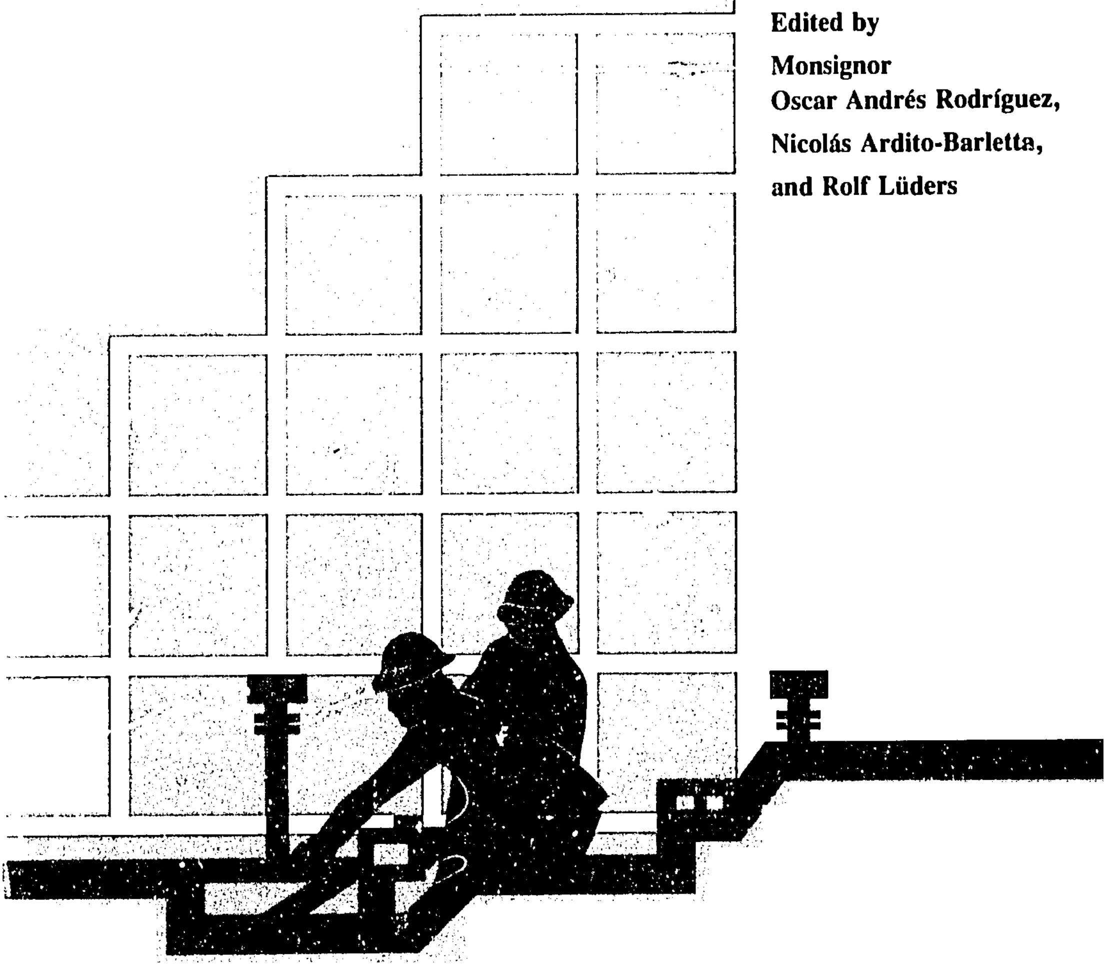
THE SOCIAL DOCTRINE OF THE CHURCH AND ECONOMIC POLICY FOR DEVELOPMENT



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International Center for Economic Growth

—Executive Summary—

The Social Doctrine of the Church and Economic Policy for Development

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This is an executive summary of the book *Doctrina Social de la Iglesia y Economía para el Desarrollo*, edited by Monsignor Oscar Andrés Rodríguez, Nicolás Ardito-Barletta, and Rolf Lüders, published in Spanish in 1992 by the International Center for Economic Growth.

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Contents

Contents of the book *Doctrina Social de la Iglesia y Economía para el Desarrollo*
(This book is available in Spanish only.)

Preface

In April 1991 distinguished prelates and economists from across Latin America came together in Santo Domingo for a conference called "The Social Doctrine of the Church and Economic Policy for Development." Sponsored by the Latin American Episcopal Council (CELAM), the International Center for Economic Growth (ICEG), and the Catholic University Madre y Maestra of the Dominican Republic, the conference was a unique meeting of two groups concerned about the welfare of Latin America.

The book, from which this executive summary is taken, includes an introduction and synthesis of the main subjects discussed at the conference and the chapters presented by bishops and economists on subjects of special interest to them, such as the perspectives of the social doctrine of the Church and modern economics on development, the role of the state and the private sector, business-labor relations, poverty, and the economics of solidarity.

The participants learned a great deal from one another through profound, cordial dialogues. Our points of view moved closer together, although we have not yet reached a complete or final synthesis. We publish the results with the conviction that the views presented here will be interesting and useful to ecclesiastics and laymen who share an interest in what the Christian faith has to say about development and a recognition of the importance of the economy as a necessary, although insufficient, element in increasing humanity's freedom and well-being. The participants confirm that the economy and modern economic policy can be useful instruments to achieve objectives defined by the social doctrine on the integral development of the human being. For that reason we are firmly convinced of the need to organize another conference within a reasonable period of time to advance our analysis of that relationship.

We were gratified that the encyclical of Pope John Paul II, *Centesimus Annus*, published two months after the conference, largely coincides with the perspectives presented by bishops and economists. This was obviously to be expected regarding the social doctrine of the Church; we have been stimulated by the contents of the encyclical in regard to the economy.

We are pleased to have initiated this rapprochement in Latin America, because of the great importance that a new stage of economic growth and human development, embodying freedom, solidarity, and democracy in the context of the Christian faith, holds for all of us in the Ibero-American region. We publish this book as a contribution to the work of all those who are involved in bringing about the integral development of the people of Latin America.

We thank Monsignor Agripino Nuñez, rector of the Catholic University Madre y Maestra of the Dominican Republic, for his hospitality and his contributions to all aspects of the conference.

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Summary of Conclusions

The countries of Latin America are currently facing enormous economic challenges. Most of the countries in the region must confront extensive poverty, the effects of a decade of economic stagnation, and the need to make their economies more dynamic by increasing employment and distributing the benefits of growth. Two groups—economists and Catholic bishops—have unique perspectives on this situation. In the book *Doctrina Social de la Iglesia y Economía para el Desarrollo*, summarized here, these groups opened an enriching dialogue on the essential principles of the social doctrine of the Church, the recommendations of modern economic theory, and the relationship between these two modes of thought. Contributors also made an explicit effort to identify how the implementation of economic policy makes possible the achievement of moral objectives contained in the social doctrine.

Participants in the conference included bishops of the Catholic Church, representatives of the Latin American Episcopal Council, and economists from policy institutes and universities in Latin America. Almost every topic was addressed by two participants—a representative of the Church and an economist. Presentations were followed by lively discussions involving all participants. Their conclusions include the following:

1. Both the bishops and the economists agreed that economic conditions in Latin America today are unacceptable. Poverty and unemployment are severe, the disparity in incomes is wide and growing wider, and inflation is still out of control in many countries. These realities signify great economic hardship for the people of Latin America.

2. In response to the harsh conditions, the social doctrine of the Church, spelled out over the past century in numerous papal encyclicals, sets desirable permanent objectives, without giving specific measures for achieving

those objectives. The social doctrine condemns poverty and asserts the human being's inherent need for freedom and dignity. It asserts that economic development, which is part of the integral development of humanity, should promote the common good.

3. Economists tend to agree that economic growth is a necessary, although not a sufficient, element in improving people's standard of living and well-being, creating productive jobs, and reducing poverty. They also note that economic growth should be accompanied by activities that extend opportunities for economic participation to and provide for the basic needs of the entire population, including the underprivileged and the poor.

4. The social doctrine of the Church is founded on three key principles:

   - the furtherance of freedom and human dignity in various aspects of human life—economic, political, and social
   - solidarity, based on sharing and mutual concern among people for individual well-being and the common good
   - the subsidiarity of the state in areas in which individuals and private groups are able to act effectively

   These ideas are analogous to three principles applied by modern economic theory in the economic sphere:

   - economic freedom for the individual through the operation of free, competitive markets
   - economic equity based on avoiding wide extremes in incomes and opportunities
   - the subsidiary economic role of the state, which should through its policies create an environment in which people can act freely

5. Both the Church and economic theory agree that a market economy is the most efficient way of achieving economic well-being. A free market allows individuals to exercise

flexibility, efficiency, and dynamism in meeting their objectives. By strengthening human freedom and initiative, the market supports the freedom and dignity of the human being.

At the same time, both systems of thought agree that the market alone is insufficient for achieving the common good, or maximum social well-being. State action is sometimes necessary to correct, for example, poor distribution of income or environmental degradation.

6. The proper functioning of a market economy depends on economic agents' acting in their own self-interest. Although this is not, in theory at least, incompatible with spiritual values, the Church is concerned that self-interest can be transformed into an unhealthy egoism, that is, into thoughtless manipulation of the market for one's own benefit to the detriment of the community. Results can include the consumer society, ecological destruction, and severe inequalities. There are several ways of addressing this problem:
   - One solution is to change the values of agents so that they will not overvalue money or material objects. This "conversion of hearts" is part of the responsibility of the Church.
   - Another solution is to introduce economic policies that strengthen solidarity among people and a sense of social responsibility without detracting from the economic and social virtues that the market does offer. Such policies could include, for example, a progressive tax on spending, a tax on luxury spending, and a tax credit for charitable donations.

7. An important element of the social doctrine is the concern for eliminating poverty as soon as possible. Economic development experience shows, however, that eliminating poverty can take years, even decades. Most attempts to reduce poverty instantly lead to destabilizing policies that can hinder growth and job creation, thereby exacerbating the situation. Modern economic theory, therefore,

recommends policies that will ultimately equalize opportunities for the poor, such as health and education programs, basic needs programs, and a social safety net.

8. The Church acknowledges that human beings need work in order to fulfill themselves and that work should be responsible, free, and creative. Workers should be disciplined, reliable, and loyal, contributing to a job well done. Labor, therefore, should not be treated as a commodity. Here, there is increasing agreement between the social doctrine and modern economics. Through increasing knowledge and technological skill, labor can become less of a commodity. In an open market economy where monopolies are either forbidden or regulated, companies will tend to act for the good of the whole society. They will seek labor participation and will offer the market the products it needs. The state can help by offering incentives to stimulate labor productivity and to strengthen business-labor relations.

9. Although both the Church and economic theory agree that a market economy, with a subsidiary role for the state, oriented toward the common good or maximum social well-being is the most desirable system, there still remains the question of how to determine what the common good is and what specific actions should be taken toward achieving it. Both representatives of the Church and economists accept the democratic process as the least harmful way of making these determinations. Some economists, however, are concerned that democratic choices made in imperfect democracies may simply reflect the interests of bureaucrats and politicians, who control information in many Latin American countries. In the long term, this problem can be solved with education, free information, and participatory, transparent democractic processes. In the short term, it may call for strong, enlightened leadership to develop the efficient and modern institutional base for democracy and market economic activity with the necessary social safety net.

An Overview of *The Social Doctrine of the Church and Economic Policy for Development*

The social doctrine of the Catholic Church, in its modern form, arose in response to conditions generated by the Industrial Revolution at the end of the nineteenth century. The first systematic, universal formulation emerged from the encyclical *Rerum Novarum* of Pope Leo XIII in 1891. The recent encyclical *Centesimus Annus*, written by Pope John Paul II on the centennial of *Rerum Novarum*, reflects mainly the recent events in Eastern Europe and analyzes the growing consensus in favor of market economic systems.

Economists, when they suggest policies, gather together existing scientific knowledge in an effort to resolve concrete problems. In that sense, both the social doctrine of the Church and modern economics take advantage of principles and general laws to illuminate specific problems. Regarding economic and social development, today's Latin America presents challenges and opportunities that merit special attention; the principles of the social doctrine, along with the methods of economics and economic policy, should indicate guidelines and alternatives to be followed in solving these problems.

Economic Conditions in Latin America

The conference gathering bishops and economists originated not only in an interest in interpreting precepts of Christian moral teaching and economic theory, but also in a concern for the distressing economic realities in Latin America today. For Latin America as a whole, there is no doubt that economic development at the beginning of the 1990s was not satisfactory. Tables 1, 2, and 3 describe the recent economic

TABLE 1 Economic Indicators for Latin America, 1980–1989

	1989 per capita GNP (US$)	Average annual GNP growth (%)	Average annual inflation (%)	Average annual unemployment[a] (%)
Latin America	1,950	0.5	418.4	5.5
Low-income economies	330	4.1	6.9	n.a.
High-income economies	18,330	2.3	8.7	6.5

a. Average unemployment level in Latin America is determined largely by the levels in Brazil and Mexico. Other countries have unemployment rates that reach 20 percent.
SOURCES: World Bank, *World Development Report 1991* (Washington, D.C., 1991); United Nations Development Programme, *Human Development* (New York, 1991); Economic Commission for Latin American and the Caribbean, *Preliminary Balance of the Economy of Latin America and the Caribbean* (Santiago, various years).

TABLE 2 Income Distribution in Latin America and Other Developing Countries

Country	Income of the richest 20% of population as a multiple of income of the poorest 20%
Taiwan	4
China	6
Thailand	9
Chile	12
Argentina	12
Philippines	14
Mexico	15
Malaysia	16
Colombia	22
Peru	33
Brazil	34
Ecuador	40

SOURCE: Andrew Berg and Jeffrey Sachs, "The Debt Crisis: Structural Explanations of Country Problems," *Journal of Development Economics* no. 29 (1988), p. 280.

TABLE 3 Households in Situations of Poverty and Indigence in Ten Latin American Countries

		Percentage of households below the line of	
Country	Year	Poverty	Indigence
Argentina	1980	9	2
	1986	13	4
Brazil	1979	39	17
	1987	40	18
Colombia	1980	39	16
	1986	38	17
Costa Rica	1981	22	6
	1988	25	8
Guatemala	1980	65	33
	1986	68	43
Mexico	1977	32	10
	1984	30	10
Panama	1979	36	19
	1986	34	16
Peru	1979	46	21
	1986	52	25
Uruguay	1981	11	3
	1986	15	3
Venezuela	1981	22	7
	1986	27	9

SOURCE: Economic Commission for Latin America and the Caribbean, Statistics and Projections Department.

evolution of the most important countries in the region and make comparisons with other developing countries. The data, particularly those on poverty and distribution of income, are cold proof of the degree of human suffering that still persists. At the same time, comparative data for other regions and the recent evolution of some Latin American economies, such as Chile, Colombia, and Mexico, suggest that the adoption of new, more suitable economic policies could change the situation within a reasonable period of time.

During the past decade per capita income fell in most of the economies in Latin America, unemployment rates increased, and the disparity in income distribution rose. All of these factors signified growth in the percentage of the population that lives in poverty. This situation, plus high inflation rates, reflects inadequate economic structures and policies that include the excessive foreign debt accumulated between 1974 and 1982. In 1990 the total foreign debt of the region was US$423 billion, or 292 percent of the region's exports of goods and services.

Although most of the foreign debt stems from countries' own initiatives to maintain economic growth based on progressively weaker policies and structures at a time when foreign funds were more readily available, as much as a third of the region's total foreign debt accumulated until 1986 was contracted to neutralize the adverse effect of the increase in interest rates, the adverse change in the terms of international trade, and the international economic stagnation from 1980 to 1984.

The necessary changes in policy and structure that were sensibly initiated during the past decade in several countries have not produced, and unfortunately cannot produce, immediate results. Worse yet, in the short term, they may aggravate the economic situation for many, compared with other makeshift solutions. Nevertheless, in the medium term quick fixes do not solve any problems and can only make real reform more onerous, as the examples of Argentina and Peru demonstrate. Those two countries are just now initiating their transformation process. There, downturns in real compensation have been dramatic, because of the application of erroneous policies that have made a difficult situation even worse.

The origin of stagnation and inflation. The crisis of the 1980s in Latin America was not only a crisis of the import-substitution model, adopted decades ago as the development strategy by almost all countries in the region, but also a crisis of the role of the state. In other parts of the world, such as Asia, the reduction in flows of external resources that characterized the decade was counterbalanced by strong expansion of exports, higher taxes, and lower public spending. This approach allowed countries to continue growing as they repaid the foreign debt, without generating greater inflationary pressure.

For most Latin American countries, such an approach was not possible. Protectionism had resulted in a productive sector with inefficient tradable goods, except for the commodity-producing sector. When external resources dried up in the early 1980s, uncompetitive exports were incapable of taking up the slack, and most countries were forced to reduce imports violently. This crisis, in turn, affected the growth rate of gross national product (GNP), employment, and wages. The state in Latin America, generally overextended and inefficient, lost all legitimacy and was incapable of responding to the demands that the sudden restriction of external resources imposed on it. It resorted to printing more money, which in turn generated the rapid increase in inflation rates.

Reform efforts. As a consequence of the phenomena described above, most of the countries in Latin America have initiated, with greater or lesser degrees of energy, efforts to transform their economic policies. Import substitution and protectionism are giving way to the promotion of exports and international competitiveness. The role of the state in development is being reduced, while the role of the private sector is growing. The market is replacing the state as the mechanism for resource allocation. In many countries, the beginning of such transformation was accompanied by the change from authoritarian political regimes to democracies. The disillusion of the 1980s is giving way in many places to moderate hope for positive results from economic and political liberalization.

The great challenge facing the countries of Latin America is to finish restructuring their economies and then to implement the policies that will make them effective in a democratic system. For historic reasons, the distribution of income in Latin America, as shown in Table 2, is very unequal. Several recent international comparative studies show that in such circumstances the potential for economic growth is seriously weakened, because the disparity in income tends to generate struggles over redistribution. Such struggles result in the launching of inconsistent policies instead of initiatives to encourage growth, create productive jobs, and reduce poverty. The challenge to the wisdom of political leaders in Latin America is enormous.

The Enterprise for the Americas Initiative and *Centesimus Annus*. When the conference was held, most Latin American countries were still in the middle of the economic crisis, defining their goals and in some cases putting into practice important structural reforms. Politically, the authoritarianism prevailing in several countries at the beginning of the 1970s had given way to democracy in the 1980s. Nevertheless, the economies were generally still stagnant and suffering from high inflation rates. The proportion of poor and very poor, always unacceptably high, continued to increase.

Nevertheless, in several Latin American economies an improvement in the indicators described began to appear after they had completed their restructuring process. This improvement helped generate hope in the other countries and stimulated the reform process. U.S. President George Bush's Enterprise for the Americas Initiative was having the same effect, as it opened up the possibilities of free trade with the United States and of a reduction in foreign debt for the countries that seriously undertook the restructuring of their economies.

Just days after the conference, *Centesimus Annus* appeared. The encyclical offers conditional moral support of free market economies, wherein the state plays a subsidiary role but promotes human development to reduce poverty. By supporting the importance of uniting the market economy as an efficient vehicle for greater sustained economic growth with better attention to human development and the reduction of poverty, the document can help guide many of the countries in the region on their difficult path.

Social Doctrine and Economic Theory

The social doctrine of the Church is a group of principles, criteria, and moral guidelines that are permanent and historic. Its goal is to make moral evaluations of concrete historic situations in the economic-social sector of nations. In his chapter entitled "Limits, Where Applicable, of the Social Doctrine and Science in the Formulation of Policies," Father José Luis Alemán says that the Church "does not aspire to create any new economic and social order," nor does it go on record in favor of any one specific socioeconomic system, despite having condemned both the centralized Marxist economies and the "savage" capitalist ones.[1] Rather, Father Alemán points out, the social doctrine offers "a general framework (moral) for individual and collective political actions."

Economic theory, for its part, is a science. As such, it studies the problem of scarcity in general, although its application has tended to focus on the scarcity of material goods. The Church has recognized since the Second Vatican Council in the early 1960s that "created things and societies themselves enjoy their own laws and values which must be gradually deciphered, put to use, and regulated by men" (*Gaudium et Spes* No. 36), and therefore research in all fields of knowledge "never truly conflicts with faith."[2] In other words, it accepts the legitimacy of scientific studies.

In the material field economic theory provides a series of positive relationships that, to the best knowledge of scientists, explain how the economy works. Economic theory therefore makes it possible to anticipate, in given historic situations, the concrete effect of variations in certain variables (such as money supply, interest rates, and taxes) on others (such as income level, income distribution, and employment). These relationships cannot be questioned morally, since they belong to the realm of secular realities, where science enjoys full autonomy from the Church's point of view.

The main limitation of scientific conclusions is that they often vary according to the methodology used, the period of time covered to verify hypotheses, and other factors. Fortunately, evidence accumulated over the past several decades of intense economic and social research irrefutably confirms certain fundamental economic relationships, which currently attract professional consensus.

The Church's social doctrine and economic theory share the same definition of institutions and policies. At all times, in each concrete situation, it is possible to discover, from the theoretic point of view, an appropriate economic model. This model is nothing more than a set of economic relationships that describe the operation of the economy. It is neither good nor bad from the scientific point of view; it just is. It may, nevertheless, be appropriate (efficient) or inappropriate (inefficient) in light of the objectives that society wants to achieve with the available resources. What is more, the instruments of policy and the institutions that formulate it, as results, may be accepted or rejected from the perspective of the social doctrine of the Church.

In general, the economies of Latin America show a degree of development that is unsatisfactory compared with that of economies with similar potential. Economists tend to agree that this situation is due, in great measure, to the institutions and economic policies adopted during the past decades. Exaggerated trade protectionism and an excessively interventionist state—intervening, protecting, and redistributing—resulted in an inefficient allocation of available resources, which reduced economic growth rates and aggravated poverty and economic inequalities. This is a positive, scientifically based judgment.

At the same time, the Church has condemned, from a moral point of view, certain economic measures and conditions. These include the poverty and inequalities in income distribution observed in the area and the customary low salary levels and administrative corruption

It is tempting to try to resolve the economic problems pointed out by the Church by means of direct intervention, as was the tendency in the past: for example, setting wages and salaries higher and giving direct subsidies to the poorest financed by progressive taxes on the richest. According to scientific studies, although these kinds of measures may alleviate the problems in the shortest term, they can aggravate them and create others in the longer term. Setting salaries will tend to create higher unemployment, and thus increase poverty. Permanent and indiscriminate direct subsidies to the poorest will create dependence on subsidies and will not help increase their possibilities of finding productive work. Progressive taxes on income will discourage investment in the country, decreasing job creation.

The challenge to the builders of society in Latin America therefore consists of carrying out institutional reforms and economic policies that will increase the efficient use of resources so as to obtain results compatible with the common good and dignity of people. Safeguarding this dignity implies, among other things, imposing new structures not by force but through participative regimes. The proposed task is monumental.

The Principles of the Social Doctrine of the Church

The social doctrine of the Church in its modern version came into being a century ago with the encyclical *Rerum Novarum* of Pope Leo XIII. It expressed the pope's concerns not only about workers' conditions under emerging liberal capitalism, but also about socialism, which was then still utopic but whose future implementation could be foreseen.

Rerum Novarum was the first pronouncement of the Church concerning the modern world, characterized by technological progress, mass production, the accumulation of capital, and extensive international ties. Since publication of that encyclical, the Church has reconciled itself progressively to this modernity, until, as a result of the Second Vatican Council, it put itself at the service of the world. Pope John Paul II has now initiated a third stage, the objective of which is to evangelize culture in a world where regional and political boundaries are rapidly losing validity in the face of the progress of transportation and communications and the universalization of knowledge and technology.[3]

The social doctrine of the Church has evolved throughout history, adapting to different conditions and problems without modifying its basic principles. This doctrine has been expressed in more than thirty encyclicals, writings of the popes, council writings, synods, and writings of the Roman congregations and of the Pontifical Commission "Justice and Peace." The Latin American Episcopal Council, as a result of its General Assemblies in Medellín (1968) and Puebla (1979), has also stated its views on the doctrine.

The bishops and episcopal conferences in various Latin American countries have expressed their own opinions regarding their jurisdictions. The encyclical of John Paul II, *Centesimus Annus* (1991) compiles, mainly in its first chapter, the basic aspects of previous writings, and then advances the subject based on current economic and social conditions.

Economic development and human development. John Paul II points out that the social doctrine of the Church "is the accurate formulation of the results of a careful reflection on the complex realities of human existence in society and in the international order, in the light of faith and of the Church's tradition" (*Sollicitudo Rei Socialis* No. 41). In his chapter, "The Social Doctrine of the Church and Economic Development," Monsignor Oscar Andrés Rodríguez writes that there exists for the Church "an intrinsic relationship between everything economic and the moral order, . . . as economic activity is an activity of man." "The economy is not (for the Church) a new institution of the State, rather it is the creation of all society. . . . This assumes the double reality of the active subjects of the economic sphere: man and the State . . . for which reason both economic dictatorship and free individualistic competition are rejected." For the Church "the fundamental purpose of this productivity must not be the mere multiplication of products. It must not be profit or domination. Rather, it must be the service of man, and indeed of the whole man, viewed in terms of his material needs and the demands of his intellectual, moral, spiritual, and religious life" (*Gaudium et Spes* No. 64).

Finally, the Church affirms the universal destination of goods, declaring that the goods of creation are meant for all, and therefore urges the avoidance of economic imbalances (*Mater et Magistra* No. 94).

In light of these and other concepts, the Church visualizes economic development as part of the process of the global development of humanity, explains Monsignor Rodríguez. This development should be universal (national, regional, and continental). It should tend to integral human development, since "each man is born to promote his own progress. . . every man can grow in humanity, enhance his value, and perfect himself" (*Populorum Progressio* No. 15). Development should achieve an appropriate balance between economic growth and social, cultural, and political development. Economic development should be in harmony with nature, with an "ethical binding force superior to any economic reductionism." It must be achieved within the "framework of freedom, conditioned by truth, justice, and consequently, peace." Finally, global development can occur only "within the perspective of solidarity on two levels: interpersonal and international."

The freedom and dignity of the human being. Economic development takes place, then, within global development and takes form in economic growth, Rodríguez notes. The growth process should be carried out, according to the Church, within the basic principles of the social doctrine. That is, it must respect the dignity, inviolability, and fundamental rights of the human person (*Pacem in Terris* No. 9). It must also acknowledge the social nature of man (*Mater et Magistra* No. 219). In other words, it must promote the common good.

The implicit counterpoint is always present in the social doctrine of the Church. Pope John Paul II recognizes that "the modern business economy has positive aspects. Its basis is human freedom in the economic field, just as it is exercised in many other fields" (*Centesimus Annus* No. 32). But immediately afterward he calls attention to the inability of many people to participate productively in the economic system because of lack of education and other factors (*Centesimus Annus* No. 33), inviting community action.

Pope John Paul II confirms that "it would appear that on the level of individual nations and of international relations the free market is the most efficient instrument for utilizing resources and effectively responding to needs." But he adds, "there are many human needs which find no place on the market" (*Centesimus Annus* No. 34). A desirable society is one that "is not opposed to the market, but rather demands that the market be duly controlled by social forces and by the State so as to guarantee satisfaction of the whole society's basic demands" (*Centesimus Annus* No. 35).

The Church condemns "empty" freedoms, and considers that "freedom in the economic sector [that] is not circumscribed with a strong juridical framework which places it at the service of human freedom in its totality and which sees it as a particular aspect of that freedom, the core of which is ethical and religious . . . is certainly negative" (*Centesimus Annus* No. 42). He adds that "when man is seen more as a producer or consumer of goods than as a subject who produces and consumes in order to live, then economic freedom loses its necessary relationship to the human person and ends up by alienating and oppressing him" (*Centesimus Annus* No. 39). On this basis, he condemns recent developments such as the consumer society and the destruction of the environment.

Therefore, "it is the task of the state to provide for the defense and preservation of common goods such as the natural and human environments, which cannot be safeguarded simply by market forces." It is necessary to avoid the " 'idolatry' of the market" (*Centesimus Annus* No. 40). The social doctrine of the Church points out that it is necessary to orient business activity toward the common good.

Pope John Paul II also says that "to overcome today's widespread individualistic mentality, what is required is a concrete commitment to solidarity and charity," and he emphasizes the preferential option for the poor. This support, nevertheless, should "neither humiliate nor reduce [the poor] to mere objects of assistance, but . . . help them to escape their precarious situation by promoting their dignity as persons" (*Centesimus Annus* No. 49). The Church condemns, however, the so-called welfare state or social assistance state. "By intervening directly and depriving society of its responsibility, the social assistance state leads to a loss of human energies and an inordinate increase of public agencies which are dominated more by bureaucratic ways of thinking than by concern for serving their clients" (*Centesimus Annus* No. 48).

In summary, according to the vision of the Church, "man remains above all a being who seeks the truth and strives to live in that truth, deepening his understanding of it through a dialogue which involves past and future generations." The Church condemns a situation in which "the individual today is often suffocated between two poles represented by the state and the marketplace. At times it seems as though he exists only as a producer and consumer of goods or as an object of state administration" (*Centesimus Annus* No. 49). This situation is the product of the present culture, which reflects the conception that man has of himself and his destiny. In the end, transformation of the current situation requires a cultural change—that is, a change in the human heart.

The subsidiarity of the state. It is not easy, as history shows, to satisfy in practice the principles of freedom and dignity. As a general ordering criterion the Church has developed the principle of subsidiarity. For John XXIII the state must be guided in its "directing, stimulating, coordinating, supplying, and integrating" by the principle of subsidiarity (*Mater et Magistra* No. 53).

Later, the Sacred Congregation for the Doctrine of Faith specifies that "neither the State, nor any society must ever substitute itself for the initiative and responsibility of individuals and of intermediate communities at the level on which they can function, nor must they take away the room necessary for their freedom. Hence, the Church's social doctrine is opposed to all forms of collectivism" (*Libertatis Conscientia* No. 73).

According to this criterion, the state should (1) stop doing what citizens and companies can do efficiently for themselves, taking into consideration the common good; (2) help do what citizens and smaller companies can do only imperfectly, taking into consideration the common good; and (3) do itself only whatever citizens and smaller companies are unable to do efficiently in light of the common good, or if there is a risk to the common good for said activities to remain in private hands (*Quadregesimo Anno* No. 79).

These principles are of great practical importance as a guide for action, for the builders of society. They favor the initiative and creativity of individuals and intermediate bodies and at the same time clearly establish that the function of the state is to serve the common good. They create a bridge between the role of the state envisioned on the one hand by the social doctrine of the Church and on the other hand by modern economic theory.

The role of labor. As already noted, the social doctrine of the Church came into being as a reaction to the poverty of salaried workers at the end of the last century. It was a product of the "savage" capitalism of the period and grew out of the conviction that the rapprochement of social classes and the participation of laborers in companies could humanize the capitalist system. Leo XIII not only described existing conditions, but also proposed very clear ethical responses. Labor, he stated, is not simply a commodity, and therefore it cannot be exclusively subject to the agreement of parties where one of them may have excessive power. In the opinion of the Church, there exists a previous justice superior to mere legal justice.[4] Leo XIII went on to establish several basic principles: the dignity of the laborer, the right to private property complemented by the principle of the universal destiny of goods on earth, the right to association, and others.

John XXIII later wrote that it is not just for the setting of salaries to remain at the discretion of the powerful. "It must be determined in accordance with justice and equity; which means that workers must be paid a wage which allows them to live a truly human life and to fulfill their family obligations in a worthy manner. Other factors too enter into the assessment of a just wage: namely, the effective contribution which each individual makes to the economic effort, the financial state of the company for which he works, the requirements of the general good of the particular country—having regard especially to repercussions on the overall employment of the working force in the country as a whole—and finally the requirements of the common good of the universal family of nations of every kind, both large and small" (*Mater et Magistra* No. 71).

These guidelines evolve in light of historic circumstances and increases in knowledge. For example, the concept of a just salary has been affected by a new understanding of the role of the "direct salary" (the salary paid by the company) and that of the "indirect salary" (the income complement ideally contributed by the state or some intermediate organization). Basing the direct salary on the level of a worker's productivity is compatible with full employment and economic efficiency. At the same time the payment of an indirect salary, assuring that the basic needs of workers and their families are met, allows work to be compatible with human dignity.

More important still, it is increasingly evident that, on the one hand, labor should be seen "as a builder of man," as Monsignor Carlos Talavera noted in his chapter "Labor-Business Relations," since man needs it to "fulfill himself," and that, on the other hand, the determining attribute in production is not land or physical capital, but "the possession of know-how, technology, and skill" (*Centesimus Annus* No. 32). To achieve man's fulfillment, labor should be conscientious, responsible, free, and creative, and the worker should be disciplined, austere, reliable, and loyal, contributing to a job well done. The company, in turn, should be closely involved with the worker, so that, among other things, the worker knows his company, its prosperity interests him, he is fairly compensated, and labor conditions are adequate (*Centesimus Annus* No. 32; 1988 speech of Pope John Paul II to the Economic Commission for Latin America). The company, revalued and revitalized, said Monsignor Talavera, should contribute then to the existence of the whole man.

Finally, states Monsignor Talavera, "he who does not work is dehumanized . . . which is why the need for full employment that does not leave goods inactive, nor people without employment should always be at the center of all economic and labor policy programs." Such an objective requires good labor relations, which are stimulated by fair salaries, solidarity, dialogue, and participation and harmed by the class struggle.

The role of the state. In his chapter "The Role of the State and Private Enterprise," Monsignor Francisco José Arnaíz explained that according to the social doctrine of the Church, "the state . . . is a living entity, the normal emanation of human nature. . . . It is a medium for human life itself, in which unity and order among men can form. . . . The state is for man, man is not for the state. . . . Its foundation is . . . the common good.

"So that special interests do not impede the common good and egoism does not displace solidarity, the strong, restraining presence of the state is necessary. It is a presence, nevertheless, that, although necessary, should be always subsidiary."

Pope John Paul II mentions the role of the state in the context of providing "sure guarantees of individual freedom and private property as well as a stable currency and efficient public services" (*Centesimus Annus* No. 48). The state should also, according to John Paul II, "sustain business activities by creating conditions which will ensure job opportunities, by stimulating those activities where they are lacking or by supporting them in moments of crisis. The state has a further right to intervene when particular monopolies create delays or obstacles to development." The state's intervention or participation in the productive sector should, however, be as brief as possible.

The economics of solidarity. There is no doubt that economic development has been unequal. The world now comprises some rich nations and many poor ones; within countries, some sectors have great wealth and others are beset by poverty. The Church considers the existing poverty ethically unacceptable and calls for solidarity.

For many, the world economy is conceived more as a place for competition and confrontation than as a place for solidarity and reconciliation, notes Monsignor Miguel Irizar Campos in his chapter "The Economics of Solidarity and Technology." Among the obstacles to the spread of an economy of solidarity are the "structures of sin." According to this conception, he explains, underdevelopment is the product of human ill will, caused by "real and authentic idolatries: of money, ideology, class, technology." These idolatries are implicit in the Marxist and liberal capitalist systems and in economic and materialistic ways of thinking. They are overcome by creating or inventing structures of solidarity to replace the egoism of the structures of sin.

Promoting values such as altruism, loyalty, and love of country contribute to generating behavior characterized by solidarity, says Monsignor Irizar.

According to the Church, the state has an important role to play in modifying the structures of sin. Nevertheless, the problem is essentially cultural, and it requires the conversion of the "human heart." "It is on this level that the church's specific and decisive contribution to true culture is to be found" (*Centesimus Annus* No. 51).

The Lessons of Modern Economics on Development

The Latin American economists participating in the conference emphasized a series of concepts and criteria on modern economic development that derive from economics as a science, from economic policy, and from experience.

There was widespread consensus among them on several fundamental points. The first point of agreement was that economic growth is necessary, although not sufficient, to improve the population's standard of living and well-being, create productive jobs, and reduce poverty. Economic growth is manifested by an increase (1) in the production of goods and services to satisfy the consumption desires of the population, and (2) through higher investment in the installed productive capacity of capital assets and in the training of human resources.

Second, economic growth should be complemented by activities that expand human development opportunities of the whole population and that contribute to increasing the participation of poor, underprivileged groups in the modern economy. This goal can be achieved through a combination of the efforts of these groups themselves and contributions of information, training, infrastructure, and community and family support.

Requirements for the achievement of economic growth. Economic growth depends on expansion of the productive base of a country and of markets toward which production is oriented. A country's productive base is extended only when an increase in savings is channeled through investments toward greater formation of capital assets and human capital and toward the improvement of social and private returns on such investments. The return on investments is sustained by the productivity of productive resources, which in turn depends on such factors as technology, economies of scale, entrepreneurial capacity, information, and the environment in which companies operate. Efficient use of economic resources implies the production of goods and services at the lowest possible cost.

For this reason, economists indicate that an increase in investment and higher returns on investment, based on efficiency, are necessary to increase production. The more efficient and profitable the investment is, the less sacrifice will be necessary in the population's consumption to obtain a given level of production. Consequently, efficiency in the use of investment resources is vital for developing countries, which almost always suffer from a shortage of capital.

Investment aids in the creation of productive jobs, since production combines capital assets; employees, from administrators to workers; organization; and raw materials.

The resources that can be saved and invested are normally controlled by private citizens as well as by the state through its collection of resources in the economy.

The state has the capacity to both save and invest. Normally, it invests in infrastructure, the training of human resources, institutions, and the establishing of rules and norms. The assignment of public sector resources to investment or administrative spending (that is, consumption) takes place by means of political and administrative decisions made by various government institutions that try to satisfy their constituencies and the public administration. As such, they tend to satisfy political, economic, social, and administrative criteria defined from different perspectives.

Private saving and investment are carried out by hundreds of thousands of citizens and companies in their daily decisions to produce and postpone consumption and to sell goods and services. These decisions can have positive or negative effects based on the inherent risk of doing business in a free enterprise system. If a company produces goods that are widely favored by the population, it is successful. If it does not, it is less profitable and may even fail.

Markets unite supply and demand of goods and services and of factors of production such as capital and labor. The valuation of products is established by prices, which reflect the relative scarcity or abundance of products. Experience shows that in free, competitive markets, prices are closely linked to production costs, with a normal return (or profit), whereas in controlled markets, monopolies, or cartels, prices include abnormally high profit levels. Relative prices guide producers and consumers in their decisions about what to produce and consume through complex processes involving the daily actions of the entire population. This, then, is the market economy, as opposed to a centralized economy with a planning authority that determines what is produced and the prices at which products are sold.

The market economy is preferable because, among other factors, it produces better results in terms of growth and efficiency in the use of resources. Although there may be serious imperfections due to lack of information, the existence of monopolies and cartels, and nonexistent or poor communication, the market is better at adapting to the thousands of free decisions of citizen producers and consumers than a centralized system. Its imperfections can be corrected better through complementary efforts to perfect it, instead of through rules and controls that make it inoperative.

Certain institutional regulations and other rules are necessary to complement the proper operation of the market economy, such as private property, freedom of trade, trade laws, laws on monopoly, civil and criminal laws, security laws, including social security, and environmental controls. But there are undesirable regulations that impede its operation, such as those that limit access to the market, regulate prices, and restrict investment decisions.

The market is not supreme, because the community reserves for itself the right to evaluate market performance in terms of the community's objectives for human development, morals, security, culture, and social peace. A country should pursue these national and social objectives, in their economic aspects, in such a way that they do not diminish market efficiency as an instrument of freedom, growth, and economic efficiency. Fortunately, to reduce poverty beyond what the market and growth would do alone, it is not necessary to reduce market efficiency. For example, transfer of resources to the poor through the national budget for programs such as education, health, technical assistance, basic infrastructure, housing, and community are more effective than imprecise transfers through price controls on food that tend to benefit medium- and high-income urban groups and adversely affect poor rural producers.

Achieving economic growth and creating employment also requires expansion of the market in which the economy operates. All Latin American economies, except perhaps Brazil, have relatively small national markets. Small markets tend to limit the increase in productivity of resources for a variety of technical reasons that have been widely substantiated. Markets need to expand inside and outside of each country. Within a country, markets should incorporate all regions and population; outside a country, markets can expand through international trade. Opening up to international trade also contributes more than any other policy or regulation to assuring competition, flexibility, and the ability to adapt that a market economy needs to grow.

Free competition, within basic norms, makes it possible to curb the excesses of economic groups that, alone or with the help of the state, seek larger benefits than the benefits that their economic activity allows them in competition with others. It also makes possible the freedom of entry for any unusually profitable business so that many take advantage of it until, through increased supply, the return is normalized. Freedom of initiative extends the flexibility of the economy, allowing it to adapt to changing international situations and to adopt productive new technologies that stimulate growth and the creation of jobs.

The international economy is characterized by its assimilation of frequent scientific and technological changes that transform and diversify products available to the population and lower their cost. The constant factor is change. Experience shows that market economies, competitive, open, and flexible, adapt best to changing circumstances, taking advantage of export and production opportunities.

Market economies make it possible for positive externalities (those benefits that occur outside the primary activity of exchange in markets) to serve the whole nation instead of being taken over by powerful groups for their own benefit. The market economy, which is open to international trade, also exercises an effective influence, through greater competition, on the maintenance of fiscal and labor discipline.

Requirements for greater social development. Although it is unquestionable that economic growth improves the quality of life, creates necessary jobs, and decreases poverty, the extent of poverty in Latin America points to the necessity of doing more to alleviate the negative effects of poverty on human development. Economic development experience indicates that real, sustained poverty alleviation can be achieved if it is based on clear criteria and effective programs in at least four categories:

1. *Training of human resources.* Human beings, in their undeniable dignity, must be equipped for production and for incorporation into modern life, using the benefits of technological advances and cultural development. Equality of opportunities begins with good health, based on nutrition, potable water, environmental sanitation, and prevention of illness; basic education providing functional literacy; a strong, stable community; adequate housing; and family values These conditions would be complemented by technical assistance for production of goods in both rural and urban areas; vocational and professional training; on-the-job training by companies; and information on products, markets, and services. In other words, countries can provide services targeted to the poorest groups that will help improve their physical, mental, and cultural capacity to participate profitably in national development.

2. *Entrepreneurial training.* Although entrepreneurial training is part of training, we mention it separately because of its great importance in the organization of productive companies and companies that create employment. Many people at all income levels, including the poorest, have innate business aptitudes that can be developed through training for their own benefit and the benefit of society.

3. *Basic infrastructure.* Elements of infrastructure that improve the standard of living of the poor and increase their productivity range from housing, roads and

transportation systems, and electrification, to drinking water and minimum urban infrastructure.

4. *Social security.* Nearly all countries have social security and unemployment programs to protect senior citizens, the disabled, and the unemployed. Economic experience indicates that it is advisable to structure such programs cost-effectively, often by privatizing them or allowing them to be handled by civic organizations.

These social programs generally have positive consequences for the economic growth rate. Perhaps the case that best illustrates this situation is that of education. Primary and secondary education, according to innumerable empirical studies, have significant positive externalities that tend to increase the productivity of all members of society. Technical and university education are also generally profitable in economic terms. Other kinds of social spending have shown similar results. Of course, as with all investments, the level of that spending should be monitored to avoid a poor allocation of resources.

Economic policy. Economic policy includes the application of rules and measures that governments apply to guide the process of economic growth using the instruments available in a market economy, such as fiscal, monetary, foreign trade, price, and other policies.

In a market economy, where citizens make millions of decisions every day, the key to effective economic policy is the creation of the most stable yet flexible environment possible, so that individuals and companies choose to save and invest more, adopt the best technologies, and use the resources available in the country. Free economic activity has sufficient inherent risks; there is no need to multiply them by adopting unstable economic policies that aggravate the uncertainty of a business's success and increase the costs of economic transactions. The optimum economic policy for growth and human development may be summarized as follows:

Macroeconomic policy. Macroeconomic policy normally affects the general price level, the international exchange rate, the interest rate, and the level of employment. This policy should provide a stable, predictable environment and avoid the distortive, negative effects of inflation, massive overvaluations and devaluations of the exchange rate, and negative real interest rates. It should prevent fluctuations that stimulate unproductive, speculative activity; capital flight; and serious variations in profitability of business, efficient resource allocation, and income distribution.

Microeconomic policy. Microeconomic policy normally affects relative prices, economic relationships among sectors, costs of economic transactions, regulation of specific aspects of business by the state, and government requirements regarding permits and authorizations (in other words, "red tape"). This policy should permit maximum flexibility and be conducive to the lowest possible transaction costs. It should assure competition, which along with flexibility, stimulates the search for the most profitable investments, the adoption of appropriate production technologies, and adaptation to international economic changes.

Policy on human resource training. The state should make an enormous effort to favor equality of opportunity and the training of human resources, both of which make a significant contribution to growth, the wide distribution of the benefits of development, and human dignity.

Instruments of economic policy.

Fiscal policy. Fiscal policy should avoid budget deficits, the main cause of inflation, which has numerous negative effects. It should contribute to the increase of public savings, channeled into investments with high social returns. It should have a tax system that is conducive to saving and private investment, as well as to work and productivity.

Fiscal policy is reflected in the national budget, which, with its total package of revenues and spending, is the proper instrument to transfer resources from those who have more to those who have less, supporting programs that attack poverty. Proper redistribution should not be achieved through taxes, but through the budget as a whole. Taxes should be as neutral as possible; that is, they should influence economic decision making as little as possible. The budget should channel resources to the poor in such a way that they are converted into human and capital assets with permanent productive capacity. Also, to be effective they should be targeted to the extremely poor groups.

Foreign debt overwhelms most of the countries of Latin America. It is necessary to restructure and reduce it to ease the budgets for several years in order to favor the recovery of growth.

State enterprises in Latin America have been a permanent source of fiscal deficits, economic inefficiencies, and limited service to the community. Where appropriate, administrative and economic improvement of the companies is essential, whether through privatization or through separation from political processes to the greatest degree possible.

Monetary policy. Monetary policy should be conducive to growth in the money supply along with stable economic growth, an exchange rate that makes the country's exports competitive, and a positive real interest rate that promotes savings, attracts national and foreign capital, and channels investments into the most profitable projects. The printing of money should not become a way of paying for fiscal deficits, an approach that stimulates inflation, which acts essentially as a tax paid mainly by wage earners.

Financial policy. Linked to monetary policy, financial policy guides the dynamic development of the capital market that channels savings into investment. The formation of specialized financial institutions, such as banks, private investment banks, and securities exchanges, contributes to increasing savings and investment through the creation of short-term and long-term financial instruments that bring together the evaluations by savers and firms of risks, liquidity, and profitability.

International trade policy. Along with monetary policy, trade policy should favor a balance of international payments consistent with dynamic growth of the economy. Low duties and a competitive exchange rate promote the expansion of a country's market, encouraging production both for export and for the local market. The turnabout in Latin America toward the opening up of markets to greater international trade will support sustained growth in the ways already described.

Price policy. It has been implicit in this discussion that a market economy operates better when prices are established freely by market forces. If for legitimate reasons, non-economic in nature, some prices are fixed, the economic effect of the action should be taken into account. Any minimal government price policies therefore should favor savings and investment, the creation of exports and jobs, and improvements in productivity, and they should never be contrary to these growth requirements. Prices set by government may also be used to reduce divergences between social and private benefits in the allocation of resources. Since many investments have different social benefits (captured by the public at large) and private ones (captured by the investor alone), the government action would estimate the achievement of investment or resource allocation levels consistent with social benefit maximization.

Labor policy. Besides providing protection for safe and healthy performance on the job, labor policy should favor the creation of maximum employment and salary increases based on increases in labor productivity. Relative prices of capital and labor should reflect the relative scarcity of each input and favor the achievement of these goals. The bonds between workers and companies are best based on incentives and encouragement that relate compensation to productivity. It is important to recognize that indirect costs of social services, charged to the payroll, make labor more expensive for firms without significantly improving the workers' real salary, thus decreasing employment potential. It is preferable to defray those social services agreed upon with sources of revenues more neutral between the use of labor and capital in production than the payroll.

Social security policy. Once a society has decided on the level of resources that it wants to channel to provide social security, especially for older people, and other appropriate services to improve social well-being and maintain the dignity of the population, it must analyze the best mechanisms available to reach its objectives. These goals are not always achieved most efficiently by the state. Various private entities may provide effective services within clear rules and guidelines.

Human development policy. In addition to economic growth and the creation of employment, contributors to human development include training, physical infrastructure, and social security. Training, in particular, is crucial, because it contributes to both the personal and the economic well-being of the poor. Some of these components are provided through the national budget, but many (such as education, nutrition, and community development) can be handled in part by private, civic, and religious entities.

It is important that programs oriented specifically toward improving the situation of the poor and underprivileged be carefully targeted to ensure that those groups receive effective support. In addition, care must be taken to be sure that such programs really do offer training and improve human assets, which can produce benefits over many years, and that the programs work in a way that does not destroy the beneficiaries' motivation to help themselves.

Subsidy policy. Given the importance of a free and efficient market, subsidies given to increase production, productivity, or the well-being of the poor should be given through the national budget and not through tampering with market-clearing prices. Budgetary subsidies can take the form of vouchers or targeted outlays to cover specific expenses. Incentives to increase production and productivity should be temporary, tapering off as recipients progress along the technology learning curve. Support for the poor should also be gradually reduced, as their own ability to improve their well-being is established.

The institutional framework. Institutions, the rules of the game, are of great importance for putting economic policy into practice. Not only the political system, where economic policy is debated and adopted, but also the legal framework, cultural environment, and value system determine whether a country will adopt and maintain economic policies in agreement with the objectives stated. There was a consensus that the democratic system, well structured with a stable legal system equally applied to all, offers the best foundation for putting into practice an economic policy likely to produce strong performance. Various ingredients are necessary for the system's success:

1. Political parties must not be so ideological as to prevent the agreements and compromises necessary for the functioning of a stable democracy.
2. Economic policy must revolve around the center of the political spectrum, with reasonable deviations toward the left or right, maintaining the profile of a social market economy in a democracy, as is the case in the industrial countries.
3. The Latin American tradition of mercantilist state favoritism toward groups of the right or populists must be replaced by more neutral arrangements that do not affect the functioning of the market economy. This should include a nonpoliticized system of justice applied equally to all. Policies must not undo the relationship between effort and rewards based on the economic performance of citizens and companies by substituting rules and controls that lead to the generation of rents, speculation, and unproductive actions.
4. Economic education must increase, and economic advisers must educate political leaders on the policy and institutional requirements for the proper functioning of a social market economy.

A well-structured legal and institutional framework is a critical underpinning for an efficient and smoothly functioning economy. Such a framework can help, for example, reduce regulations and red tape that raise the cost of economic transactions that contribute to growth. An effective, agile judicial system makes possible the necessary legal environment for dynamic economic management. A public administration made up of professional career civil servants can provide more efficient, responsive, and continuous public services than a system where public employees are regularly appointed and dismissed according to their political affiliation.

An understanding of the operation of the economy, combined with a deeply rooted system of moral, Christian values, can contribute a great deal toward consistently accomplishing sustained economic growth with greater social development. The principles of "freedom and equity" that the economist wields are similar to the principles of "freedom and solidarity" that are part of the social doctrine of the Church. The application of both criteria is necessary to achieve economic growth with human development. It is important to point out that both economic growth, by creating jobs, and the complementary programs described above, each contribute to human development independently. Economists agree that programs assigned to support Christian solidarity, however, should not and need not reduce the freedom, competition, and flexibility that the economy requires to be more dynamic and efficient or thwart the democratic values that guarantee the rights of all.

For Latin America, a reorientation of the economic and social development functions of the state is implicit in the above. It is not a question of a stronger or weaker state. Rather, the state should be a facilitator and promoter of development, stimulating citizens to exercise their freedom, capacity, and creativity in a framework of economic policies and rules that tend to maximize the achievement of both private and social benefits, all at the lowest possible cost. The state should have little direct participation in production. It should dedicate itself instead to protecting all citizens' freedoms and to ensuring the dignity and effective freedom of the poor and underprivileged through direct investment and caring.

When people recognize that the criteria for successful political agreements and compromises in a democracy are not necessarily compatible with the economic criteria for growth and job-producing economic policy, they will accept the fact that a state less involved in production will produce better results.

Structural adjustment policies. During the 1980s most of the countries in Latin America underwent difficult, complicated, and frequently traumatic structural adjustment processes. Structural adjustment has high initial costs: global consumption is reduced to increase savings, greater unemployment is created temporarily, and subsidies and unproductive favoritism toward different sectors in the nation are reduced. The changes required move away from an economy that consumes more than it produces, that is sustained by dwindling foreign debt, that depends on a swollen, inefficient state, and that assigns resources to unproductive activities that create little employment. Instead, they move toward a more productive, efficient, flexible economy that is freer and more competitive and entail curbing excesses and reorienting economic activity. This involves temporary costs that are compensated for in the medium and long term by greater permanent benefits for everyone as a result of a more dynamic economy. This reality becomes more acceptable politically and morally if, en route to achieving the objective, decision makers make a conscious effort to reduce the social cost as much as possible and if they make clear that avoiding structural adjustment will actually have much higher permanent costs. Political discussions on how to distribute better a shrinking national "pie" divert attention from the need to establish a consensus on how to achieve a growing national pie with more for everyone. For this reason it is necessary to form coalitions in the political arena among groups that will benefit from restructuring in the short term and thus compensate and neutralize those who are temporarily harmed, in order to sustain the application of appropriate economic policies until better results are produced for all.

Large foreign debt does not facilitate structural adjustment, because its amortization and service make the process much more expensive. For this reason steps must be taken to reduce the debt of heavily indebted countries to its real value in financial markets and then to restructure it on longer terms to facilitate the economic recovery that will make eventual repayment feasible. The experiences of Argentina, Bolivia, Chile, Costa Rica, Mexico, Uruguay, and Venezuela help point the way to viability.

The Social Doctrine and Economic Theory: Similarities and Differences

As described, the social doctrine of the Church and economic theory are conceived on different levels: the first, moral, and the second, scientific. Nevertheless, the principles and laws of both of them make it possible to examine, from each one's point of view, concrete situations and proposed socioeconomic and political systems. The two systems of thought coincide on some points and differ on others. The social doctrine points toward desirable permanent objectives, without paying much attention to concrete methods for achieving them in each historic place and time, while economic theory and policies attempt to determine how economic forces interrelate and how concrete instruments of economic policy can be used to mold these forces and achieve desirable economic objectives. This section will explore the common features and differences in the two approaches that arose in conference discussions and consider how modern economic policy can contribute to achieving the fundamental objectives of the social doctrine.

Human freedom and dignity and the market economy. A free market economy is desirable from the economic point of view, because it provides the appropriate environment for the free exercise of individual and group initiative in the attainment of economic objectives. Also, in practice, it contributes to the achievement of efficiency, flexibility, dynamism, and adaptability, all necessary factors for the increase of material wealth. By tending to strengthen human freedom and the exercise of self-initiative, it coincides with a basic element of the social doctrine of the Church, which defends the freedom and dignity of the human being. A market economy, therefore, can support human rights. Furthermore, the doctrine goes beyond economic freedom to value the individual's integral freedom in all dimensions of life.

A laissez-faire economy, however, can lead to externalities, monopolies, and, consequently, a poor allocation of resources. The distribution of income can also turn out to be socially undesirable. Economic theory says that the state must therefore take action to correct some of these defects. From the Church's point of view, there are many goods that the market does not supply, and state action leading to the common good is thus indispensable for achieving social justice. Here, then, is another important coincidence between the social doctrine and economic theory.

The proper functioning of a market economy is based on the healthy self-interest of economic agents, exercised in the community within the national society. This, in theory at least, is not incompatible with the development of spiritual values, including solidarity. In this context solidarity means the sharing of benefits among individuals and groups in the community, the nation, and the world to achieve the common good, improve the social and cultural environment, and incorporate the poor and marginal people in the development process. The free economic exercise in society is part of solidarity, for it recognizes the interdependence of individuals in the community. "Good" egoism, then, leads economic agents to fulfill themselves in part through free economic activity in an environment and community that it is in their best interest to protect and develop, both for their own good and for the common good. This is the pursuit of enlightened self-interest. But this is only a small part of the solidarity conceived in the social doctrine.

The Church is concerned that self-interest could be transformed into "bad" egoism, into a desire to have instead of to be, into thoughtlessly manipulating the free market for one's own ends and losing sight of the community. It suggests that this deviation could be an inherent result of the operation of the market through competition, advertising, and exaggerated consumption. If this is so, structures of sin exist in the system. The market will result in materialistic, dehumanized individuals, interested only in producing and consuming, with manifestations of the consumer society, ecological destruction, and lack of solidarity. Economic freedom may therefore seem to be contrary to or inconsistent with the freedom and dignity of the human being described by the social doctrine.

There are several ways of addressing this problem. One approach is the "conversion of hearts," and it is an important responsibility of the Church. This conversion implies changing the values of the agents so they will not be dominated by the idolatry of money or material things. This is what is meant by the Church's goal of "evangelizing culture," or the value system that rules each nation. In another approach, economic policies can be introduced that strengthen solidarity and discourage "the structures of sin," without affecting the economic and social virtues of the market economy. For example, it is possible (1) to institutionalize a progressive tax on spending that would reduce the incentive to consumption and favor investment, which would contribute to solidarity, because investment creates new jobs and tends to raise the salary level; (2) to tax luxury spending, which would have an effect similar to that of the previous tax and could be used as a complement; and (3) to grant a tax credit for a portion of the donations made to a list of causes or charities considered desirable by the nation. This system would tend to stimulate solidarity, for donors would have a strong incentive to become involved in causes they support and would thereby perceive existing social needs more clearly. This kind of incentive would work in favor of creating a "virtuous structure." At present, most people in the West with higher incomes feel they have fulfilled their social responsibility by paying taxes, perhaps with the exception of those in the United States where there is significant private charitable giving. Generally, they are not even aware of the needs of the less privileged, since they move almost exclusively in high-income neighborhoods and circles.

Solidarity, social equity, and the incorporation of the poor into development. The social doctrine not only advocates the common good and virtuous social structures, but also refers specifically to the need to eliminate poverty, to incorporate the poor into development, and to reduce the differences between rich and poor. Economic policy, based on social preferences and economic theory, also incorporates the concept of social equity, which implies the reduction of absolute and relative poverty.

Economic development experience shows that economic growth, by creating jobs and increasing per capita income, improves the welfare of the whole population in absolute terms, although not always in relative terms. Economic growth is more dynamic and participative in a free market economy, which also protects and expands the freedom of the human being. The fundamental issue for economic policy, then, is how to implement effective support for the poor without diminishing growth or reducing the effectiveness of the market economy. In other words, it must strengthen the freedom, competition, and flexibility of the economy while also supporting solidarity (social equity). Most attempts to reduce poverty instantly or through control and regulation of the market with destabilizing macroeconomic policies end up curbing growth and job creation and slowing down the incorporation of the poor into development. Economic theory recommends instead adopting some of the policies described earlier that give permanent human capital to the poor and make more effective the equality of opportunities to work, produce, develop entrepreneurial talent, contribute information and technical assistance, strengthen the family and community, and provide for the elderly and invalids—without reducing market effectiveness.

Both the social doctrine and economic theory agree that social spending contributes to humanizing people, strengthening their dignity, and accomplishing social justice. Two areas of apparent discrepancy, however, concern the reduction of relative poverty (the differences in per capita income among social groups) and absolute poverty (the level of everyone's per capita income) and the amount of time in which the reduction of poverty can be accomplished.

History shows that economic growth and the elimination of poverty can take decades. The Church, nevertheless, condemns poverty when it sees it. In fact, John Paul II has declared to the Economic Commission for Latin America and the Caribbean that "the poor cannot wait." Here is a difference of perspective that will be impossible to satisfy in practice in the short term. Social spending can mitigate poverty and accelerate its reduction, but even the best economic policy will not be able to resolve the problem of income level and its optimal distribution from one day to the next. An exaggerated redistribution effort will only condemn a country to generalized poverty, perhaps even permanent poverty, because of its negative effect on investment and saving, work, risk taking, and entrepreneurial creativity. Most economists agree that there is a delicate balance between sacrifices and benefits over time. Thorough, consistent application of the economic policies described in the preceding section can stimulate a nation to improve all sectors through growth and to diminish relative differences among peoples through social programs at a rhythm that maintains peace and strengthens solidarity.

Solidarity and labor. None of the precepts of the social doctrine on this subject, summarized previously, is contrary to the general outline of modern economic theory.

In the context of a market economy, the breakdown of compensation into a direct component, which employers pay based on labor productivity, and an indirect component, which makes it possible for workers to satisfy the needs of their families and themselves with dignity, reduces unemployment as much as possible and contributes to economic efficiency and human rights. It is true that in many Latin American countries employees often do not receive an indirect salary, and when they do, the amount may be insufficient to achieve the objective. This failure can be remedied gradually by applying criteria of political consensus in society and also by adequate use of economic policy. Political consensus will help define the appropriate indirect salary (social security and other similar social contributions) and changes in policies will gradually get there.

By rapidly incorporating know-how and technology, labor is continually becoming less of a general, depersonalized input. Class differences are also being reduced. Companies are beginning to value workers more, giving them information and involving them in the management and performance of companies. This contributes to humanizing work. Although Latin America is far from the optimal situation, economic incentives are aiming in the right direction and labor relations should grow increasingly cooperative and less antagonistic. It is only a matter of time.

In a competitive regime (a market economy open to international trade) where natural monopolies are adequately regulated by the state, companies will naturally tend to act for the good of the whole society. They will have normal profits if they are efficient; they will seek labor participation and will offer the market the products it needs. In this case, the social doctrine of the Church and economic theory will coincide.

Labor policy can favor incentives to stimulate labor productivity and the creation of business-labor mechanisms to strengthen the community sense of business. Some examples are profit-sharing schemes based on productivity and premiums for innovative contributions.

The role of the state and private economic activity. There is ample agreement between the social doctrine's vision of a subsidiary role for the state and economic theory based on free operation of the market where activity is oriented toward the maximization of social well-being. To the degree that individuals understand freedom in the ethical-moral sense defined by the Church, agreement will be even greater. The freedom accompanied by solidarity for the common good and the fostering of a sense of community would stimulate economic policies geared to achieve growth through the market and combat poverty. There still remains the practical difficulty of determining either the common good or the function of social well-being, and the democratic process is accepted both by the Church and by economists as the least harmful way of making this determination.

There is complete agreement on the important role the state should play in guaranteeing institutions such as private property, the application of constitutional and legal norms, justice, and security, as well as monetary and financial stability.

Both the social doctrine and economists deplore the use of the state by some sectors to extract rents from the public sector through excessive growth in public spending. There is also agreement that the state must play a role in the regulation of economic activities, to preserve the environment and natural resources. The criterion of subsidiarity is useful for determining the precise role that the state and the market should play in regard to regulation.

Economists assumed until recently, and the Church still tends to assume, that the state should correct market imperfections, orienting private activity either toward the common good (Church) or toward maximum social welfare (economic theory). To specify the actions that the state should carry out to achieve the common good or maximum social welfare, the Church favors the existence of participatory democracy, as do most economists in Latin America. The presumption in favor of democracy is not necessarily foolproof, especially when it is confined to free elections, but also when it represents a system of accountability, feedback, and transparency. Public choice theory tends to show that actions favoring the circumstantial "majority" that are likely to be taken in a representative Western-style democracy are not necessarily those that lead to the common good or to maximum social welfare. Normally, actions will reflect the preferences of those who control information—that is, the bureaucrats. State action, far from favoring the most needy or contributing to the efficiency of the system, results in a rent-creating apparatus for the bureaucrats, politicians, or their constituencies.

If the majority is poor, as is almost always the case in developing countries, and democracy is perfected, providing voters with sufficient pertinent information, it is possible that public spending will effectively benefit the most needy, with two consequences. First, a tax on the rich designed to transfer income to the poor will discourage investment and consequently the creation of jobs, with a perverse effect on the compensation level of the poor. Second, the income transferred will result only in greater consumption by the poor, without increasing their ability to generate income and humanize themselves.

The solution to problems related to power and the decision-making processes in a democracy are complex and can perhaps be resolved only in the medium and long term with education and information, and in the short term, with strong, enlightened leadership. It is evident, nevertheless, that a smaller state with less power minimizes the abuses mentioned. The modernization of democracy also tends to reduce these abuses and make governments more responsive to the will of the governed. Modernization implies not only an improved electoral system in which voters register and vote, but also, equally important, transparent state actions, accountability of officials to the people, and popular participation in the decision-making process. It also implies raising the quality of government by increasing the professionalism of the civil service.

Subjects for Further Research

The participants in the conference were conscious that they had only started to explore the subject. Many topics merit more thorough and systematic exploration from the perspectives of the social doctrine of the Church and economic theory. It is worth, for example, studying more thoroughly the emphasis that should be placed on reducing poverty, equalizing opportunities, and decreasing inequalities in income, and the relationship of these factors to economic growth.

Other important topics include the relationship between direct and indirect salaries; the degree to which one or the other affects the creation of jobs or economic growth; the most efficient ways to capture resources to pay indirect salaries; the relationship that exists between labor productivity and both kinds of salaries; and whether the payment of indirect salaries is more effectively carried out by public or private institutions.

Also worthy of special consideration is the consumer society, from its operational meaning to ways of avoiding it through the moral formation of the human being, education, and economic policy.

The theme of egoism and its differentiation from legitimate self-interest has a special role in ethics and morality and also plays a significant role in economic organization for production. What is the relationship of the development of individual human beings to the development of the community and the nation to which they belong? What are the connections among personal fulfillment, achievement of the common good, and solidarity, and what are the ramifications of these connections in the economic sphere?

The relationship between revolutionary changes in scientific and technological knowledge and our perception of ourselves, of the universe created by God, and of our material progress, also has broad implications for human development, economic growth, and economic policy. Experience indicates that the flexibility, competition, and adaptability of economies make it possible to take faster advantage of technological changes. Therefore, it is appropriate to explore more thoroughly how to combine these virtues of a market economy with more effective attainment of human solidarity.

Notes

1. Pope John Paul II considers capitalism positive, if capitalism is defined as "an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production as well as free human creativity in the economic sector." Like his predecessors since Leo XIII, however, he condemns capitalism if by this is understood "a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality and which sees it as a particular aspect of that freedom, the core of which is ethical and religious" (*Centesimus Annus* No. 42).

2. Most of the papal encyclicals referred to in this executive summary (*Mater et Magistra*, *Pacem in Terris*, *Populorum Progressio*, and *Sollicitudo Rei Socialis*) can be found in *The Papal Encyclicals* (Wilmington, N.C.: McGrath, 1981). *Centesimus Annus* can be found in *Origins* 21, no. 1 (May 16, 1991). *Gaudium et Spes* can be found in Walter M. Abbott, ed., *Documents of Vatican II with Notes and Comments by Catholic, Protestant and Orthodox Authorities* (New Century, 1974).

3. Exequiel Rivas, *One Hundred Years of the Social Doctrine of the Church* (Santiago, Chile: Ediciones Paulina and Instituto Latinoamericana de Doctrinas y Estudios Sociales, 1991).

4. Ibid.

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