

# *The Role of the Catholic Church in the Process of European Integration*

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## **The Social Market Economy: An Answer to the Crisis?**

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First of all, I would like to thank, in a special way, Cardinal Dziwisz and His Excellency Msgr. Pieronek for having invited me to participate in this important annual meeting of the Conference on “The Role of the Catholic Church in the process of European integration” and to speak on a European theme, in the town whose Pastor was Saint John Paul II for so many years.

These two facts lead me back in time: the first one, to more than fifty years ago when I lived in Brussels and attended the European School there; and, the second, to the years of the pontificate of our Saint Pope, who was elected when I was in my fourth year of service in the then Pontifical Commission *Iustitia et Pax*.

The proposed topic—that is, a reflection on the social market—also evokes the past, a much more distant one, because the structure of the social market economy is rooted, as we well know, in a period of history that even preceded World War I. Now, in these days that event is commemorated in various parts of Europe. Precisely for this reason, before trying to answer the question that is the title of my lecture: “The Social Market Economy: An Answer to the Crisis?”, I will attempt to respond to another question: does it still makes sense to think today in terms of this model of economic development?

### **I. Does it still make sense to reason today in terms of the social market economy?**

Yes. For contingent reasons and, beginning with some necessary assumptions, even today, and perhaps especially today in Europe, it is still useful to think in terms of the social market economy.

**I.1** I would like to indicate the **contingent reasons** in the economic and financial crisis that emerged in 2008 as well as in the current stage of the European integration process, which is, among other things, the main object of the reflections of the Cracow Conferences.

In this short lecture, for lack of space, it will of course not be possible to present a historical overview of the concept of the social market economy, which is in fact practically impossible to define.<sup>1</sup> Nevertheless, one cannot help but notice a certain parallelism between the words of Prof. Müller-Armack at the beginning of post-war period and those used by Professor Mario Monti in his Report to the President of European Commission, Barroso, in 2010. Both were extremely critical periods, albeit for very different reasons, which led to the impoverishment of Europe's population. There was widespread destitution after the war and today's impoverishment is relative, yet no less severe. In fact, if the reaction in 1948 was aversion to the market economy, and more precisely "the rejection of the free market"<sup>2</sup>—as Prof. Müller-Armack noted—, two years after the outbreak of the most recent economic and financial crisis, Prof. Monti stated that "a certain 'market fatigue' has intervened. Support for the market economy has become less broad and less deep than it had been since the Eighties."<sup>3</sup> This consideration leads to refer briefly to the crisis, in which much of Europe is still deeply immersed, a crisis characterized by the growth of inequality in a poorly governed process of globalization. Much has been said and written about the origins and nature of the crisis: with simplicity and "loyalty" to the institution that I represent, I will refer to some documents of the Pontifical Council for Justice and Peace. A *Note on Financing and Development*, published by the Dicastery at the end of 2008, defined the financial crisis essentially as a crisis of confidence, and saw one of the main causes in the operators' excessive use of financial leverage.<sup>4</sup> Three years later, in face of the continuation and aggravation of the situation, the Pontifical Council published another paper on the subject that, in addition to explaining in greater detail the origin of the crisis, also presented concrete proposals for the reform of the international financial and monetary system, in the context of a general public Authority.<sup>5</sup> These issues were then also addressed at the high-level Seminar that was held in the Vatican last July, which we will have reasons to return to later.

Ultimately, the crisis we are experiencing, which is also the result of human errors, is in fact a

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1 In the words of Prof. Lachmann: "As a concept, social market economy is a synthesis of various economic policy notions rooted in German tradition. Neither is it an economic theory; defining it precisely is almost impossible" (cfr. Lachmann, W., "The Genesis and Principles of Social Market Economy," in: Lachmann, W. and Rösner, H. J. eds., *Social Security and Social Market Economy*, Sankt Augustin, Konrad Adenauer Stiftung, 1995), p. 18. The European Bishops of the COMECE, on the other hand, have pointed out in their *Declaration on the EU Treaty Objective of a Competitive Social Market Economy*, how this notion "much more than an economic model, [...] is based on the philosophical and juridical bases of Greco-Roman antiquity and grounded in Biblical theology" (p. 5).

2 Müller-Armack, A., *I sistemi economici da un punto di vista sociale*, in: Ordo, "Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft," vol. I, Godesberg, 1948, quoted in: *Economia sociale di mercato*, Roma, Telesio, 1980, p. 103.

3 Monti, M., *A New Strategy for the Single Market. At the Service of Europe's Economy and Society*, 9 May 2010, a. 3: [http://ec.europa.eu/bepa/pdf/monti\\_report\\_final\\_10\\_05\\_2010\\_en.pdf](http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf).

4 Pontifical Council for Justice and Peace, *A New International Financial Pact: Note on Financing and Development in View of the Conference promoted by the United Nations General Assembly in Doha*, Vatican City, 18 November 2008, p. 12.

5 Pontifical Council for Justice and Peace, *Towards reforming the international financial systems in the context of global public authority*, Vatican City, LEV, 2011: [http://www.vatican.va/roman\\_curia/pontifical\\_councils/justpeace/documents/rc\\_pc\\_justpeace\\_doc\\_20111024\\_nota\\_en.html](http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20111024_nota_en.html).

crisis of “sense”—and, therefore, all the more difficult to overcome—that started hitting Western societies at the very outset of globalization. It has its roots in three dichotomies: the separation between the economic sphere and the social sphere, between work and the creation of wealth, and between the market and democracy.<sup>6</sup>

Consequently, it is necessary to reconcile these separations, which—it seems to me—can be identified as the second contingent reason for which it makes sense to speak in terms of social market economy today. In fact, chronologically, the ultimate reference point of Countries of the European Union is the Treaty of Lisbon, which, in Article 3, clearly states for the first time that the Union intends to be *a highly competitive social market economy*. Now, on this path, the EU Countries can start, as is their tradition, the reconciliation of the aforementioned separations between the social sphere and the economic sphere, between work and the creation of wealth, and between the market and democracy. In my opinion, success depends on this economic model’s capacity to adapt to the profound changes brought about by globalization and to the different nature and culture of the peoples of Europe,<sup>7</sup> as well as on the ability of European Institutions to help study the rules for the governance of globalization, particularly in some sectors such as, for example, the environment.

**I.2** While the economic and financial crisis and the Treaty of Lisbon are two good reasons to think in terms of social market economy, it is also true that without **some fundamental assumptions**, this would be a futile exercise. The three following assumptions—so it seems to me—are the major ones:

1<sup>st</sup> assumption: belief in Europe. Contrary to the trends in the current geopolitical context, which consider most relevant other areas—for example the Pacific Region—, it is necessary to believe that Europe, thanks to its history and possible perspectives, is a privileged context in which the crisis can be faced in an innovative and incisive way.

2<sup>nd</sup> assumption: belief in European values. As the COMECE Bishops wrote in 2012, “the idea of a social market economy is derived, to a considerable extent, from the Western Christian idea of the human being as an individual person and from the connection, peculiar to European culture, with the ancient ethics of justice and love, which find their origins in Greek philosophy, Roman jurisprudence and the Bible.”<sup>8</sup> Today, in European Union States that are becoming increasingly multicultural, this is not at all obvious.

Nor can the 3<sup>rd</sup> assumption be taken entirely for granted either. Having originated in Ordoliberalism, the social market economy implies respect for rules and order. Furthermore, I

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6 Zamagni, S., “Caritas in veritate. Una clave para la interpretación de la crisis,” in: *Humanitas*, April 2012, p. 28.

7 Cfr. COMECE, *Declaration on the EU Treaty Objective of a Competitive Social Market Economy*, p. 13.

8 *Ibid.*

would say that without moral order it is impossible to develop a legal and an economic order harmoniously. In particular, in this context, the moral order is the borderline that separates liberalism from «laissez-faire», a stateless market from a market directed by a State responsible for enforcing shared rules:<sup>9</sup> “*investment—said S. John Paul II—always has moral, as well as economic significance.*”<sup>10</sup> So, all of this is still harder to achieve in an era marked by the “dictatorship of relativism” and the exasperated competitiveness that characterizes the phenomenon of globalization.

## II. The social market economy: a solution to the crisis?

Actually, asking this questions means asking ourselves if, in this historical moment, the social market economy is responding to the following challenge: the transition from a model of globalization marked by radical liberalism and the relativism of post-modern values to a new order respectful of fundamental human rights, an order organized according to the criteria of subsidiarity and solidarity that promotes a different liberalism, a liberalism that is capable of maintaining ordered relations between the State and the market.<sup>11</sup>

**II.1** There is a fact that plays in favor of a positive response, as Prof. Müller-Armack thought: the social market economy is “*a stylistic **idea in need of development** or a stylistic idea awaiting for development, a concept capable of responding with great versatility to the constant stream of new problems presented by every era.*”<sup>12</sup>

The task is, therefore, to accompany the evolution of the social market economy so that the system, inspired by social justice, may adequately respond to the crisis, by stopping the growth of inequality and re-establishing the fair terms that are essential to the pursuit of the common good.

Precisely for studying the phenomenon of the growth of inequality that has its origin in what Pope Francis calls the “globalization of indifference,” and imagining strategies for an inclusive economy,<sup>13</sup> a group of representatives from the academic world, international institutions, the business world and civil society met in the Vatican, last July, at the invitation of the Pontifical Council for Justice and Peace. On that occasion, the urgent need to begin by eliminating three forms of reductionism was brought to light. The first form of reductionism concerns man, and it consists in seeing him as an economic agent driven primarily by selfishness, despite the fact that—as is well

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9 Cfr. Velo, D. and F., *A Social Market Economy and European Economic Monetary Union*, Switzerland, Peter Lang Verlagsgruppe, 2013, p. 40 in the Italian edition.

10 St. John Paul II, *Centesimus Annus*, n. 36.

11 Cfr. Coccopalmerio, F., Presentation of Velo D. and F., *op. cit.*, p. 2.

12 Cfr. Lachmann, W., *op. cit.*, p. 19.

13 Cfr. Pope Francis, *Evangelii gaudium*, n. 54.

known—egoism is a lower form of rationality in comparison to cooperation, since relationality is part of the essence of the human person. The second type of reductionism to be abolished conceives the subjects of economic activity—private or public businesses—as simple entities intended to produce goods and services or to maximize the profit of the owners of capital. Companies (both public and private) are, however, a particular social and production aggregate, which deeply affect the lives of all stakeholders and cannot be driven only by the pursuit of increased production or for the benefit of the capital owners. The third sort of reductionism, finally, refers to the concept of “value” in economics. The “wealth of Nations” is not merely the flow of goods and services produced in an area within a given time period (GDP). It is, rather, the store of cultural, natural, economic, social and spiritual resources that contribute to the common good.<sup>14</sup>

**II.2** Now, in Europe, the social market economy, true to its inspiration and as a developing system, can overcome these three forms of reductionism and face, at the same time, **the new serious questions with which globalization is challenging the Continent**. Putting aside the issues related to finance, currency and taxation, I wish to refer only to those that have the greatest impact on people’s lives: unemployment, the crisis of social security systems, and the energy-environmental issue.

It should be noted, however, that these critical phenomena are accompanied by a positive trait, characteristic of our times: the constant, growing assertion of civil society, which is, in a sense, a response to policy and institutions in difficulty as well as to the desire for redemption in face of the collapse of the old ideologies. This spirit of citizenship and sense of participation in the common good must become profitable.

In light of this phenomenon, the transformation of the system of the social market economy<sup>15</sup> will be fruitful, if it grants increasingly more space into the productive sphere of non-profit enterprises, of cooperative type, or of financing with a social impact, the so-called *Impact Investing*.<sup>16</sup> In short, if room is made for the type of business that *Caritas in veritate* describes as “a broad new composite reality embracing the private and public spheres, one which does not exclude profit, but instead considers it a means for achieving human and social ends.”<sup>17</sup> All of this will

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14 Cfr. Pontifical Council for Justice and Peace, Seminary on the topic “The Global Common Good: Towards a more Inclusive Economy,” Vatican City, 11-12 July 2014,

<http://www.iustitiaetpax.va/content/giustiziaepace/it/eventi/convegni-realizzati/2014/comunicato-stampa---seminario-di-alto-livello-in-vaticano-organi1.html>

15 Cfr. Zamagni, V., *Passato e futuro dell’economia sociale di mercato* in: *Atlante Geopolitico* 2012, <http://www.treccani.it/geopolitico/approfondimenti/passato-e-futuro-delleconomia-sociale-di-mercato.html>

16 On this type of financing, the Pontifical Council for Justice and Peace organized a seminar last June, entitled: “Investing for the Poor: How Impact Investing Can Serve the Common Good in the Light of *Evangelii Gaudium*”: <http://www.iustitiaetpax.va/content/giustiziaepace/it/eventi/convegni-realizzati/2014/investing-for-the-poor-how-impact-invest-ing-can-serve-the-comm.html>

17 Benedict XVI, *Caritas in veritate*, n. 46.

benefit employment—in fact, just to give an example, the cooperative model, which has always responded well in times of crisis, has literally exploded in recent years.<sup>18</sup> Moreover, it will also benefit the organized welfare state. Indeed, although the systems of state security remain an essential element, there is no doubt that they currently need support. Even the Bishops of the European Community welcome the creation of a large number of initiatives, which—they claim—correspond to forms of solidarity and freedom that make the market more dynamic. The Bishops have in fact asked that special attention be devoted to these forms of solidarity, in view of the development of the European social market economy, by giving priority to their solutions when they prove to be equivalent to public or market ones.<sup>19</sup>

Let us note, then, that the environmental issue is closely linked to that of energy, as shown by the winds of war that are spreading the smell of oil and gas in Europe<sup>20</sup> ...

Article 3 of the Treaty of Lisbon rightly emphasizes that the economic problem is only one of the factors of the problem today. The article, in fact, binds together a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. Now, this is truly one of the great challenges that Europe is facing and that—as the COMECE Bishops have very sharply pointed out—calls, in addition to the protection of socio-economic resources, for redefining, from an ethical and anthropological point of view, the relations between man and nature, and for the development of a different concept of development. Environmental protection should no longer be a restrictive factor, but rather an objective of development in a society where the quality of the environment is recognized as an integral part of a model of prosperity.<sup>21</sup>

Yet, the challenge posed by the ecological question also concerns the role of the European Union and the Member States in the wider global context. In fact, environmental protection, as preservation of common goods in the European region, but also as the global common goods, requires an international *governance* that is currently still inadequate: this was proven by the mobilization, at the end of September 2014, with the Conferences, the Summit and the global efforts to draw attention to the serious problem of the climate change. Yet, on the other hand, it is necessary to keep in mind that this need for concerted action at the international level does not reduce the responsibility of individual States. In fact, they still have the task of providing for the defense of the collective goods that cannot be safeguarded simply by mechanisms of the market.<sup>22</sup>

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18 Tiraboschi, M, “Il lavoro con riferimento alle politiche sociali ed economiche globali,” lecture given at the Seminar “Peace: New Challenges” organized by the Pontifical Council for Justice and Peace on 4 October 2013, at Domus Pacis in Rome: see [www.iustitiaetpax.va](http://www.iustitiaetpax.va)

19 Cfr. COMECE, *Declaration on the EU Treaty Objective...*, p. 13.

20 On the topic of energy, in 2013, the Pontifical Council for Justice and Peace published a book entitled: *Energy, Justice and Peace*, Vatican City, LEV, 2013. The volume is now also available in English and Spanish.

21 Cfr. COMECE, *op. cit.*, p. 22.

22 Cfr. Pontifical Council for Justice and Peace, *Energia...*, p. 101, with reference especially to the Magisterium of

With regard to environmental *governance*, should the European Union perhaps not be considered an actor of the “poliarchic subsidiarity” that Pope Emeritus Benedict XVI sees as a path to be followed by the governance of globalization?<sup>23</sup>

## II. On the eve of Pope Francis’ visit to the European Parliament

**The connections of the social market economy** with the social doctrine of the Church are well known, but on the eve of Pope Francis’ visit to the European Parliament, it is worthwhile—before I conclude my lecture—to ask about how it relates to the Papal social teaching.

This topic was addressed by the Secretary of the Pontifical Council for Justice and Peace in a long study presented at a major conference, organized in Rome by the Pontifical Lateran University and the Konrad Adenauer Foundation.<sup>24</sup> In this study, H.E. Msgr. Mario Toso noted that, although the Popes have quite often insisted on the need to develop and put into practice—in the most appropriate way for the objectives of the common good—a *social economy*, the term “social economy market” is not elaborated in the papal magisterium up to Benedict XVI (and, in fact, until Pope Francis). The social economy referred to in this teaching—the Secretary of the Pontifical Council underscores—, more than a concrete and precise system, is a *prospect*, which varies from one period to the next, and that, by structuring itself more homogeneously in accordance with the anthropological vision that guides it, should constitute *capitalism*—here also as the indication of a perspective, and not as a concrete and particular system—of a *popular democratic* kind. In other words, this would be an *environment* of economic freedom, which is not oligopolic but rather open to the greatest possible number of subjects, giving them access to entrepreneurship and creativity, and fostering healthy competition within a clear regulatory framework.<sup>25</sup>

The Pope Emeritus Benedict XVI, further developing the social doctrine, put the accent on the principle of gratuitousness and the logic of gift as a requirement of economic logic itself,<sup>26</sup> thus welding together the two conflicting lines of thought. On the one hand, the one that ended up dissolving subjectivity in the collective (e.g., neo-Marxism) and, on the other, that which emphasized subjectivity while, however, reducing the social to a simple aggregation of individual preferences (as, for example, individualism does).<sup>27</sup>

Now, as we wait for the Holy Father’s trip to Strasbourg, we must ask ourselves whether the social market economy that the Treaty of Lisbon wants “highly competitive,” is able to respond to

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Saint John Paul II, *Message for the World Day of Peace 1990*, n. 9 and the Encyclical *Centesimus Annus*, n. 40.

23 Cfr. Benedict XVI, *Caritas in Veritate*, n. 57.

24 Cfr. Toso, M., “Dottrina sociale della Chiesa ed economia sociale di mercato,” in *Civitas* n. 3/2013 and n. 1/2014.

25 Cfr. Toso, M., *art. cit.*

26 Benedict XVI, *Caritas in veritate*, n. 36.

27 Zamagni, S., “*Caritas in veritate*. Una clave para la interpretación de la crisis,” p. 26.

the strong appeal by which Pope Francis wanted to shake the consciences. He has in fact done so, by turning the spotlight on the scandal of a humanity that, although its potential is constantly increasing, has not yet been able to overcome some structural plagues that flout man's dignity. "As long as the problems of the poor are not radically resolved—says *Evangelii Gaudium*— by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world's problems or, for that matter, to any problems. Inequality is the root of social ills."<sup>28</sup>

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28 Pope Francis, *Evangelii Gaudium*, n. 202.