BASILICA BENEDETTINA DI SANTA GIUSTINA

"Santa Giustina - The portals of history"

Ethics, society, development

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The economy and society

Economic activity is a part of the life of society. It is not the whole of it.

Within the vast array of relationships that ordinarily take root among the citizens of a State, the economy takes on crucial importance, because it influences many aspects of social life and provides the means for its orderly conduct.

The structure of the economy defines fundamental traits of social and political organization.

Only in the last three centuries has economics become established as an independent discipline within the social sciences.

The earliest economic analyses were developed by the ancient philosophers as part of their discourse on politics.

In thirteenth-century Europe, with the waning of feudalism and the manorial economy, the resumption of trade and the development of urban life posed new problems of politics, law and morals. The discussion bore upon the just price of goods, on the legitimacy of interest given the ban on usury, on insurance.

Sophisticated analyses were conducted by the Scholastic moralists, following the reflections of Thomas Aquinas.

They distinguished charging interest on money lent out from sharing in the profits of a commercial enterprise.

Between the mid-sixteenth and the mid-seventeenth century the colonization of the Americas, the intensification of trade and the increase in the circulation of money prompted studies of the working of money markets that are surprisingly modern in their analysis of problems concerning competition, oligopolistic agreements, and the use of inside information by merchants and bankers.

Such towering figures of the era as Molina, Lessius and Lugo are impressive for the breadth and depth of their analysis and their practical knowledge of the phenomena.

In the centuries that followed, economic thought lost the distinction between interest and profit. It was rediscovered by Keynes, who made it the cornerstone of his *General Theory of Employment, Interest and Money*. Keynes himself credited the distinction to the late medieval authors, admitting that at first he had disdained it as a "jesuitical attempt" to justify the Church laws against usury.

Among the great early works of economic theory we find Quesnay's *Tableau économique* of 1758; Galiani's treatise *Della moneta*, published in Naples in 1751 and Antonio Genovesi's *Lezioni di economia civile* given in Naples in the second half of the eighteenth century.

With his *Wealth of Nations*, in 1776, Adam Smith described the theoretical bases of what we have come to call the modern market economy.

As a moral philosopher Smith considered economic activity always within the framework of civil society. In this vision the members of the community are bound together by a common sentiment that he calls "sympathy". Politically ordered society gives rise to the division of labour, production, exchange.

Sympathy between the members of society gives rise to cooperation for the common good. The search for individual advantage, in a context of competition, leads the entrepreneur to offer goods that succeed or not on the basis of quality or price.

Competition stimulates creativity, the supply of new services and innovative goods at more economical prices. Producers of goods that are of poorer quality or sold at higher prices will be driven out of the market. The community as a whole benefits from the production of better products at lower prices.

It is essential that exchange be ruled by the standards of correct conduct, with sufficient information on the characteristics and quality of goods, and that there be no monopolies or oligopolistic agreements; in other words, the best products and the best entrepreneurs must prevail through competition.

Under these conditions, the free market and competition give birth to progress.

Distorted competition, a market where collusion or corruption is rife, will not produce welfare but retrogression that blocks progress. The victors in the competition will not be the best but the mediocre, if not the worst, to the detriment of all.

These principles are valid not only for the economy of the eighteenth century but also for our own much more highly evolved setting, in which the abundance of goods at the disposal of citizens in the advanced economies has grown enormously and in which a decisive role is played by international trade and by credit and finance.

The nineteenth century and the first half of the twentieth

The invention of the steam engine in the late eighteenth century triggered the Industrial Revolution in England. A series of technical discoveries and advances led to the development of mass industrial production. A new form of capitalism arose, with production in huge plants employing armies of manual workers, many of them children, reduced to near slavery, with impossibly long hours and wages that failed to provide decent living conditions.

Craft enterprises tended to collapse, unable to compete with the lower costs of mass production.

A class of proletarians was formed, men and women who had no possessions, whose children were their only wealth, fleeing from a countryside of steadily deteriorating nutrition and hygiene.

With the demise of artisanal production and handicrafts, as Jacques Maritain acutely observed, the worker loses above all the mastery of his own labour, its personalization.

After Adam Smith, economics became the study of the best use of natural resources, which are limited, insufficient to needs.

Economics became the “dismal science”.

In his classic *Essay on Population*, Thomas Malthus asked how England, an island where natural resources were given and production was growing arithmetically, could feed a geometrically expanding population in the long run.

Sooner or later, after one generation or several, the curve of population would overtake that of resources. If the growth of population were not restrained, the inhabitants of the island would be bound for poverty.

The logical consequence was a recommendation to limit marriages and curb births. Malthus, an Anglican pastor, called for methods that were morally acceptable. Later, with the neo-Malthusianism of the twentieth century, contraception and abortion would be practiced.

David Ricardo saw the possibility that production, thanks to the development of industry, could expand sufficiently to improve the living standards of the population.

Marx, a follower of Ricardo in his vision of the growth and distribution of the social product, drew on the experience of the new relationships forged between capitalists and workers under mass production to delve further into the problem of the distribution of income and its consequences. Wage-earners, in his schema, receive only that part of the value produced that suffices for their subsistence. The surplus value is appropriated by the capitalists, who expand the accumulation of capital and production. Here there emerges a component of neo-classical economics, the thesis that the marginal return to capital inevitably decreases, tending to zero, precisely because of the expansion of investment, which thus ultimately impoverishes the propertied class.

From the falling rate of profit Marx deduces the eventual triumph of the proletariat. Following the thought of the left-wing Hegelians, he sees society as dominated by the evolution of the relations of production, the structure; everything that is not matter, not economic value, is ephemeral, superstructure.

Ultimately, the emergence of a single class, that of the proletariat, would annul the division of society into classes.

The assignment of the ownership of capital to the State, that is to the one class that in the end would emerge from the development of the forces of production and the relations of production, would immediately give rise to a new social equilibrium, the self-government of producers and the withering away of the State.

It was to take more than a century to give the lie to this vision.

The parties of Marxist origin dreamed of economic and social systems in which the dominant capitalist class, and even money, would disappear.

Independently of the Marxist vision, the new organization of economic activity undoubtedly led to changes in the structure of society, with far-reaching political and moral consequences.

On the basis of his observation of the economic reality of his day, in around 1870 Giuseppe Toniolo reacted by affirming that craft industry and the small firm were important, that it was necessary to defend them and that they had a significant role to play even in an economy dominated by mass production. In Germany, Belgium and the other industrially advanced countries of continental Europe, sociologists, bishops and Catholic intellectuals reacted to the new situation and to Marxist and Socialist theories by reaffirming a vision of society and the economy in which moral and spiritual values continued to be pre-eminent; they called for workers in industry and agriculture to be guaranteed dignified living conditions through adequate wages and working hours that were not inhuman.

The first trade union movements developed.

In 1891 Leo XIII's encyclical *Rerum novarum* opened the Church's series of great works of social doctrine.

The Russian Revolution in 1917, during the bloody First World War, appeared to foreshadow the realization of Marx's vision of a classless society. The Revolution, following Lenin who took over Marx's philosophy, established one of the cruelest dictatorial regimes ever seen.

Already in 1936 Maritain foresaw that Communism, as actually implemented in Russia on the basis of the model of Marxist-Leninist theory, would collapse because it was unlivable, contrary to man's deepest nature.

The First World War resulted in the crisis of trade based on the gold standard. In 1923 Keynes, in his *Tract on Monetary Reform*, had lucidly expounded the need for a radical rethinking of the role of monetary policy. He was not heeded.

Economics had a profound influence on the history of the twentieth century.

The clumsy attempt to restore the gold standard in the mid-twenties and the mistaken monetary policies pursued precipitated all the major industrial countries into the Great Depression of the thirties.

In the United States the reaction consisted in the New Deal, which initiated a systematic intervention by the State in the economy to boost output and investment.

In Germany, the country of bank capitalism, the crisis and the need to pay war reparations prepared the ground for the advent of Nazism and the Second World War. Here again, Keynes' warnings were ignored. Nazism and national socialism were linked ideologically to the Hegelian right.

In England, still the world's leading economic and financial power, Keynes produced his *General Theory of Employment, Interest and Money*.

He was to become the prophet, listened to now, of the economics of the central decades of the twentieth century.

His vision, together with that of the governing class of the United States, which was to become the leading world power by the end of the forties, also underlay the new international monetary order established with the Bretton Woods Agreements.

Economics became once more, as it had been for the writers of the nineteenth century, the science devoted to the study of the conditions for making the best use of the resources available and fostering the welfare of states and peoples.

Economists closer to us, Schumpeter and Solow, introduced technical progress into the analysis as a factor of development.

In the last few decades of the twentieth century the ideas Keynes put forward in the *General Theory* were stretched beyond their theoretical limits and made to justify an excessive expansion of public expenditure and debt.

The second half of the twentieth century. Globalization and inequality

In the first half of the twentieth century the increase in the world population was heavily influenced by the loss of lives in the First and Second World Wars and is estimated to have proceeded at an average annual rate of 0.9 per cent. The growth in output was also adversely affected by the destruction wreaked in the two wars.

In the second half of the century the average annual rate of world population growth doubled to 1.8 per cent.

The annual rate of growth in world output rose to 4 per cent.

In the space of fifty years annual GDP grew sevenfold, per capita income threefold.

But the rapid expansion of the more advanced economies was accompanied by a substantial increase in the disparities between the various parts of the world in terms of living standards and the availability of goods.

The expansion of the world economy in the last fifty years has been closely linked with that in international trade.

In 1950 the ratio of world exports to world output was still lower than in 1913, before the gold standard broke down (7 per cent compared with 9 per cent).

The huge decade-long reconstruction effort, the new international monetary order, the exceptionally rapid growth of some economies, including Italy's, and the steady expansion of others led to world trade growing at an average annual rate of 7 per cent between 1950 and 1973, twice as fast as under the gold standard.

The growth spread from the West and Japan to other parts of the globe, especially countries in South-East Asia, whose exports expanded at an annual rate on the order of 10 per cent for more than two decades.

The process was interrupted by the collapse of the Bretton Woods monetary system and the oil crises of the seventies. The economic growth of the more advanced countries slowed markedly. Inflation and budget deficits rose enormously. The first difficulties arose in the developing countries that had raised large sums on the international markets.

During the eighties, with inflation tamed, albeit at the cost of slower growth, economic activity in the more advanced countries expanded again, but at a much slower pace than in the preceding decades.

From the middle of that decade financial globalization grew in importance with the liberalization of capital movements and the deregulation of banking at the international level.

The exceptional increase in international financial flows was fostered by the systematic application of the new information technologies.

Numerous Asian countries took advantage of this development to increase investment substantially and compete successfully in world markets for manufactures thanks to their low labour costs. In the second half of the eighties and the first half of the nineties it was these economies that were the locomotives of the growth in world output.

In the nineties the process of globalization, entrusted entirely to market forces, gathered pace but was accompanied by cases of instability. The Mexican crisis at the beginning of 1995 involved the dollar and put the world economy in jeopardy. This was followed in 1997 by the crises of Thailand, Korea and other Asian countries. In the following years Russia, Brazil and some other Latin American countries ran into trouble.

In Europe growth slowed down further with respect to the previous decade. Contributory factors included monetary restrictions and budget adjustment measures enacted in preparation for monetary union. Another factor was the disappointment that followed the initial economic regression of the countries of Central and Eastern Europe after the fall of their Communist regimes. The restructuring of the economies of the former Soviet block had initially given rise to expectations of vigorous growth in connection with the "peace dividend".

In the second half of the nineties the United States provided the motive power for the growth of the world economy thanks to the rise in domestic demand and investment and the large gains in productivity deriving from the widespread application of the new information technologies. GDP grew at an annual rate in excess of 4 per cent. In the durable consumer goods industries the average annual rate of increase in productivity rose to 8 per cent.

Financial globalization is fundamental for the worldwide diffusion of economic progress, but it tends to aggravate the inequalities between advanced and developing countries. Some more backward economies are unable to share in the benefits of globalization and the expansion of world trade. Financial crises lower the living standards of broad strata of the population in the countries affected. The loss of competitiveness of traditional products generates imbalances in income distribution and social tensions in the emerging economies.

The number of people in the world living in poverty is increasing. One billion two hundred million people live on less than a dollar a day.

Starting in 1997, the characteristics and consequences of a financial globalization left entirely to the forces of free competition and the market came under reconsideration in international conferences and organizations.

The campaign for the cancellation of claims on the heavily indebted poor countries was begun.

The plan of action, urged by the Catholic church, by other churches, by non-Christian religious associations and by non-governmental organizations, was defined at the Cologne summit meeting of the seven leading industrial countries in June 1999 and launched during the 2000 Jubilee Year.

The role of the liberalization of trade and capital movements as an instrument for the spread of progress was reaffirmed, but the emphasis shifted from the drive for efficiency to the reduction of poverty.

Greater political attention must be devoted to the progress of financial globalization. It is necessary to strengthen growth in the advanced economies and spread welfare to all countries and all strata of society. Alongside humanitarian considerations and motives of solidarity, there is growing concern for the social and political equilibrium at world level.

Dialogue and meetings aimed at seeking suitable solutions to problems on a case-by-case basis are the key to facing the risks bound up with globalization.

The Italian economy

In the fifties and sixties the Italian economy grew at an average annual rate of almost 6 per cent. Those were the years of our country's great economic and social transformation. Effective public intervention strengthened competitiveness and growth.

Italy's participation in world trade, with increasing market shares, was decisive for the growth of output.

The progress that was made came from an increase in productivity associated with the application on a vast scale of new technologies and models for the organization of production imported from the more advanced economies.

A young and rapidly growing population supplied the workforce and acquired the products of industry, durable consumer goods above all. Social reforms were introduced, in particular an advanced pension system and a healthcare system that was gradually extended to the whole population.

In the seventies the economy's rate of expansion suffered a first setback. The oil crisis slowed growth in the developed countries and provoked a surge in inflation. Employees' loss of purchasing power was recouped in Italy with large increases in wages, which fueled inflation and curbed capital formation.

An attempt was made to tackle the problem by increasing the budget deficit. This was an improper application of Keynesian theory. The support provided for output and employment in the short term was followed by a prolongation of inflation and a rise in the public debt.

In the decade the economy's rate of growth fell to 3.6 per cent a year.

In the eighties the government budget deficit reached extremely high levels; together with high interest rates, this led to a sharp rise in the public debt.

A phase of industrial restructuring began. Employment in large firms fell. Many services auxiliary to production were outsourced. The number of employees in the largely low-productivity service sector increased.

Membership of the European Monetary System and a restrictive monetary policy made it possible to contain inflation but caused business investment to suffer further. From the middle of the decade onwards, disinflation was facilitated by the fall in oil prices.

In parallel with trends in the industrial countries as a group, the Italian economy's rate of growth declined in the eighties to 2.3 per cent.

In the nineties action was taken to correct the imbalances of the public finances in the pension and healthcare sectors, not least with the objective of participation in the single currency.

By the middle of the decade the monetary tightening had subdued inflation, reducing it to a level close to that in the other leading industrial countries.

After the devaluation of the lira in 1992, exports began growing rapidly again; after more than ten years in deficit, the current account of the balance of payments swung back into surplus.

Incomes policy and the moderation of wages and salaries contributed effectively to the stabilization.

The correction of the trend of public spending did not succeed in reducing it in proportion to GDP. Deficit reduction came mainly through lower interest payments and an increase in the ratio of tax receipts and social security contributions to GDP: between the second half of the eighties and the first half of the nineties, the ratio increased by 6 percentage points.

The decline in investment in infrastructure, the increase in the tax burden, the delay in removing labour market rigidities and the inefficiency of the public administration braked the economy's growth.

Employment contracted sharply, by more than one million workers between 1992 and 1995. In the late nineties the number of persons in work returned to the level of 1992, thanks to reforms introduced in the labour market.

The proportion of unreported work reached abnormal values. Unemployment rates in the southern regions remained at high levels.

Among newly-hired workers, fixed-term or part-time employment prevailed.

Following the improvements achieved in the late eighties, profit margins remained substantial in industry and the service sector. Productive investment began growing again in the mid-nineties.

The late nineties saw the start of restructuring in the banking system, with concentrations between major intermediaries leading to higher profitability and larger average size.

The average annual rate of growth in GDP fell to 1.6 per cent in the nineties, well below the average for the other countries of the European Union. In 1999 employees' purchasing power was less than it had been ten years earlier.

The outlook

The improvement in the public finances of the last decade was accompanied by a slowdown in growth.

Italian goods lost competitiveness in both the international and domestic markets. The increase in industrial output was markedly below the European average. The quality of employment deteriorated.

Italy's participation in the single currency is a guarantee of stable foreign exchange conditions and of a relatively more stable domestic purchasing power.

Public expenditure and the organization of government need to be reformed, the obstacles to growth removed; the conditions for lowering the tax burden must be created; and infrastructure must be extended by gradually increasing public sector investment. The reform of the labour market must be completed; Italy's competitiveness vis-à-vis other industrial systems must be restored, by boosting productivity and changing the qualitative composition of goods.

Last year the ratio between primary public spending – net of interest payments – and GDP was 40.8 per cent; interest payments came to 6.5 per cent of GDP.

Wages and salaries in general government equaled 10.5 per cent of GDP, or 236 trillion lire, 45 trillion of which went to the health sector. Intermediate consumption amounted to 112 trillion lire, of which 23 trillion was attributable to the health system. Pension payments totaled 339 trillion lire, or 15 per cent of GDP, and investment came to 54 trillion lire, or 2.4 per cent of GDP.

Primary expenditure will rise to exceed 41 per cent of the nation's output this year.

The incidence of taxation and social security contributions for 2001 will be close to 41.5 per cent of GDP. The announcement and effective launching of a programme of reforms for the gradual lowering of the ratio between primary public spending and GDP, a parallel progressive easing of the tax burden and the resumption of investment will create the conditions for an annual growth rate of at least 3 per cent.

The pension system affords pensioners full protection against inflation. If the number of persons in retirement grows more slowly than the increase in output, the ratio of public retirement spending to GDP automatically diminishes.

Public sector employees should not only be defended against inflation but should also receive a share of the increase in GDP.

Spending on intermediate consumption should expand much more slowly than nominal GDP or even remain constant.

Additional room for manoeuvre will come from the gradual reduction in interest spending and from non-tax revenue, as well as from the gradual reduction in tax and social security evasion thanks to the surfacing of unreported economic activities.

A programme of action along these lines can bring about a gradual reduction of around 1 per cent each year for the next five years in primary expenditure and in the incidence of taxes and social security contributions.

In this way the deficit, which this year will be much larger than last year's, can be reabsorbed and, in the course of five years, turned into a small surplus.

The gradual reduction of expenditure and taxes as a ratio to GDP will itself act as a powerful boost to firms' investment and output.

Reforms to improve the functioning of the health sector and of the wider public sector are an absolute necessity.

The beginning of reforms in context of dialogue between the social partners and the initiation of a virtuous circle of expansion will help to form expectations capable of fostering growth.

An increase in employment will provide the largest contribution to a more equitable distribution of income and better social cohesion.

In the economically backward regions of the South the availability of a young labour force and the surfacing of underground employment constitute a "reserve" to be tapped and used to develop production and enhance community life.

Sustainable growth requires consensus on the objectives to be pursued as part of a well defined course of economic policy. A generalized effort is required involving firms, the labour force and the institutions work in harmony with public finance programmes, thereby integrating and strengthening them.

We must strive to reverse the tendency towards stagnation that has had such a heavy impact on the economy in recent decades, with its repercussions on society, on households' hopes for economic progress and on the future of young people.

Reforms to social security, the pension system and the public health service are needed to preserve the social conquests over the years to come for ever broader groups of citizens.

These are attainable goals; they are not beyond our reach. We must achieve them.

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The economy is an integral, an essential part of the life of any society; it provides the foundations for orderly living.

Labour is a foundation-stone of the Italian constitution; it is the means whereby each citizen is fully integrated into the democratic system.

In the ever-relevant classical view of economics, productive and entrepreneurial pursuits can take root and grow only in a framework of well-functioning institutions, of certainties, of security in community living and of shared goals of human and social development.

Italy has a great cultural tradition. Yet it still lags far behind the other economically advanced countries in middle and higher education. We must strive, through the necessary reforms but above all by improving the quality of education, to move forward, at least to reach a par with the other countries of Europe.

Modern technology, especially information technology, when applied to general government and to the private sector, can make a significant contribution to increasing productivity.

In our present circumstances the economy's competitiveness depends on the ability to innovate in the manufacturing and service sectors and in government. Competitiveness is founded on human capital.

We have to find a way to replicate at least some of what was achieved in the fifties and sixties, when new products and a new approach to the organization of production radically transformed our economic system.

We must not repeat past mistakes, but must make sure that the public finances are adjusted and focus on making the best possible use of our cultural heritage.

Italy’s great tradition of classical culture must point the way and guide us towards a more advanced civil society.

Ultimately, wisdom and moral values are the fount of all wealth; fortified by our civilization and traditions, we must continue to draw upon this ancient but always modern wisdom.