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of Cardinal Pietro Pavan*

Subsidiarity and the new welfare state

Remarks by the Governor of the Bank of Italy

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I met Monsignor Pavan in the second half of the eighties during a round table on the relations between ethics and economics; we had an intense exchange of opinions that we promised to continue at some later date. In the end we never did, but I have retained the deep impression made by the intellectual openness, moral tension and lively reasoning of this unpretentious man, who, John XXIII noted in praising him, could evoke the first flush of daybreak and the noontide splendours of the events attending the Church in the twentieth century.

I know that Pietro Pavan worked with more than one Pope, beginning with John XXIII, on research into the many and complex issues of social doctrine. Before coming to this Symposium I re-read, in a recent publication, some of his ideas on natural rights, on the primacy of labour in economics, on property and its use, on the importance of the human factor in production and, lastly, on subsidiarity. One aspect of his argument that struck me, and on which I myself have reflected at length over the years, was the coherence between economic and ethical rationalities.

Homo oeconomicus is but one part of man, a sort of rational being developed by economic analysis in order to comprehend man's behaviour as consumer, saver and producer.

The species Economic Man does not conflict with the pursuit of goals of ethical correctness, without which the market would not be able to operate simultaneously to the benefit of the individual and the community.

Economic activity requires, in fact, the observance of rules of transparency with regard to behaviour, the provision of information, exchanges, employment relationships and financial dealings; in other words the observance of ethical principles. Such conduct is necessary if the maximization of individual's utility is also to be advantageous to all those who engage in economic activity.

To use an exalted concept, there must be commutative justice in economic relations; it is easy to demonstrate that in its absence the working of market forces does not create well-being but may actually generate regression and involution. I am thinking here of the abuse of confidential information and unfair competition, monopolies, corruption, usury and the exploitation of labour. In recent years the need for an ethical approach to economic relations was rediscovered by economists before moralists; without such correctness in the long term the economy would implode.

Thus the market lives by rules whose observance is of fundamental importance; those whose function it is to enforce these rules in the interests of individuals and the community must be firm, prompt and objective; for them it is a duty that in effect is the antithesis of interventionism, being directed at the ends and not at the rules.

Another recurrent aspect in Pavan's reflections concerns the importance of labour as the original and fundamental factor of production. This is a concept that dates back to the classical economists, such as Smith and Ricardo, runs through Marx and is taken up again in Sraffa's exceptionally concise and lucid *Production of Commodities by Means of Commodities*; it is also present in Keynesian and neoclassical economists; it is to be found in Leontief and Samuelson.

Today it is more widely recognized than ever that, just as the classics argued, human capital is the principal factor of production. Hence the crucial importance of policies for the school system, education and training. Competition in the next century, of which the information society will be one of the distinguishing features, will primarily be in expertise, know-how and the ability to plan and implement projects, but it will also be in vision, which only a humanistic culture can give.

Adam Smith taught that the fundamental wealth of a nation consisted in the skills and abilities men deploy in producing, naturally with reference to any kind of work and not just manual labour. This conception of man from the point of view of economists can well be reconciled with the ontological recognition of his dignity as a person endowed with physical, intellectual and spiritual qualities.

It is therefore natural that in production relationships those who work, who labour in the employ of another, can and must be more than mere executors; in practice they participate in the planning of their own work, share its fruits and can become partners in the activity of the enterprise.

This view, as I shall make clear in a moment, is consistent with a more general conception of the remuneration of labour that is set out clearly and firmly in the *Mater et Magistra* encyclical.

The remuneration of labour, according to that fundamental document, must be made up, at least conceptually, of two parts and serve two purposes. On the one hand, it must guarantee a dignified standard of living for the worker and his family; as early as the last century, Toniolo used to say that dignity was what workers most desired in their salaries. On the other hand, the remuneration of labour must reward workers' efforts and

abilities. The latter requirement is consistent with a vision comprising both fairness in the distribution of income and efficiency in the economy.

It should be remembered that a just society is one that not only offers all its members a dignified standard of living but which also remunerates each worker's ability and effort. An "egalitarian" society, in which all workers have the same income, would not only be unfair in the final analysis but it would also be inefficient: it would be unfair because those who work harder are not remunerated adequately; it would be inefficient because there is no correlation between the quantity and quality of work and its remuneration. There is thus the risk of rewarding incompetence and laziness and not acknowledging those who give most to society through their work.

In an advanced industrial society the income produced is sufficient to remunerate labour adequately and maintain an adequate level of consumption while permitting the formation of saving to be destined to investment and thus to growth. Economic analysis, whether neoclassical or Marxian à la Sraffa, is basically consistent with this view. The income destined to labour must include, in addition to that serving to guarantee a dignified standard of living, a part to be distributed in proportion to results; in other words it must be distributed flexibly. The correlation between wages and productivity ensures the economy's stability and, at the same time, creates the conditions for workers to have an interest in the fortunes of the enterprise, to the point of participating in its capital.

Pavan envisaged the possibility of going beyond the status of wage-earner in the development of the process of collaboration, on the basis of the underlying solidarity of the social partners.

This is a line of thinking that should be incorporated into the formulation of a new incomes policy. Above all, it is necessary in order to tackle the problems of employment and growth in the context of globalization.

But I should like to turn now to another issue that is present in Pavan's social doctrine and in his reflections: subsidiarity.

This is a concept that can already be found in the Scholastics of the Middle Ages and concerns the relationship between the public and the private domains.

Public authorities, the State, must not engage in activities that can be carried out better by private persons, which, in a well-functioning modern economy means entrepreneurial and productive activities. The State must ensure that the economy is provided with what are known as public goods, those, in other words, that the market is unable to produce with its own forces and laws.

The public character of a good is a function of its nature and use; it does not mean that it necessarily has to be supplied by the State.

The quantity of public goods tends to increase with the complexity of the economy; all too often, however, there is a tendency to want the public production of goods that can be produced better by private enterprise. According to the *Mater et Magistra* encyclical, the State and other public-law bodies must not increase what is in their ownership unless there is a clear and real necessity.

One special sector is that of social security and, more generally, the welfare state. The public pension system is based on the principle of intergenerational solidarity and,

more fundamentally, on a criterion of distributive justice between the generations that are economically active and those that have retired.

Those now working and producing draw on the stock of knowledge and material goods accumulated by those who worked in the past.

I have mentioned that knowledge and technical ability are a productive factor of prime importance.

In this field each generation reaps what has been sown; what one generation creates is handed down to the next. It is right that those who have worked in the past should continue to share in the fruits of the knowledge they accumulated. But budget constraints mean that the public pension system can go so far and no further; beyond this point, private initiative can and must take over.

The category of subsidiarity can be applied with good reason here. A public pension system, which provides all retired workers with an income ensuring a dignified standard of living and correlated with the amount produced and set aside, can be flanked by supplementary retirement provision, which each individual can make for himself and his family through insurance schemes. To this end, part of the income earned during one's working career must be allocated to future needs.

Intervention to guarantee dignified living standards to all those who cannot participate in productive activity because of illness, hardship, misfortune or other difficulties is inherently solidaristic and public. Alongside the long-standing and ever-present needs of a complex society in constant flux, there are now new forms of poverty. Relieving them is a public function. But why not involve the non-profit and voluntary sector in these activities in a more systematic and rational way than is the case today? If

one looks closely, this is what has happened in history. As a rule it was the Church that took the lead in founding hospitals, almshouses, places for the needy to eat, and it continues to do so.

Introducing forms of self-government into labour and production has long been a common ambition of different ideals, from working-class reformism to Catholic solidarity.

The State is often unable to satisfy social and collective needs, owing to the difficulties it encounters in recognizing them promptly and responding to them with appropriate measures and adequate means.

The non-profit and voluntary sector, those who work in the social field know the new needs better and are able to respond promptly and with the indispensable minimum of resources — efficiently, to use the language of economics.

In Italy the non-profit and voluntary sector is important, but in the most advanced countries it is even larger and, in some cases, better organized. The State cannot cope with all the new needs and all the new forms of poverty; it has to respect budgetary compatibilities.

We have had occasion to recall that the creation of the public pension system was a major social advance. The changes that it requires today, and that must be made in a medium-term perspective, are necessary to preserve the substance of the system, to ensure its durability, to allow future generations to benefit from this historic conquest. In re-examining the welfare state, and especially the public system of social security, stimulating and encouraging non-profit activities can be an important factor. A minimal part of the resources saved by the State can be earmarked to provide the necessary basic

structures so that the non-profit and voluntary sector can carry on its work in a systematic and efficient manner. Its efforts must remain voluntary. The State must not intervene with regard to the content and action of the voluntary sector; on the other hand, it must ensure a number of conditions in the legal and tax fields, supply the basic infrastructure so that the task of these new actors can develop in an orderly fashion, and provide some basic guarantees for those who engage in this activity.

These are stimuli to pursue reflection in a tradition of forceful social thought, one of great relevance today.

The Book of Wisdom says “the multitude of the wise is the welfare of the world”, and Pietro Pavan is in that number.