

SALESIAN PONTIFICAL UNIVERSITY

## **Economics and Moral Sciences**

Lecture by Antonio Fazio, Governor of the Bank of Italy,  
on the occasion of the award of a doctorate *honoris causa*  
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“Can ye not discern the signs of the times?” The biblical exhortation refers to the story of salvation and to spiritual matters.

It certainly also refers and is applicable to the history of mankind and the political, social and economic conditions that, in any era, profoundly influence the lives of men and shape their course.

History is continuously in the making and we know that, despite regressions, it follows a logic. Knowledge of that logic and, more important, of its actual existence can only come from a lofty vision or observation point.

Immersed in everyday life and responsible for our part of it, we are often unable, because too close to events, to understand its ultimate meaning and direction, and the flow of history.

**1.** Man is a political animal who, by natural inclination and need, lives in a community, in ever broader social environments, from family, to city, to country.<sup>1</sup>

Society lives by relationships, rules and values that are the expression of that aggregation and achieve its purpose. The economy is an essential ingredient of every society. It has always been important and determined many other aspects of community life. In fact, this is true for every individual as well.

The economy shapes and profoundly influences social relations. In more complex societies it determines their organization.

While it is far from my intention to stay within the historical confines of materialism, there can be no doubt that Marx and Engels had a clear vision of certain aspects of society in their time and in the future. They applied the Hegelian dialectic unilaterally to the dynamic

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<sup>1</sup> Aristotle, *Politics*.

relationships between culture, history and material life. They neglected the ontological and causal superiority of the intellect and the spirit.

From the observation point I occupy, I would like to reflect upon the origin and maturation of some aspects of economic thought, the characteristics of the economics of our day and its relationships with moral science.

**2.** Economics, the practical science that studies relations between men regarding the production, trade and consumption of material goods and services, already existed, in some essential respects, among the ancient philosophers, as part of politics.

In the middle ages, a profound and wide-ranging debate on society, its values, its cohesion and organization, and on politics evolved at the hands of the Scholastic philosophers.<sup>2</sup>

According to the Platonic, Augustinian and Franciscan tradition, the social body is reconstituted through each person's relationship with God.

In the thirteenth century, the Western world's rediscovery of Aristotle provided the theoretical basis for the emergence of the view that society had its own ontological substance, an added value beyond the sum or juxtaposition of its single members.

The anthropological view led to the famous definition given by St. Thomas Aquinas, that every person, every man, belongs to the social body as a part of the whole, but by virtue of his nature, his spiritual component, he transcends it.

In this context, the notion of the common good of the city, of society, that was already present in the opening words of *Politics* is entirely relevant.

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<sup>2</sup> G. De Lagarde, *Alle origini dello spirito laico*, Vol. II, Stato e società nella Scolastica, Brescia 1965.

3. The considerations regarding economics start with the concept of commutative justice. Observing urban life flourish in the thirteenth century, and within it the trading of goods and the organization of markets, the problem of a fair price arose, principally for goods but also – a difficult and controversial issue – for loans and interest.

The Bible and the teachings of the Fathers of the church had always prohibited usury. No interest could be demanded on sums lent.

Money was also sterile in the Aristotelian tradition; it could not beget more money; basically, it served essentially as a means of exchange and a measure of value.

In a brief passage – two lines of a lengthy article in the *Summa* – St. Thomas introduced the notion of consequential damage for whoever lent money. Several centuries passed, however, before a real theory of interest and money was formulated, one that was separate and antithetical, as in modern economic analysis, to the theory of profit, the gain deriving from commercial ventures.

At the beginning of the fourteenth century, Duns Scotus defined the fair price of a good as the sum of the costs, principally of labour, incurred to produce it. This concept reappears in more complex analyses in twentieth century economic theory.

After the discovery of America, the massive import of gold considerably increased trade in Europe. In some of the major European cities that hosted fairs, such as Antwerp and Lyons, organized markets for commercial money-lending developed.

It continued to be morally reprehensible for those who lent idle capital to the needy to receive interest: it did not harm the lender, momentarily deprived of a sum of money that would otherwise have remained idle, while the borrower gained nothing except the satisfaction of a primary need.

The concept of loss of profit emerged.

At the end of the sixteenth century, Molina described the operations and the rules of the money markets with a depth that surprises even modern readers.

The interest rate obtaining for market transactions was considered fair, provided there were no agreements between any of the operators or monopolistic positions, and provided the borrower and lender did not make use of privileges or information to obtain particularly advantageous terms.

Important contributions and analyses of the problem of the fair price and the rate of interest can also be found in Lessius and Lugo.

In the sixteenth and seventeenth centuries, commercial ventures were set up and developed, mainly in sea-towns such as Amsterdam, where trade with India and the East was concentrated.

Participants in such ventures, in partnership with those who made the journeys and conducted the trade, could share in the profit by making their capital available. This was not interest on a loan but partnership in an entrepreneurial activity that could yield profits, but that could also entail the loss of all or part of the capital invested.

Profit arose from ventures, mainly of a commercial nature; those who invested capital in such activities could gain by doing so.

The payment of limited interest, sufficient to cover administration costs, on loans taken out by the needy for urgent reasons, was deemed justifiable with the establishment of the *monte di pietà*.<sup>3</sup>

In 1744, Scipione Maffei from Verona, in his treatise *Sull'impiego del denaro*, attempted to convince the papal authority that a moderate rate of interest was licit. He traced the concept of usury to the “consuming interest” imposed upon the poor. He rested his arguments on the authority of the Greek and Latin Fathers and cited the example of the payment of interest on debts contracted by rulers for public purposes.

In 1745, in a special decree, the enlightened Pope Benedict XIV appeared to rule out the possibility of relaxing church doctrine on usury.

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<sup>3</sup> Bernardinus de Busti, *Defensorium montis pietatis contra figmenta omnia emule falsitatis*, 1497.

Father Concina, a Dominican, offered a violent critique of Maffei, in his *Esposizione del dogma dell'usura* (1746).

In *Traité sur les Prêts de commerce ou de l'intérêt légitime et illégitime* published in Amsterdam in 1759, the anonymous author, identified only as a Doctor of the Faculty of Theology of the University of Paris, developed arguments virtually identical to those of Maffei.

The distinction between interest and profit dropped out of economic analysis at the end of eighteenth century.

Observing interest being paid in the ordinary course of business, economists challenged the concept of usury. Bentham wrote a tract in defence of the payment of interest.

Keynes, doubtless the greatest economist of the twentieth century, rediscovered the importance of the distinction between interest, which he considered essentially a monetary phenomenon, and profit arising from commerce and the production of goods and services.

He grounded his *General Theory of Employment, Interest and Money* (1936) on that distinction. On one of the last pages of that work he explicitly stated that he himself had considered the subtle distinction between monetary interest and profit, laboriously attained in the analyses of the moralists from the Middle Ages onwards, a “jesuitic attempt” to justify the laws on usury and the limitation of interest; he had nonetheless come to recognize its wisdom and its usefulness for directing the employment of capital towards objectives that increased investment and output.

4. In the mid-eighteenth century the Abbé Antonio Genovesi, professor of philosophy, took up the reflections of scholars and especially of practical men and public officeholders, in a course on political economy at the university. Delineating the functioning of an economy of the time and the importance of commerce and foreign trade, he defined the sovereign's task in this field as that of promoting the maximum availability of material goods for the greatest number of subjects in the kingdom. His lectures were delivered in Italian.

In 1751 another great Neapolitan, the young Abbé Ferdinando Galiani, published his treatise *Della moneta*, which remains a point of reference for modern monetary theory.

The publication of Adam Smith's *The Wealth of Nations* in 1776 is considered to mark the birth of political economy as an independent discipline, even though economic analysis had already had the illustrious precursors I have recalled.

Smith was professor of moral philosophy in Edinburgh and the author of a treatise on *The Theory of Moral Sentiments*, in which he had discussed the “sympathy” that cemented cohesion among the members of society.

In *The Wealth of Nations* Smith theorizes the function of the market and the division of labour within an economy. The development of competition leads to greater utilization of resources and the maximum satisfaction for all, consumers and producers, compatibly with the resources at their disposal.

This result is obtained starting out from individual self-interest. Consumers' rational choices induce producers to improve supply, reduce costs and waste, create new products and pay attention to their quality.

Competition must unfold in an orderly social environment, in which each actor behaves correctly in terms of the goods he offers and the information he gives the market about his activity.

If the attempt to do better than others is made by supplying better products at less cost, competition will produce progress; if it is made by harming competitors or through illicit means such as corruption, competition and the market will bring not progress but involution.

The proper working of a market economy is based on an ethical need for correct behaviour and information, particularly on the part of firms and economic agents. Such behaviour refers back to commutative justice. Failing such an ethic, the market economy is decoupled from its foundations.

The working of the market, the division of labour, their contribution to the welfare of the community are examined by Smith in the framework of a politically organized society in which the State supplies the essential public goods, which cannot be purchased and are not

produced by private individuals. These concern defence from external aggression, domestic public order, legislation and justice, basic education, and the provision of the other public goods essential to society and the economy. To cover the expense, the State levies taxes.

The public good, both economic and social, is a logical category that can be traced back to the common good. The forms of taxation and the distribution of the tax burden among the citizens show at the political level that concern for distributive justice is among the tasks of the State.

Social thought and reforms in the subsequent centuries were to accentuate the importance of a fair division among the population of the fruits of the economy, of the necessity of giving everyone a chance to participate with dignity in the life of the political community.

5. In the nineteenth century economic analysis, developing one of the aspects of Smith's thought, became the prerogative of the utilitarians.

The search for the maximum utility by every individual, by every economic agent, it was argued, can lead to the maximum collective welfare.

The ethical element in the behaviour of individuals was overlooked, in a certain sense taken for granted.

The necessity of an ethical component in the conduct of business and economic activity was affirmed by Giuseppe Toniolo in his lecture inaugurating the course on political economy at the University of Padua on 5 December 1873.

In recent years the intrinsic link between ethics and economics has been taken up again with great analytical rigour by the Indian economist Amartya Sen, a student of Kenneth J. Arrow, both of them Nobel laureates. His reflections on the problems of poverty and income distribution essentially refer to the categories of distributive justice. They are connected with the modern political theories of justice developed by John Rawls.

As mentioned, the distinction between interest and profit was lost in Smith. The utilitarians developed the rational entity *homo æconomicus*. The latter's behaviour in terms of demand and supply was investigated. The conduct of the firm came under analytical scrutiny.



A rigorous, integrated model of the working of a market economy, based on the use of mathematical instruments, was enunciated by Léon Walras with the theory of general equilibrium. Walras founded the Lausanne school, of which another eminent representative was the engineer, sociologist and economist Vilfredo Pareto.

The Lausanne school's theory of value was given the most rigorous and complete formulation and its implications explored in depth by John R. Hicks in *Value and Capital* (1939), by Paul A. Samuelson in *The Foundations of Economic Analysis* (1947), with Arrow's theory of the working of markets and Gérard Debreu's *Theory of Value*.

These authors profoundly influenced the subsequent developments of economic analysis.

**6.** The elegant, intellectually satisfying analyses of mathematical economists are based on necessarily stylized axioms regarding the behaviour of economic agents – consumer households, producer firms, financial intermediaries.

The Austrian school, among whose most celebrated representatives were Joseph Schumpeter, who taught Samuelson at Harvard, and Friedrich von Hayek, enriched the logical models with new hypotheses, drawing them from their observation of twentieth-century economic reality.

Yet, the greatest innovator with respect to the strand of analysis that began with Smith and Walras was Keynes.

In the early nineteenth century eminent thinkers, such as the Reverend Malthus and David Ricardo, had constructed impressive theoretical models able to interpret some aspects of modern economies, starting off from the major aggregates. Ricardo fully understood the possibilities the industrial revolution had opened up.

In the second half of the century the growth of capitalism and industry nonetheless sought justification in a line of economic analysis that led to an idea of collective profit, as the result of individuals' quest for the maximum utility.

Theory of great sophistication and value for comprehending the concrete problems of the economy in some cases became ideology.

Industrialization engendered the social question, with Marx's reaction, the socialist theories, the birth of the social doctrine of the Church with Leo XIII's encyclical *Rerum Novarum*.

The theory of markets based on the behaviour of individuals no longer seemed able to explain the existing social tensions. Later, after the First World War, the Great Depression caused the emergence of the dictatorial regimes that were to unleash the Second World War.

Epistemologically, Keynes abandoned the attempt to describe economic reality starting from the rational behaviour of individuals. Focusing directly on the great economic aggregates – income, saving, investment, money, employment, public expenditure – he created a new vision of the behaviour of the relations among these aggregates, all of them of major importance for the economic and social welfare of nations.

Keynes's vision constitutes an intellectual revolution, implicitly contains prescriptions for governmental action in the economic field, and provides an adequate representation of the importance of money and financial markets in the economic cycle.

His model and his analyses remain a fundamental reference point for understanding the problems of growth, business cycles and employment. Their practical influence is still enormous. The US administration's policy in the last economic downturn demonstrates the application and the results of the Keynesian vision of the working of an economy.

7. Vilfredo Pareto, as a positivist, had already recognized in his mature work *Manuale d'economia politica* (1907) that if we are to understand reality we must go beyond the concept of *homo aeconomicus* and expressly cited *homo ethicus* and *homo religiosus*.

The development of so-called third-sector activity, which flourishes in the most advanced economies, is hard to reconcile with a doctrine of behaviour that considers only the maximization of individual utility or to comprehend within such a framework.

Nor can political commitment, which must serve the general interest and provide essential public goods, be understood using economic categories.

A new anthropological paradigm needs to be found that can explain, in a unifying vision, the behaviour of consumers, businessmen and policymakers, whose command responsibilities extend to a broad social sphere.

A more realistic vision of man is that proposed by Thomas Aquinas concerning egoism, generosity and responsibility.<sup>4</sup>

Men do not seek only their own private gain but are open to relations with others and to a greater or lesser extent take as their rule of conduct the utility, the good of the environment in which they live, the community for which they have or feel responsibility. The businessman seeking only to maximize his own profit did typify some stages in the development of capitalism, but more often it is the entrepreneur's pride to do good for his company, for those who work for it, for his home city and for the broader environment in which he lives and works.

A volunteer is certainly a person who, as such, performs an activity strictly for the benefit of others. Perhaps the most common example of dedication to the good of others is the educator. The vision of those entrusted with public responsibilities generally includes their own personal prestige but that nevertheless looks to the good of the community.

The development of rigorous new paradigms transcending the concept of *homo oeconomicus* is still in its infancy. One economist who has been most active in promoting this line of thought and broadening the foundations of economic analysis is Amartya Sen. In Italy, the contributions of Stefano Zamagni and his students come to mind.

Economic activity takes place within a social order that assures the availability of the fundamental public goods. Distribution by standards of fairness that make every man's income proportional to his contribution to the production of wealth and conditions in which

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<sup>4</sup> John Finnis, *Aquinas*, Oxford University Press, 1998.

every member of society can participate actively in production, working and earning the wherewithal for a dignified life and personal fulfilment, are basic to the orderly unfolding of social life and even to economic stability.

Our Constitution follows this line of thought in postulating that the Republic is founded upon work and that the essential concern of politics and the State is the human person.

The foundations of social cohesion – what Adam Smith called “sympathy” and Jacques Maritain “civil friendship” – lie in distributive justice, a social order that at least in principle enables one and all to engage in an activity that also benefits others. The cohesion, subsistence and prosperity of any society must be underpinned by shared values expressed by a common sentiment and the adhesion of all to the common good.

8. In 1891 Pope Leo XIII, in *Rerum Novarum*, read as signs of the times a series of “new things” – not good things – that were the latest fallout of the economic development that had begun a century earlier with the industrial revolution and the rise of a capitalism whose sole aim was economic power.

In all the societies of Europe this had dramatically upset the social balance, with repercussions on the distribution of income. Mass production had created factories, huge establishments where large numbers of men, women and children worked impossibly long hours, risking illness and injury, for a miserable wage.

The encyclical took up the cause of the poverty and oppression of a growing number of families, proletarians in the sense that their sole wealth was their children, and of the adverse effects on the social equilibrium and the political order.

Reacting against the Marxist vision, the encyclical reaffirmed the right to private property, tempered by a social function; it reaffirmed the primacy of spiritual and moral values, recognizing the right of workers to join together to defend their living conditions.

It did not explicitly raise the problem of employment. This was to emerge in more highly evolved economies in later decades, when economic crisis – notably the Depression of the 1930s – engendered mass joblessness and the emergence of a new kind of social inequality and exclusion. Reducing unemployment to the minimum is one of the primary tasks of modern states.

The expansion of the world economy in the course of the twentieth century was without historical precedent. It was associated with very rapid population growth thanks to declining death rates, advances in medicine and hygiene and lengthening life expectancy.

Population growth and the increase in production were especially rapid in the second half of the century. World GDP quadrupled. Real per capita income more than doubled.

Until the 1970s the industrial economies – the United States and Canada, Japan, Western Europe and Australia – grew extremely rapidly. The underlying cause was the increase in international trade in industrial goods. Population growth in these countries gradually slowed as birth rates declined. In the 1980s and 1990s economic growth was fastest in the countries of Asia, thanks in part to capital and technology coming from the more advanced countries.

Even more recent, but extremely rapid, has been the growth of the Chinese economy. India too, from conditions of great economic backwardness, is now in a period of buoyant growth.

Growth has been more halting in Latin America, where unstable and in some cases corrupt political regimes have prevented the fruitful use of the region's abundant natural resources. The economies of Africa remain gravely underdeveloped.

The countries of Eastern Europe and Russia, after a long period of disorder and regression following the fall of their Communist regimes, are now beginning a phase of more orderly economic and political life.

In the new industrial economies too, a decisive contribution to the improvement of living conditions has come from international trade.

Economic growth is slower and more uncertain in the countries whose income derives prevalently from agriculture. One reason for this is the protectionist stance against their products taken by the richest countries, first of all the United States, Japan and Europe, in defence of domestic production.

The great increase in output and income in the second half of the twentieth century has been associated with widening disparities in living standards between the different regions of the world. These inequalities and the economic upheavals sometimes provoked by international trade lead ample strata of the population to take a diffident if not hostile view of globalization.

As in the radical changes in economic and social life prompted, at the dawn of the modern era, by the invention of printing and the discovery of the New World, the current process of globalization is bringing profound change in relations between nations and in the pre-existing social order in all countries.

The technical instrument underlying the extraordinary intensification of communications in the last few decades has been information technology.

In many respects this has driven a revolution affecting culture, the economy, social organization and politics.

Finance has received a particularly powerful impetus. In many important respects we can now speak of a single world market in foreign exchange, financial flows and credit instruments.

This has heightened the advantages already enjoyed by the advanced economies thanks to trade in goods. It has created new problems for the global regulation of credit and financial activities that had previously been controlled by individual states.

Whereas trade benefits all those who take part in it, finance – unless appropriately regulated – can give rise to instability and disequilibria, mainly to the disadvantage of the weaker economies.

With globalization the economy to some degree transcends and in some cases usurps the power of states. As a consequence, there is an increasing need for international institutional cooperation through multilateral agreements.

The stability of the financial system is essential to the operation of the world economy and the stability of national economies.

The last decade witnessed acute crises in several rapidly developing Asian countries and some Latin American countries. In Mexico, Venezuela, Brazil and especially Argentina monetary and banking crises severely curbed economic activity and lowered living standards.

Ensuring stable arrangements and orderly trading in the world financial system and careful surveillance of national banking and monetary systems is an enduring commitment, a never-ending task that requires knowledge, equilibrium and concern for the general interest.

Instability is of international political origin and is connected, in a setting of poor economic performance, with contractions in productive activity. In recent years the world's largest financial market has experienced crises in connection with reprehensible conduct on the part of some operators.

Professional ability and ethics are of the essence. Their absence impedes the growth of the economy.

The much closer international cooperation of the last few years has produced a financial system that has successfully avoided large-scale crises. At national level, supervision has ensured the stability of the banking system and helped it, at a time of protracted economic stagnation, to sustain weak firms to the benefit of employment.

A solid banking system is a national asset that must be preserved and nurtured. Further progress in support for the economy, in innovation, in the protection of savings require that society and public institutions adopt a cooperative attitude, have an organic vision and shun prejudices. Major challenges have been successfully overcome in past decades. They are our guarantee for the future.

9. The innovations of this early part of the twenty-first century can, I believe, basically be related to the process of globalization under way. They presage changes, both good and bad, in the economic and social fields.

The imbalances and consequences of the industrial revolution were perhaps not fully resolved until the fall of the Berlin Wall in 1989.

Social and political tumults, wars and revolutions have overlapped and intertwined with an underlying expansion of the world economy of extraordinary historical import. The availability of material goods, even for a population that has grown enormously in every part of the globe, is much greater than it was only half a century ago.

But those who have been partly or wholly excluded from economic and social progress now have a greater desire to participate and expectation of doing so. The more advanced societies have also become more aware of the need to allow all, in their own country and in others, to benefit from economic growth.

The ultimate factor in all economic progress is man; his ability to produce increases with education, which permits informed and profitable participation in economic and social affairs.

Amidst imbalances and regressions, material progress can undoubtedly be discerned in most countries.

Information technology is certainly one of the factors able to facilitate forms of organization of economic activity that can raise the standard of living of those who have access to it. The cost of the infrastructure and equipment is relatively low. What is needed is a level of education that will allow these new instruments to be used, above all by young people, who are more numerous precisely in the less advanced economies. The support of international organizations remains indispensable, together with help from the richer countries in the form of aid and transfers of capital and technology.



To borrow a highly significant expression from Pope John Paul II, in addition to the globalization of economies and cultures, there is a need at the international level for a globalization of solidarity.

**10.** The biblical commandment in Genesis requires man to have dominion over all the earth and over every living thing that moveth upon the earth. And God saw that it was good. We must use them, certainly not abuse them.

A profound philosophical vision, embracing all reality, internally consistent, the fruit of an admirable synthesis of the learning and ideas accumulated by humanity in 1,500 years, from the wisdom of the bible to Greek culture, to the reflections of the great thinkers of the West and the East in the first millennium led to knowledge of a supreme being, full actualization of every perfection, without any shadow of mere potentiality, the origin of the visible and invisible reality that surrounds us and distinct and transcendent with respect thereto.

A philosophical goal, this, already achieved by Aristotle in the fourth century before the Christian era and admirably expressed in one of the profoundest pages of his *Metaphysics*.

In Thomas Aquinas this vision is completed with a knowledge of man of unsurpassed realism and breadth, with a description of the internal reasons for the existence and working of every social entity.

We therefore know that the universe – men, all living and inanimate beings, with their dynamism and mutual relations – has a sense of direction in its unfolding. The world is full of potentialities but, given its origin, when its evolution is complete, it cannot be other than perfect.

As men endowed with freedom of choice, albeit constrained by limitations and confined in our knowledge, we can discriminate between what is good and what is not. Moral principles, our conscience, the teachings that come from on high indicate in every moment, on every occasion, the direction we should take. But in the first place we must rediscover the sense of where we are and, above all, of where we are going, as individuals and as society.

Material progress unaccompanied by a rise in the cultural level, a dissemination and strengthening of the values that we know to be the foundation of every society does not in itself guarantee progress, an improvement in the quality of civil life, social cohesion or the common good.

The birth of modern science, reviving a method already adopted by the philosophers of ancient Greece, has led to a more certain knowledge of the material world that surrounds us, but also to a fragmentation of learning, a break in the relationship between empirical reality and values. The science of how the world works has led to its being used for practical, utilitarian purposes. This is not to be rejected. Science, technical knowledge and economics can and must cooperate effectively to enhance welfare and the enjoyment of a dignified life by an increasingly numerous mankind.

It is the task of universities, cultural institutes and men of learning to rebuild the link between science and moral philosophy. This endeavour must be based on a solid, up-to-date and analytically substantiated knowledge of the physical, biological, material, economic and social worlds. The ancient philosophers started from the perception and affirmation of the unity of the universe, the unique design of a unique project.

We must rebuild a bridge between “science and wisdom”.<sup>5</sup> Go beyond, not reject, the utilitarian and productive confinement of science, search for a synthesis between the different forms of learning, drawing on the enormous knowledge man has accumulated in every field in recent centuries and over the millennia.

Society and the economy will benefit from this. We will be better able to fulfil that vision of individuals who are part of a whole, harmoniously included in the social context, of persons who are able to rise above the everyday and the contingent.

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<sup>5</sup> J. Maritain, *Science et sagesse*, Paris 1935.