Private property, professional ethics, and the common good –

The Global Financial Crisis seen through the lens of Catholic Social Doctrine

By Paul J. Fitzgerald, SJ

In a New York Times article in March of this year,¹ a front page story chronicled a pattern of abuses by brokers at LPL Financial, the fourth largest brokerage firm in the nation. The article notes that, "state and federal authorities censured the company and its brokers with unusual frequency. LPL brokers have been penalized for selling complex investments to unsophisticated investors, for speculative trading in customer accounts, and, in a few cases, for outright stealing from clients." The New York Times story also noted that regulatory actions were taken by the Financial Industry Regulatory Authority (Finra) against Wells Fargo, Bank of America/Merril Lynch, Morgan Stanley Smith Barney and Edward Jones during the same period of time, just not as often. Several years after the global financial crisis hit, this story illustrates that some of the same unethical commercial practices that had led to the crisis continue to plague the financial services industry. The victims of these unethical acts included retirees who lost significant portions of their retirement savings and had to return to work. One ought to feel not only outrage at the callousness of the censured brokers but also a justifiable concern that, even as the U.S. economy is only slowly returning to a healthier posture, we continue to see widespread examples of exactly the sort of behavior that drove us to the brink of collapse.

One wonders whether our society as a whole has lost a general sense of ethics and justice. In a word, too many professionals have lost an interior sense of “true north,” and their

moral compass is hopelessly untrustworthy. If this is so, then our commonweal in grave danger. Through work and thrift, ordinary people want to be able to build up savings, purchase homes, pay for their children’s education, and have enough money in their senior years for a comfortable retirement. In a free and just society with an honest marketplace, people should be able to depend upon the honesty and the ethics of the professionals who would do business with them as they seek to realize their financial plans. Alas, the financial crisis and its aftermath have revealed that the marketplace is far too frequently dishonest and that the professionals who work in it are far too often untrue to the ethical ideals of their chosen professions.

Under the rubric of Catholic Social Doctrine, the Catholic Church has reflected on the ethics of the modern marketplace, on the legitimate human desire to own property and to accumulate wealth, and on the ethical responsibilities of contemporary business professionals. Catholic scholars have anchored this reflection in the long tradition of Catholic teachings on personal virtue and social morality, based in turn on Sacred Scripture and religious practice. In this paper, after having reviewed the relevant theological principles to be found in Catholic Social Doctrine, we will then note the moral failures of individual human beings and groups of people that contributed to the crisis. We will conclude by identifying the moral virtues that business people should adopt to complement new legal structures which, in tandem, could lessen both the frequency and the severity of future financial crises.

In the Judeo-Christian tradition, these moral norms and ethical practices are ultimately based on a set of spiritual intuitions and faith statements. Religions and philosophical traditions grapple with the problem of unethical behavior (often under the rubric of
personal sin) and the social consequences (social or structural sin) that such behavior causes using a variety of concepts and images, and here we will confine our inquiry to the Roman Catholic tradition, leaving to other scholars the task of inquiring into the other world religions and ethical traditions. One could contend that these religious insights, whether perceptions of personal integrity, inalienable human dignity or the common good, are ultimately based on an intuitive insight into God and the very nature of reality. If this is true, then the norms and ethical practices detailed below would in fact have universal applicability. Indeed, given the ever greater complexity and interconnectedness of the world economy, universal solutions are desperately needed, for only an attentiveness to universal principles and improved practices on a global scale will afford humankind a global economy that serves the best interests of all.

**Scriptural foundations of Catholic Social Doctrine**

Sacred Scripture and two millennia of subsequent tradition inform modern Catholic philosophical and theological approaches to personal and social ethics. The Hebrew Scriptures present a long historical development of legal prescriptions to regulate economic activity as an integral aspect of the religious maturation of the Chosen People. When Abraham purchased the Machpelah cave (Genesis 23), he insisted that Ephron name and accept a price for the complete transfer of the cave, exemplifying the ancient notion that a transaction has to satisfy the heart of the seller as well as that of the buyer, i.e., both parties treat each other with integrity and both are able to achieve the end that they truly sought. The Jubilee laws found in Leviticus (e.g., 25:13ff) intended a structure of social stability wherein ancestral land owned by extended families could never be finally transferred from

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a seller to a buyer who was not a kinsman but only leased for a period of time before it would revert to the seller or his descendants, in effect guaranteeing that families would not become impoverished over time, even if a family suffered some temporary misfortune. As well, the Jubilee laws intended that land would remain distributed throughout society, guaranteeing social stability and precluding the formation of a landless proletariat. In addition to such legal texts, Hebrew Scriptures also contain prophetic texts that refresh religious memory, teach moral reasoning and lay out ethical standards. In the fifth chapter of Isaiah, the author laments the ethical misbehavior of the people that has earned them God’s wrath in the form of invading foreign armies. Isaiah condemns, for example, the actions of wealthy land-grabbers who are dispossessing the peasantry in order to form large estates: "Woe! Those who join house to house, who connect field with field, until no space remains, and you alone dwell in the midst of the land!"

Both the law and the prophets were based upon a founding historical memory (the Exodus) and a founding theological construct (the creation stories in Genesis). The Exodus story is one of deliverance from appalling social hardship under an unjust political and economic order (slavery in Egypt) and the creation of an identity as a people related to God and to each other in a covenant that was at once social, economic, political and religious. The Decalogue is the first legal expression and codification of a vertical and a set of horizontal relationships, answering the question, “what does it mean to love God?” – first three commandments – and “what does it mean to love one’s neighbor?” – the latter seven commandments. The institutionalization of a charism (divinely revealed law is translated into human laws) is the subtext of the history of ancient Israel, a story that is retold and relived by every generation, for the identity of the people is both carried by memory of the experiences of their ancestors and also always relies upon the ongoing religious experience
of the abiding presence of God, standing in covenantal relationship with the people and calling them to holiness. The Chosen People are also always a people under the judgment of God, who calls them to a high standard of righteousness. Personal sins and failures can and do have social consequences, and yet God is merciful when the people repent and reform their lives and their social structures to be more just and merciful.

A second strand of religious discourse arose from, and contributed to the further redaction of, the creation stories, which lay out in narrative form a theological claim that founds a universal morality – albeit one whose universal applicability makes it an ideal towards which to strive rather than a minimum standard of accepted and institutionalized practice. The two creation narratives posit that the first human persons, and by extension, all human persons, are created in the image and likeness of God and, therefore, have inalienable worth and dignity. The Priestly creation story of Genesis 1:1-2:4a and the Yahwist creation story of Genesis 2:4b-24, while different in source and narrative structure, are mutually complementary and completing: men and women are equal, men and women are complementary; humanity is meant to have a harmonious relationship with the rest of creation (stewardship); humanity is meant to have an intimate relationship with God. In the story’s telling, the divine intention was thwarted by sinful human rebellion, and paradise is lost, yet in the theological reasoning that undergirds the story, God remains present to an always fallen humanity and, through the law and the prophets, continues to offer invitations to form more perfect relationships as salvation history unfolds. The theological insights contained in the Exodus and creation stories form the ethical horizon toward which Hebrew society strove, the standards against which its laws were fashioned and refashioned, and the ideals by which Israel would judge itself and its neighbors. Like any social system, that of ancient Israel was prone to legalism and corruption, but the prophetic voice provided a
perennial corrective to these dangers by reminding Israel of her vocation to personal holiness and social righteousness as God’s Chosen People. As such, the Israelites were to embrace justice and mercy, and they were to be especially attentive to the situation of the weakest members of their society, for the nation would be judged by God according to treatment of the widow, the orphan or the foreigner sojourning among the people (Jer. 7:6, Zech. 7:10, etc.).

Christian Scriptures recapitulate these themes as they tell the story of the life, death and resurrection of Jesus of Nazareth and the beginnings of the Christian communities that sprang up across the Roman Empire in the decades that followed. When asked by a scribe which is the first of all the commandments, Jesus sums up the law and the prophets with a two staged moral teaching: “you shall love the Lord your God with all your heart, with all your soul, with all your mind, and with all your strength... You shall love your neighbor as yourself” (Mark 12:28ff). In Matthew (7:12), this teaching takes the form of, “Do to others whatever you would have them do to you. This is the law and the prophets.” It sets the minimum standard of just behavior. Jesus also sketches out a higher standard of supererogatory behavior: “love your enemies; pray for your persecutors” (Matthew 5:44). In this, Jesus would crown justice with mercy, asking his followers to imitate him in all aspects of their lives. This sets the horizon of perfection towards which Christians were to strive and by which they should judge their own religious communities and the larger societies in which these early Christian communities subsisted. Subsequent legal development would continue to elaborate the requirements of justice and charity in these two relationships. Throughout the fifth chapter of Matthew’s Gospel, one finds Jesus’ restatement of the heart of the law for the Christian community going forward. There would be no antithesis between law and grace but rather the endless task of reconciling justice and
mercy in all aspects of life and community. In the post-apostolic era, during the persecutions, Christians judged the Roman Empire to be sinfully corrupt to the core, yet they had to participate in the economy of the empire even while abstaining from participation in the civil religion of the state. With the conversion of Constantine and the legalization of Christianity, Christians were challenged to recast their thinking about the state, and with the collapse of the western empire, ecclesial authorities in many instances became secular rulers as well. Over time, within a great diversity of socio-economic contexts, with many stumbles along the way, the Christian Churches elaborated social critiques and models of personal virtue that sought to name both the minimum standards of justice and ethical behavior on the one hand, and the maximal ideals of charity and mercy on the other.

Historical foundations of Catholic Social Doctrine

Modern Church teaching on social justice can be traced to Pope Leo XIII’s *Rerum novarum* (1891), in English, *On the Condition of the Working Classes*. This encyclical letter was addressed to all the bishops of the world in communion with Rome, but it was intended for

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3 St. Cyprian, bishop of Carthage from 249 until his martyrdom in 258, held the typically ambiguous view of the Roman Empire that was common among Christians living under capriciously hostile emperors. The moral weaknesses of Roman civilization were patent (hypocritical rulers, instead of providing security for their subjects, promote insecurity, smiling as they punish, flattering to fool, exalting in order to destroy – *Quod idola 7*), yet at his trial, as recorded in the *Acta*, Cyprian confessed to have prayed daily for the emperor. Cyprian was convinced that earthquakes, floods and droughts were sure evidence that the world had grown old and the end was near, yet he urged Christians to pray constantly for an end to plagues, droughts and wars, and for the peace and the salvation of the pagans (*ad Demetr. 20*). See, for example, J. Patout Burns, Jr., *Cyprian the Bishop*. New York: Routledge, 2002.

4 Bishops and Abbots as landlords during the medieval period blurred a distinction that the Church wanted to defend, even as it possessed land as a necessary means of income. Pope Gelasius I (492-496), in a letter to Emperor Anastasius, distinguished between two types of authority (two swords) by which society is ruled, the spiritual and the secular. They are quite distinct, with the former, exercised by the priests, being weightier and holding sway over the latter, which is held by secular rulers. This vision of the collaboration of altar and throne, with the former having precedence, was the Church’s default position through the investiture controversies and up to the revolutionary era.

5 The classic overview of the first nineteen centuries of this tradition is that of Ernst Troeltsch, *Die Sozialelehren der christlichen Kirchen und Gruppen*, 1911. The best synthesis in English remains H. Richard Niehbuhr’s *Christ and Culture*, 1951.
an even wider audience. As a public act of teaching – though not at the level of dogma and not with a claim of infallibility – the text was a revolutionary document that ended a century of papal disengagement from political and social issues in Europe that had arisen after a string of perceived political losses by the Church from the French Revolution through the Risorgimento in Italy. Pope Leo’s immediate predecessors had been content to condemn the social and economic changes engendered by the political and industrial revolutions that had swept away the old order. Vincent Joachim Pecci, the future Pope Leo, moved beyond the merely negative stance of his predecessors to one of active engagement with the flow of social, economic and political change, in part because of his direct experience of the effects of changing social conditions on the members of the poorer classes. He had served as Papal Nuncio (ambassador) in Brussels before being consecrated Archbishop of Perugia. In both assignments, he witnessed firsthand the blessings and the curses of urbanization and industrialization as experienced by the workers and their families who were migrating from the countryside into the expanding cities with their mills, transportation systems and construction projects.

This encyclical (i.e., general) letter begins with a litany of woes that have befallen humankind in the new economy. Leo bemoans the outbreak of class conflicts, caused by "the abounding wealth among a very small number and destitution among the masses" (1), the great majority of whom "live undeservedly in miserable and wretched conditions" (5). Leo feared that the greed of the wealthy and the envy of the poor would provide political agitators with the opportunity to foment a second wave of revolutions that would put an

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6 Pope Gregory XVI opposed all forms of liberalism and modernism and condemned, for example, the construction of railroads, calling them “chemins d’enfer” because of the social disruption he felt they caused. His successor, Pope Pius IX, summed up the Catholic anti-modernist position in his Syllabus of Errors, 1864. For a helpful collection of, and commentary on, the essential documents of this development, see David O’Brien and Thomas Shannon’s Catholic Social Thought: The Documentary Heritage. Orbis, 2010.
end to private property and give rise to an all-powerful state (7). The pope opposed calls from Socialists to abolish private property, a proposal that Leo saw as counterproductive for the working class and as a violation of the natural right of all persons to own private property. Instead, the pope argued that a worker who freely chose to put his labor into a larger productive process had a right to a decent wage and full control over that wage so that he might provide for the immediate needs of his family and, if he were thrifty, convert his savings at some point into productive land or machinery to further his upward economic progress. The Church had long held that control over one’s private property is a natural right that ought to be protected by the State. The Church made a distinction, however, between personal private property, one’s immediate possessions, one’s home, one’s saving, as compared to private property that took the form of a large farm, a mine or a manufacturing plant. If an owner possessed something so large as to need the cooperation of other workers for it to be fruitful, then the personal dignity of each collaborator and the common good of all who cooperate in the project must be respected. Leo described the relationship between owner and laborer in terms of Corporatism, a social organizational principle wherein diverse parts all served harmoniously for the good of the whole: “for just as in the human body the different members harmonize with one another, whence arises that disposition of parts and proportion in the human figure rightly called symmetry, so likewise nature has commanded in the case of the State that the two classes mentioned (labor and capital) should agree to work harmoniously and should form equally balanced counterparts to each other” (28). The Pope then proceeded to list the mutually beneficial rights and duties of workers and owners that allow all to be productive in ways that are respectful of each other’s inalienable dignity. Workers have the duty to work diligently at the tasks that they have agreed to perform, and they must also respect and protect the property and the person of their employers. In return, workers have the right to fair and
just compensation; they have the right to safe and humane working conditions; and they have the right to be free from the sin of usury. Owners have corresponding duties toward their workers in all of these aspects, and they have the right, after the just compensation of their workers, to the profits that the market affords them. Throughout the encyclical, and in the subsequent encyclical letters and conciliar documents that built on Leo’s teachings, owners and workers are not simply exhorted to be kind to each other; rather, people are called upon to be just to each other, and this justice is in turn based upon a spirit of love which undergirds and motivates all just action in society.7 Leo’s social ideal was, certainly, inspired by a nostalgia for the feudal corporatism of the Middle Ages, when social classes lived in mutually responsible social structures, at least if the laws and customs were obeyed, that constructed interlocking relationships with mutually advantageous rights and duties. While he may have yearned for a return to an agrarian social order, Leo knew that a new economic and social order had come, and so he felt duty bound to try to steer that new order in as just and as humane a direction as possible.

In the ensuing twelve decades, Leo’s teachings were expanded upon and adapted to the evolving global economy by several Popes and by the College of Bishops gathered at the Second Vatican Council.8 The basic tenets of Catholic Social Doctrine build upon the two foundational theological notions mentioned at the outset: just social relationships and personal virtue, both of which are in turn based upon theological articulations of core

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8 While many allocutions and addresses have recapitulated and advanced this line of thought, the major works are generally though to be the following: Pope Pius XI’s Quadragesimo Anno; Pope John XXIII’s Mater et Magistra and Pacem in Terris; the Second Vatican Council’s Dignitatis Humanæ and Gaudium et Spes; Pope Paul VI’s Populorum progressio and Octagesima adveniens; Pope John Paul II’s Centesimus Annus, Laborem Exercens, and Sollicitudo Rei Socialis; and most recently, Pope Benedict XVI’s Caritas in veritate and Deus caritas est.
beliefs. It is important to note that this genre of Church teaching operates at three levels of
normativity simultaneously: fundamental norms, middle level axioms and concrete
applications to specific situations in the form of a prudential judgment. Fundamental norms
are offered for reasoned consideration and faithful contemplation; these norms are general
expressions of divinely revealed truth, accepted by faith (for example, that all human
persons have inalienable worth and dignity). Such norms cannot be proven empirically;
indeed, the history of humanity is replete with examples of affronts to human dignity and
with the denial of human worth. Fundamental moral norms articulate that horizon of
ultimate meaning towards which human beings and communities ought to strive. Such
norms are expressed in very general terms that then need to be applied in particular
historical and social contexts, resulting in middle level axioms (for example, in a wage-
based economy, respect for human dignity finds expression in a living wage and safe
working conditions). And finally, at a third level of narrowing specificity, a prudential
judgment must be made in a particular case (for example, the actual amount of money such
a living wage would be in a particular city at a given time). Prudential judgments are always
provisional, tentative and open to vigorous debate. While reasonable persons of good will
can differ as to the terms of the prudential judgment, there ought to be relatively easy
agreement about the truth of the fundamental norm, and consensus as to the middle level
axiom ought not to be too difficult to arrive at, if all parties see it as a necessary
consequence and application of a fundamental norm. As we now turn our attention to the
global financial crisis, it will become apparent that many actors did in fact fail to act in
accordance with fundamental norms and derived axioms.

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9 There is ample literature on this topic. See for example Catholic Social Teaching: Our Best Kept Secret by
Michael J. Schultheis, Edward P. Berri and Peter J. Henriot, third revised edition, Maryknoll, N.Y: Orbis Books,
The run-up to the global financial crisis

As noted above, the Catholic view of the economic order is that workers should be paid a living wage such that, through work and thrift, they can afford decent housing for themselves and their family, and, if they are fortunate, they may accumulate some working capital to invest. For those workers in present day America who decide to buy a home, they should be treated with respect by the realtors and bankers who interact with them in their purchase. For those persons who would deposit their savings in banks or buy investment securities, they too should be treated with respect, as ends in themselves, receiving honest advice about the value, the potential gains and the real risks of the investments in which they are entrusting their savings. The dream of home ownership gained great resonance in the United States during the twentieth century and took on an especially strong allure following the Second World War, when unprecedented numbers of working class families, thanks to the G.I. Bill, were able to purchase homes with affordable mortgages. In addition to single family homes in the new suburban developments, ownership of condominiums in urban settings also gained in popularity, often serving as both a physical shelter and a relatively sure means of safeguarding a family’s savings qua capital. In the years leading up to the current crisis, an acceleration of housing prices gave rise to the false notion that housing was an excellent investment with high returns and little risk, given the seemingly insatiable demand for homes.

During the housing bubble in the late 1990’s and early 2000’s, did realtors and bank loan officers choose to sell homes to people at relatively high prices, prices reflective of values that were likely to tumble in the near future? Were houses sold to buyers at prices that were more than they could likely afford, given their incomes? Were mortgages drawn up for these buyers that were at a heightened risk of default? Was the likelihood of such default
obvious to reasonable, educated professionals? Were those risky mortgages then commercialized and resold by professionals in the finance industry to investors who were misled as to the risks and the likely future value of these investment securities? Did some bankers then bet against the customers to whom they had just sold these investments? Did this become a generalized practice throughout the banking industry in more than one country? Each of these questions, and many related ones, have a variety of answers, depending on the discipline of the one posing them. Here we seek to frame the financial crisis within a moral crisis, as defined by Catholic Social Doctrine.

It seems that individual actors did not respect the fundamental dignity of the persons with whom they entered into business relationships, nor were they attentive to the damage that their individual actions would have on the common good. From the vantage of Catholic Social Doctrine, the brokers did not treat their customers as ends in themselves (and seek to provide them with suitable and affordable housing) but rather as a means to an end (increased earnings for the brokers, their firms, and their stockholders). *Caveat emptor* is neither an expression of justice nor of love. Buyers count on the advice of professionals (realtors, bankers, brokers) in the process of making a major financial decision (to buy a house or to invest money). It seems that there arose a generalized practice of greed and deception, expressed as a willingness to take advantage of customers who did not have the appropriate information or the methodological skill to make a wise decision. Beyond the harm caused to individual investors, there is also the harm that was caused to the global financial system as a whole. The cumulative effect of so many bad actions was to damage the trust and confidence upon which markets depend. Each unethical act was both a sin against the individual buyer/investor and a sin against the Common Good. How did such widespread misbehavior arise?
In November of 2012, the Pontifical Council for Justice and Peace published a thoughtful reflection entitled, “Vocation of the Business Leader”\(^ \text{10} \) partially in response to the global financial crisis and partially as an elaboration of the moral and ethical principles laid out in Pope Benedict XVI’s 2009 encyclical letter, *Caritas in veritate*. The authors begin by naming several obstacles that hamper business professionals from living a life of integrity. Chief among these obstacles is what they term a “divided life,” one in which “the split between the faith that many profess and their daily lives” leads to, among other ills, “the abuse of economic power in order to make even greater economic gains.” Professionals “who do not see themselves serving others and God in their working lives will fill the void of purpose with a less worthy substitute” \(^ \text{10} \). Such fragmentation can lead in turn to idolatry qua misplaced devotion, “an all-too-common occupational hazard of business life that threatens both individuals and organizations” \(^ \text{11} \) where, for example, the maximization of profit becomes the sole criterion for action and utilitarian reasoning becomes dominant. “Business leaders may be tempted, whether from self-centeredness, pride, greed or anxiety, to reduce the purpose of business solely to maximizing profit, to growing market share, or to any other solely economic good. In this way, the good that a market economy may do, for individuals and for society, can be diminished or distorted.”\(^ \text{12} \) In the run-up to the bursting of the housing bubble, it does indeed seem that many bankers and brokers acted in ways that did in fact diminish and distort the market economy with very bad global consequences.

**Towards an ethic of virtuous business leadership**

The authors of the reflection then go on to name three broad business objectives and elaborate six supportive ethical principles that would serve to renew business culture and

put it on a sustainable track. Together, they show how respect for human dignity and care for the common good can be harmonized with the practical purposes of business activity. Each of the six deserves careful consideration here.

The first business objective is “meeting the needs of the world through the creation and development of goods and services” (50). This should be done in accord with two principles: businesses contribute to the common good by producing goods that are truly good and services that truly serve. In the case of the financial sector, this would entail the creation of investment securities that represent real value and reasonable, transparent risk. And it would involve investment brokers and real estate agents providing good service that is a professional expression of their respect for the inalienable dignity and worth of their clients and customers. The second and corresponding principle is that businesses ought to be in solidarity with the poor by being alert for opportunities to serve deprived and marginalized populations and individual persons in need. The Catholic notion of the preferential option for the poor is based on the belief in the inalienable worth and dignity of every human person and the consequential observation that those who are marginalized in society need special attention because they are likely least able to help themselves and most in need of help. Their simple being-in-need creates a moral responsibility for any person in a position to help them. Vulnerable people ought not to be taken advantage of but, rather, shown special care and concern. They should not be enticed into buying homes that they cannot afford nor take on debt that could push them into foreclosure and the loss of their savings. Too, unethical banking practices that led to the global financial crisis have produced secondary effects that have hurt the poor who did not participate in the housing bubble directly. The great recession and its aftermath pushed up unemployment most severely for that section of the workforce that is least skilled. Deprived of tax revenues,
cities and states have cut back on services for the poor. And personal stress engendered by economic troubles places great strains on marriages and family ties as well, such that innocent children are caused harm by the unethical business practices that led to the financial crisis. In ancient Israel, a society was judged to be holy or not based on how they treated the weakest and most vulnerable members of society: the widow, the orphan and the foreigner. If one contemplates the world-wide effects of the financial crisis, then even more so does this standard appear to have been grossly violated.

The second business objective is “Organizing Good and Productive Work.” This should be done in such a way that businesses make a contribution to the community by fostering the special dignity of human work. Catholic teaching on work in the corpus of Pope Leo XIII and his immediate successors dealt mostly with unacceptable working conditions and was concerned for the health and safety of workers, basing their arguments on the absolute call to recognize and respect the inherent dignity of workers as human persons, ergo as ends in themselves and not means to an end (e.g., maximized profit). In more recent decades, especially in the writing of Pope John Paul II, Catholic reflections on work have come to focus more positively on work as a positive contribution both to the development of the individual person and to the common good. Human work is viewed theologically as cooperation with God in the ongoing dynamic of creation. In his encyclical celebrating the one hundredth anniversary of the publication of Rerum novarum, John Paul taught that the purpose of business “is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs, and who form a particular group at the service of the whole of society.”

11 Business firms are communities of persons in which each worker develops his or her talents and abilities at the

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11 John Paul II, Encyclical Letter Centesimus Annus, 35.
service of the mission of the enterprise. It is the responsibility of the managers and leaders of, for example, real estate firms, banking institutions and investment brokerages to create and foster an ethical climate within their organizations so that their workers are encouraged and required to be persons of integrity who always act ethically in the performance of their professional duties. And since “ought implies can,” managers must create and foster the conditions for the possibility of the ethical integrity of all of their workers. The collective goals of each firm should be clearly and intentionally just, respecting the dignity of all and seeking the good of all. Beyond mere compliance with regulatory statues, ethical business practices intend the good of all parties involved in every business transaction (more on this below). The second principle that seeks to shape the culture of business firms calls on their leaders to embrace subsidiarity so as to provide opportunities for employees to exercise appropriate authority as they contribute to the mission of the organization. The principle of subsidiarity, first enunciated by Pope Pius XI, posits that “a community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to co-ordinate its activity with the activities of the rest of society, always with a view to the common good.”\(^\text{12}\) Applied to the companies that contributed to the crisis, subsidiarity stipulates that officers with higher levels of oversight, responsibility and authority should assist persons, offices and agencies at lower levels to take up problems and find just solutions in matters that most directly concern them. This principle seeks to avoid undue centralization and to permit the growth of mediating structures in larger organizations. In this way, every worker is empowered, informed and obliged to engage in the work of the enterprise as a partner in a mission that is worthy of the efforts of all, each

bringing all of her or his freedom, moral sense and intelligence to every project and procedure.

The third business objective is to create sustainable wealth and distribute it justly. In this third instance, the authors embed two moral principles in the objective itself, something they did not do in the first two objectives, yet something they stress throughout the reflection as necessary if business activity is to serve the common good. Businesses should exercise stewardship over the resources – whether capital, human, or environmental – that they have received. In Catholic Social Doctrine, the notion of stewardship has a rich tradition. Certainly, it continues to reflect the leonine notion of responsible ownership of both personal and productive private property. This would apply to the owners, but by extension also to the managers, of banks and real estate agencies. They have a duty to be good stewards, i.e., ethical leaders who create and sustain a corporate culture based on sound moral principles and ethical conduct. Good stewardship would also be measured over time and not just in a single snapshot. Indeed, short term measurements of success in the forms of quarterly earnings reports may well be a hindrance to good stewardship, for business leaders are tempted to sacrifice long term, sustainable business practices for short term gains.

In the buying and selling of real estate, the notion of stewardship also applies to the customer, for it denotes a responsibility on the part of the buyer to make wise and informed choices about taking on debt in order to purchase a home for oneself or one’s family. Of course, the ability to make wise choices depends upon the integrity of the professionals who act as the agent of the buyer or who act as the agent of the seller. Stewardship calls for creativity and productivity, and the goal of good stewardship is the creation of wealth and
well-being. In businesses, one measure of effective stewardship is profit, but it is not the sole measure. Good stewardship would also be seen in the respectful treatment of every stakeholder. The authors flesh out this latter point in the second ethical principle in support of good stewardship, viz., that businesses ought to be just in their treatment of all stakeholders: employees, customers, investors, suppliers, and the community. This is an interesting application of the Catholic notion of economic justice. The Church has broadened its concept of justice to include the notion that all persons have a right to a share in this earth's goods.¹³ Not that the goods of the earth should be distributed equally to everyone but rather, that there should be a just distribution, one that takes into account the dignity of all persons. In the case of the leaders of the business organizations we are studying, this notion would oblige them to seek the good of all of their employees in a holistic way, as we have described. It would also oblige business leaders to seek the holistic good of their customers, the rampant violation of which seems to be at the root of the current global financial crisis. It would further oblige business leaders to be proactively attentive to economic and social consequences of their actions on people not directly involved in their transactions but who are affected by the ripples that spread out into the local, regional and international economic environments in which their businesses operate.

The Church teaches this last moral imperative under the rubric of global solidarity.¹⁴

Beginning with the encyclicals of Pope John XXIII, especially his groundbreaking 1963 encyclical *Pacem in terris*, a regard for the rights and the lives of all humankind has become a centerpiece for all subsequent theological reflections. Every person who can work and

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¹⁴ St. Cyprian imported the term from Roman legal theory into Catholic theology in *de Unitate 5*. It is a formal legal principle of solidarity, more specifically of common legal ownership of an indivisible object, a clubhouse or a boat or some other entity that can have multiple owners and yet cannot be divided. “Episcopatus unus est cujus a singularis in solidum pars tenetur” can be understood to mean that the episcopacy (i.e., the college of bishops) is one unity which each [bishop] for his part possesses entirely in its wholeness.
who wants to work should be given the opportunity to work as an expression of solidarity with all other persons. The global nature of the economy is simply a fact. Catholic thinkers have since emphasized the urgency of keeping in mind the new global dimension of most every issue, and this is especially true in economic matters.

**A global solution**

In this paper, we have applied principles from Catholic Social Doctrine to the sources of the global financial crisis and its aftermath. We have suggested a set of ethical principles for business leaders that would radically reduce the frequency and the severity of such crises going forward. These suggested ethical practices would also reduce the hardship suffered by many individual people who otherwise would be the victims of unscrupulous vendors of products and services. And we have also suggested that this ethical renewal of business culture must intend the good of persons not only directly involved in individual transactions but also of all persons on the entire planet. This would require a globalization of respect for the dignity and worth of all persons.

Catholic thinkers understand that perfect charity is not likely before the parousia, and so the Church also proposes a globalization of justice. John XXIII noted the growing interconnectedness of the one human community and bemoaned the lack of political institutions at the global level that would seek to insure the “objective needs of the universal common good.” He hoped that one day “a true world political authority” (12) would be created. Benedict XVI’s Pontifical Council for Justice and Peace, building on the Pope’s encyclical letter *Caritas in veritate*, carried out a study in a 2011 on the causes and

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15 *Pacem in terris*, 11.
consequences of the great recession. Catholic Social Doctrine has always seen a positive role for civil authority in the regulation of commerce and industry. Respecting the principle of subsidiarity, which would limit and focus the role of higher authority as one that should assure that justice is done by helping and empowering more local authority and providing the means necessary for the accomplishment of justice at the local level, Catholic thought in this regard nevertheless sees the necessity of a world authority to oversee the global banking system and related industries. A supranational institution, gaining legitimate authority through the consultation and consent of sovereign nations to establish and charge such an agency, would work to guarantee “a free, stable world economic and financial system at the service of the real economy” (3.2). It should be structured such that it has adequate, effective mechanisms equal to its mission and the expectations placed on it, especially those in regards to effective monetary and financial systems that are global in reach and/or consequence. One cannot refrain from noting that, should such a global banking authority be established, one of its first tasks might be to suggest a restructuring of the Institute for Religious Works (the Vatican Bank), which has of late been unable to satisfy European Union officials in Brussels and agencies that oversee banks that use the Euro.

Conclusion

While changes to laws and regulations will certainly be necessary to lessen the frequency and the severity of future financial crises, better laws and better law enforcement – whether on a national or an international level – will never by themselves be able to perfect the ethical practices of individual actors, small firms or global corporations. Even the creation of a global financial authority with broad oversight and regulatory power, while necessary,

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will not by itself assure the increase of virtuous behavior. Human reason alone, unaided by a well-formed conscience and by a commonly held system of ethical ideals, will simply find ingenious ways around new regulations for any person who lacks a commitment to virtuous behavior. Only a collective commitment to, and widespread adoption of, known and respected moral principles and their enactment as routine ethical practices will contribute to broad improvements in the world economy. All legitimate human work is an expression of our calling to be instruments of the good, working for the increase of justice and the increase in virtue, whether we name this the reign of God or the good society. In either case, such a life project requires a fusion of justice and love, of reason and faith.