understanding the emerging global economy, Populorum Progressio falls back on the condemnations of Quadragesimo Anno and unconvincingly argues that “pernicious opinions about economics” are at the heart of the problem: “But out of these new conditions opinions have somehow crept into human society according to which profit was considered the chief incentive to foster economic development, competition the supreme law of economics, private ownership of the means of production an absolute right which recognizes neither limits nor concomitant social duty. This type of unbridled liberalism paved the way for a type of tyranny rightly condemned by our predecessor Pius XI as the source of the internationalism of finance or international imperialism. Such economic abuses will never be rejected as completely as they ought to be because the economy must only serve man, a point about which it is fitting once more to give a serious admonition. But if it must be admitted that so many hardships, so many injustices and fratricidal conflicts whose effects we feel even now, trace their origins to a form of capitalism, one would falsely attribute those evils to industrial growth which more correctly are to be blamed on the pernicious opinions about economics which accompanied that growth. On the contrary, justice demands that we admit that not only the organization of labor but also industrial progress made a necessary contribution to promote development” (PP, par. 26).

Alas, it is difficult to make coherent sense out of this papal pronouncement. The point seems to be that though capitalism is evil, industrial growth is a positive moral good. Furthermore, ideology, or avoiding “pernicious opinions” regarding the economy, seems to be a surer path to development than understanding the structural constraints—political and cultural, as well as economic—upon it. On the other hand, the statement makes what appears to be a bitter concession to realism, namely, that the abusive structures symbolized by the “internationalism of finance” will never be extirpated, so long as the economy serves only “man.” What we have here is truly reactionary. Instead of making a set of recommendations that might enlist the investment industry more effectively for the task of third-world development, the Vatican is arming itself for ideological combat.
Yet one must ask: Against whom or what is the Vatican protesting? Have conditions in the third-world given new life to the obsolete ideology of laissez-faire liberalism? Or have they merely unmasked once more the essentially inhumane reality of capitalism? If so, why not say so, and get on with the business of developing an alternative? Instead, Populum Progressio leads us backward once more to a Tercerismo, rendered all the more implausible for its self-righteous otherworldliness. What is an economy for, if not to serve the needs of “man”? Is it impossible that the laws of God somehow are already operative in the ambiguous workings of international finance? For any number of reasons, even after the council, the Vatican was simply unprepared to consider that possibility.

The Encyclicals of the current Pope, John Paul II, indicate at least the intention of a more systematic approach to economics. His most significant letter, Laborem Exercens (1981), in this context provides an opening for further reflection. Between the lines one can discern this Polish intellectual locked in struggle with Marxist and neo-Marxist anthropology, even as he attempts to put Catholic social teaching on a firmer philosophical foundation. The dialogue with Marxism is at once the great strength and the great weakness of the encyclical, for it heavily colors the Pope’s formulation of the encyclical’s central principle, namely, “the priority of labor over capital.” Rightly, the Pope wants to shift attention toward the process of production; and, in terms reminiscent of both Marx and Aquinas, he insists that “in this process labor is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause” (LE, section 12). But inasmuch as labor includes the activities of all who participate in a production process, including its managers, the “priority of labor” principle amounts to a reassessment of the priority of persons over things.

Most interesting in this context, however, is Laborem Exercens’s corresponding redefinition of “capital.” Capital, being “the whole collection of means of production and the technology connected with these means,” is nothing other than “the historical heritage of human labor.” To consider capital independently of its historic relationship to human labor is to be guilty of the error of “economism” (LE, section 13). Economism is a fundamental mistake, for the failure to grasp the necessary interdependence of labor and capital is at the root of the ideological conflict between “liberalism” and Marxism, and the “socioeconomic class conflict” which has marred the industrial era (LE, section 11).

But what is economism, if not the tendency to treat both labor and capital as commodities for sale on the open market? Consider the Pope’s assertions: “Opposition between labor and capital does not spring from the structure of the production process or from the structure of the economic process. In general, the latter process demonstrates that labor and what we are accustomed to call capital are intermingled; it shows that they are inseparably linked. . . . Guided both by our intelligence and by faith that draws light from the word of God, we have no difficulty in accepting this image of the sphere and process of man’s labor. It is a consistent image, one that is humanistic as well as theological. In it man is the master of the creatures placed at his disposal in the visible world. If some dependence is discovered in the work process, it is dependence on the giver of all the resources of creation and also on other human beings, those to whose work and initiative we owe the perfected and increased possibilities of our own work. All that we can say of everything in the production process which constitutes a whole collection of things, the instruments, the capital, is that it conditions man’s work; we cannot assert that it constitutes as it were an impersonal subject putting man
and man's work into a position of dependence" (L.E., section 13).

*Laborem Exercens* is to be welcomed for insisting upon the religious significance of human labor, and for pointing out how utterly counterproductive and needless, both in theory and in practice, is an adversarial relationship between labor and capital. But this good news rings rather hollow so long as Catholic social teaching is unable or unwilling to spell out in equally promising terms the relationship between this kind of "capital" and the ordinary workings of finance capital.

The point is that none of the "means of production" described by the Pope would exist, had not some agent, either an individual, or a private corporation or a parasitical organization [a government-owned business] invested in them. Investment, as anyone who has ever attempted to start up a small business or purchase a home must know, comes from one of two sources, either savings or loans, or some combination of both. Investment funds, *Laborem Exercens* might say, are "capital" in the sense that they represent a surplus created in the courses of the production process; but what the encyclical appears unable to deal with is the actual liquidity of such surpluses. They exist not in the form of a "means of production," such as a factory or a machine tool, but as a certain quantity of the recognized means of exchange. Investment "capital" thus exists as money; but the encyclical leaves us guessing whether it is possible to think about money or to manipulate it in any rationally self-interested way without being guilty of the error of "economism."

**SUCH, IN MY VIEW, is the legacy of Catholic social teaching as it has developed under papal auspices. On the whole, the Vatican's position strikes me as reactionary, but unless we are simply to dismiss it from our deliberations, it can and ought to be understood sympathetically as an important protest against the social costs of modern industrial development, whether capitalist or socialist in its origins. By the time Pope Leo XIII initiated the modern tradition of Catholic social teaching, the ancient papal condemnations of usury had already been allowed to slip into oblivion; nevertheless, the overall impression created by these modern encyclicals is medieval. They continue to exhibit an inordinate fear of the mobility of capital, and the separation of capital ownership and its management, made possible by new communications technologies and the new social and legal institutions characteristic of modern industrial capitalism. As we have seen, obligations and virtues that once made sense in a relatively static and immobile society, for example, the "almsgiving, beneficence and munificence" praised in *Quadragesimo Anno*, are still preached without regard to the macroeconomic function of savings and investment in a capitalist economy. The pursuit of profit is routinely viewed with deep suspicion, as is the very liquidity of wealth.**

However tempting this suspicion may be when considering specific abuses such as the flight of investment capital from the so-called third world, it must be understood in light of papal social teaching's traditional bias against international finance. The Vatican's essentially Platonic understanding of the problem—namely, the unstated presupposition that the common good is substantive, objectively knowable and indivisible, and only in need of a properly instructed "philosopher-king" to implement it—begs all the questions that led to the relatively untrammelled development of international financial markets in the first place. The point is relatively easy to make in abstract theological terms: Papal social teaching has yet to come to terms fully with modernity. But what is at stake concretely in this observation is the tradition's inability or unwillingness to transcend a bias inherent in the feudal, agrarian society of medieval Europe. This bias identifies morality with stability, fixed social classes and generalized cultural immobility.

I have often wondered about the source of this bias, for I do not find it prominently featured in the Bible. Ultimately, this bias may be inherent in the church's adoption and adaptation of the Roman pattern of diocesan administration, for this pattern reinforced and nurtured tendencies toward the centralization of resources and their administration, fixity of residence and all forms of social and economic stability. Under these circumstances the Roman Catholic Church became less a community of Eucharistic memory and more and more a community based on permanent land tenure and hierarchical forms of religious and social authority.

While it is true that under these same circumstances the medieval Christian ethic of social charity may have emerged and flourished, by the same token they also produced an ethos that could hardly be conducive to economic growth. Saving was typically confused with miserliness, and the investment function to a great extent was both condemned and relegated to a mostly tolerated pariah caste. My point is that this uncomprehending hostility to the institutions of capital formation was not an aberration, the result of a tragic failure of economic insight; rather, I see it as a systemic imperative in a Christendom most fundamentally committed to a geographically based pattern of social stability—namely, the Roman Catholic diocese.

I conclude that the hostility directed against the "ac- cursed internationalism of finance" still evident in the modern papal social encyclicals is an important index of just how deeply ingrained this bias is. It also suggests that any attempt to discover resources for an "ethic for the investment industry" in Catholic social teaching will have to find a way to overcome this bias. The papal con-
demnations and warnings, in short, cannot be taken at face value. As they stand, they simply are not a reliable guide to public morality in this area.

UNTIL most recently, the reflections of the U.S. Catholic bishops have done little but echo the biases of papal social teaching. This is particularly true of the Depression-era statements issued by the National Catholic Welfare Conference on behalf of the bishops. These go out of their way to dramatize Pope Pius XI’s opinions regarding the “accursed internationalism of finance.”

Nevertheless, even these statements prudently call for further study of “the whole intricate problem of money and credit,” a task that apparently was never carried out under the formal sponsorship of the bishops. The “Statement on Social Problems,” issued Nov. 28, 1937, is one of their better statements: “Pius XI calls attention to the tremendous economic power exercised by those who hold and control money and are able therefore to govern credit and determine its allotment. This control, moreover, is exercised by those who are not the real owners of wealth, but merely the trustees and administrators of invested funds. Responsibility is thus divorced from ownership. Nevertheless, they hold in their hands the very soul of production since they supply its lifeblood and no one can breathe against their will.

“The increasing ratio of debt to total wealth has also had its influence on lessening the responsibility and advantage which should attach to the ownership of property. It makes for insecurity. Its relationship, moreover, to the cost of living or a reasonable price level needs careful inquiry. Further study should be given, likewise, to the whole intricate problem of money and credit so that such evils as exist in the present system may be brought to light and suitable remedies introduced” (SSP, pars. 13 and 14).

Being issued in 1937, as it was, this document’s moderate tone, compared to the papal rhetoric on which it depends, suggests that perhaps the bishops were already quietly distancing themselves from the “prophetic” utterances of Father Coughlin.

But in light of the U.S. Catholic Conference’s recent pastoral letter, “Economic Justice for All: Catholic Social Teaching and the U.S. Economy” (1986), all such statements must be regarded as prehistoric. As I have argued in my recent book, New Experiment in Democracy: The Challenge for American Catholicism (1987), the pastoral letter is significant, not so much for its insights into the workings of the economy, but for what it implies about the coming of age of the Catholic community in this country.

Like its constituency, the letter reflects a renewed sense of engagement with the American experiment in cultural pluralism and representative government. It attempts to address both Catholics and concerned citizens in a way that is consistent with the American pattern of religious denominationalism. Its reflections on the need for “a new cultural consensus . . . in order to meet the demands of justice and solidarity” (JA, par. 83), its insistence that the “preferential option for the poor” is not just a spiritual challenge to Catholics, but the litmus test for defining “moral priorities for the nation as a whole” (JA, pars. 85-88), and, finally, its call for a “new American experiment” in democracy in order to implement these priorities (JA, pars. 95, 295-325), all suggest that the Roman Catholic community may now be willing and able to play a critical role in the continual testing of the social covenant that we all honor as Americans. Moreover, the pastoral letter embodies a process of adult moral dialogue that is open to all perspectives—including those dissenting from the mainstream of Catholic social teaching. Because it is so open-ended, the pastoral-letter process itself may be the single most important contribution that the letter may make to the discussion of ethics in the investment industry.

But if the process is that promising, it is reasonable to expect that the pastoral letter already will have yielded some fresh thinking on money, banking and financial markets. And so it does, at least as compared with papal social teaching. In a section of the letter that outlines

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what various sectors of the economy can contribute to the work for social justice, the bishops address the concerns of those who own and manage productive capital. Though much of what is said here echoes recent statements of Pope John Paul II, it does place them in a more realistic and appreciative estimate of the challenges facing the business community as a whole.

The bishops begin by stating an important principle: "The freedom of entrepreneurship, business and finance should be protected, but the accountability of this freedom to the common good and the norms of justice must be assured" (JA, par. 110). Recognizing the crucial contribution of "owners [investors] and managers" to economic development, the pastoral letter thus establishes the baseline for an ethic of responsibility: All work, including at least by implication work in the investment industry, must be seen in ultimately religious terms as a "vocation, and not simply a career or a job" (JA, par. 111). All those who are involved in the ownership and management of productive capital should collaborate in order to see that a proper balance of freedom and accountability is achieved.

The PASTORAL LETTER, however, tries to go beyond Pope John Paul II's call for an end to the essentially adversarial relationship between labor and capital. In ways not evident in Laborem Exercens, the U.S. bishops begin to grasp the unique challenges involved in the ownership and management of finance capital: "Resources created by human industry are also held in trust. Owners and managers have not created this capital on their own. They have benefited from the work of many others and from the local communities that support their endeavors. They are accountable to these workers and communities when making decisions. For example, reinvestment in technological innovation is often crucial to the long-term viability of a firm. The use of financial resources solely in pursuit of short-term profits can stunt the production of needed goods and services; a broader vision of managerial responsibility is needed" (JA, par. 113).

Yet the vision that the bishops hope to inspire within the business community is neither utopian nor reactionary. It is not simply based on a sense of moral outrage mingled with nostalgia for the preindustrial world now irretrievably lost. Consider the following observation: "Business people, managers, investors and financiers follow a vital Christian vocation when they act responsibly and seek the common good. We encourage and support a renewed sense of vocation in the business community. We also recognize the way business people serve a society is governed and limited by the incentives which flow from tax policies, the availability of credit and other public policies. These should be reshaped to encourage the goals outlined here" (JA, par. 117).

Now that strikes me as an extraordinary concession. Instead of blindly denouncing "greed," as papal social teaching typically did, the bishops here speak favorably about "incentives." This implies that financial markets, along with government macroeconomic policy, may provide significant opportunities as well as constraints upon what any business may do in serving society. Hence the exhortation that follows upon this observation: "Businesses have a right to an institutional framework that does not penalize enterprises that act responsibly. Government must provide regulations and a system of taxation which encourage firms to preserve the environment, employ disadvantaged workers and create jobs in depressed areas. Managers and stockholders should not be torn between their responsibilities to their organizations and their responsibilities to society as a whole" (JA, par. 118).

This, too, is extraordinary. In a statement already studded with claims regarding economic rights, the bishops are claiming that businesses have a right to an appropriate regulatory environment, one that will seek to insure that the organizational imperatives and social responsibilities of businesses will not be made to appear at cross purposes with one another—in short, create a regulatory framework in which both investors and managers can do well while doing good.

This more constructive approach to the situation of moral responsibility facing investors and managers should not be dismissed as a sell-out to business interests. The religious and moral vision that the bishops preach still contains a "preferential option for the poor" at its core. But the option for the poor, as I understand it, is not just another "prophetic" call for the redistribution of existing wealth. Consistent with their overall theological interpretation of the human condition, the emphasis is upon empowerment, overcoming societal "marginalization"—in short, upon enabling people, especially poor people, to make a productive contribution to society as a whole.

Among the "moral priorities for the nation" that the bishops discern in this option is the following: "The investment of wealth, talent and human energy should be specially directed to benefit those who are poor or economically insecure. Achieving a more just economy in the United States and the world depends in part on increasing economic resources and productivity. In addition, the ways these resources are invested and managed must be scrutinized in light of their effects on non-mone tary values. Investment and management decisions have crucial moral dimensions: They create jobs or eliminate them; they can push vulnerable families over the edge of (Continued on p. 93)
poverty or give them new hope for the future; they help or hinder the building of a more just society. Indeed they can have either positive or negative influence on the fairness of the global economy. Therefore, this priority presents a strong moral challenge to policies that put large amounts of talent and capital into the production of luxury consumer goods and military technology while failing to invest sufficiently in education, health, the basic infrastructure of our society and economic sectors that produce urgently needed jobs, goods and services” (JA, par. 92).

Not surprisingly, given their very broad focus, the bishops do not work out precisely how the investment industry should contribute to implementing this national priority. But it should be clear that just as the investment industry, like all forms of private enterprise, has a right to an adequate regulatory environment to allow it to do well while doing good, it also has inescapably social responsibilities.

WHAT SOME of those social responsibilities might be can be inferred from various policy recommendations that the bishops make in Chapter Three of the pastoral letter. Particularly significant, given the fact that the letter as a whole does not pretend to offer a systemic analysis of our nation’s economic problems, are the bishops’ remarks on “The U.S. Economy and the Developing Nations: Complexity, Challenge and Choices.” The title alone suggests the tone of the discussion: There are no villains here, only an enormously complicated set of problems that will require the good will and creativity of all concerned in order to achieve a just solution. Under the heading of “Finance,” then, the pastoral letter discusses the third-world debt crisis. As one might expect, the option for the poor is invoked to plead on behalf of the debtor nations for a more flexible approach to debt management (JA, par. 274). But the bishops also try to draw some long-term lessons from the crisis so that it may not be repeated.

Here, noting the inadequacy of the Bretton Woods institutions, the pastoral letter insists that whatever reforms might be contemplated in the system of international finance, they must include a concern for the social impact of the system on all parties affected, including the poor: “The United States should promote, support and participate fully in such reforms and reviews. Such a role is not only morally right, but is in the economic interest of the United States; more than a third of this debt is owed to U.S. banks. The viability of the international banking system (and of those U.S. banks) depends in part on the ability of debtor countries to manage those debts. Stubborn insistence on full repayment could force them to default—which would lead to economic losses in the United States. In this connection we should not overlook the impact of the U.S. budget and trade deficits on interest rates. These high rates exacerbate the already difficult debt situation. They also attract capital away from investment in economic development in third-world countries” (JA, par. 277).

In the absence of a new Bretton Woods, of course, it is impossible to demand that the investment industry alone compensate for the lack of a competent international authority capable of coordinating macroeconomic policies worldwide for equitable development. But the social responsibilities of the investment industry would at least include active collaboration with the U.S. Government and other international authorities in seeking a solution. Minimally, this would mean not blocking efforts to reconstruct an appropriate regulatory framework for international financial markets, even though such efforts might have a significant short-term impact on the profit margins of various investment banking firms.

Chapter Four of the pastoral letter, “A New American Experiment: Partnership for the Public Good” (JA, pars. 295-325), is also suggestive of a new agenda for social responsibility in the investment industry. What this chapter does is present not just another policy proposal, but a complex strategy for implementing any or all of them. It contains the bishops’ thinking at this point on the new experiment in democracy heralded in Chapter Two of the pastoral letter.

For our purposes, the experiment is most interesting, for it begins with an analysis of prospects for “cooperation within firms and industries” (JA, pars. 298-305). Here, among other things, the bishops encourage socially innovative forms of entrepreneurship that promise to bridge the chasm between the ownership and management of productive capital. Their theological understanding of justice as empowering people for greater social participation leads them to consider seriously the prospects for profit-sharing plans, employees’ buying out the previous stockholders and managing the firm themselves, and other strategies for cooperative ownership (JA, par. 300).

Furthermore, the experiment in democracy would include some attempt to increase shareholder rights and recognize shareholder responsibilities for the overall management of the firm (JA, par. 306). Here the breadth of the pastoral letter’s moral vision is evident, as well as some of its implications for the investment industry: “The parts played by managers and shareholders in U.S. corporations also need careful examination. In U.S. law, the primary responsibility of managers is to exercise prudent business judgment in the interest of a profitable re-
turn to investors. But morally this legal responsibility may be exercised only within the bounds of justice to employees, customers, suppliers and the local community. Corporate mergers and hostile takeovers may bring greater benefits to shareholders, but they often lead to decreased concern for the well-being of local communities and make towns and cities more vulnerable to decisions made from afar” (JA, par. 305).

If a business corporation is to respond to the pastoral letter’s moral vision, it will have to consider redefining the manager’s fiduciary responsibility in terms that include all those who have a stake in it. Here, too, as the various legal and institutional reforms necessary to enforce this broadened notion of fiduciary responsibility come under discussion, the investment industry’s active collaboration would be essential.

The American contribution to Catholic social teaching thus can be summarized as a quest for a new vision of the economy that for the first time is genuinely open to the aspirations and achievements, as well as the failures, of the American experiment in capitalist democracy. This vision of a participatory society that has successfully overcome the marginalization of its social and economic minorities, and insofar as it has, has also succeeded in solving the problem of “competitiveness” or declining productivity, affords a perspective in which the ethics of the investment industry can more fruitfully be discussed than it might have been discussed solely on the basis of papal social teaching. There is more to ethics, of course, than moral vision; but without moral vision it is very difficult to establish any unifying sense of purpose that might transcend the imperatives of the immediate situation.

LET ME CONCLUDE by showing how, in any attempt to formulate a responsible business ethic for the investment industry, Catholic social teaching might be particularly useful. As in any other aspect of business and organizational activity, one is likely to encounter in the investment industry three basic forms of responsibility: role responsibility, institutional responsibility and social responsibility. Though Catholic social teaching has very little to say about one’s role responsibilities as, say, a professional stockbroker, or about one’s institutional responsibilities to the investment banking firm in which one is currently employed, it is, as we have seen, very suggestive on the topic of social responsibility for the investment industry as a whole. At least until the appearance of the recent pastoral letter, however, these calls for social responsibility, echoing the tradition’s reactionary hostility to the “accursed internationalism of finance,” have not been able to focus clearly on the root problem threatening that industry.

Nevertheless, the legitimate insight contained in the traditional condemnations may be reformulated more constructively, perhaps in terms of the theory of “externalities” often discussed by economists. Industrial pollution is a classic example of an externality: In the absence of appropriate regulation, the firm that pollutes is passing one of its unacknowledged costs of production off onto society as a whole. Unless society can discover some way to make the firm pay to clean up its own pollution, the firm will continue to pollute and make a profit in doing so. Assuming the legitimacy of the tradition’s protests against the human costs imposed by the activities of the financial markets, the question is whether there is something analogous to pollution currently being generated by the investment industry. I think so.

The extraordinary expansion of international financial markets after the collapse of the Bretton Woods accords, and the resulting volatility in financial markets, has produced an excessive liquidity in the relationship between productive capital and finance capital, from which the investment industry has profited enormously. But this unprecedented speculative bonanza has played havoc with other businesses and communities that must cope with the aftermath of hostile takeovers bids—both successful and unsuccessful—plant closings and declining tax bases, not to mention new intractable forms of structural unemployment and communal demoralization. In the aftermath of Wall Street’s “Black Monday” last October, some analysts were speaking without exaggeration of a tornado hitting the financial markets. That very same tornado, however, over the past several years has repeatedly hit the industrial heartland of America and turned it into a “Rustbelt.” Now that Wall Street itself has been visited with some of the same “creative destruction,” perhaps it, too, will see that its own self-interest is at stake in recognizing the social responsibilities of the investment industry. When that happens, I suggest we consider whether excessive liquidity itself might be as serious a social problem as anything emitted from a smokestack.

If excessive liquidity is the problem, then social responsibility would require the investment industry to cooperate in finding a solution much as the manufacturing sectors willy-nilly are having to collaborate in resolving our pollution problems. I am not competent to recommend any specific policies for implementing this sense of social responsibility. What I have done here is to look to my own religious tradition in search of ethical resources. Catholic social teaching, for all its deficiencies, does possess a moral vision in which the question of social responsibility looms rather large. If and when the church and Wall Street enter into significant dialogue about the implications of that vision, no doubt the investment industry will find neglected resources in its own traditions for addressing our common problems of economic development.