



DICASTERO PER IL SERVIZIO
DELLO SVILUPPO UMANO INTEGRALE

Investment within the framework of the *Environment, Society and Governance*, A Catholic Church Perspective

Florence (Firenze), 21 May, 2019.

Abstract:

*Following the publication of the Encyclical Letter of Pope Francis, *Laudato si*, On the Care of our Common Home (2015), on integral ecology and on how everything on earth and in our common home is interconnected, the attention of the new Vatican Dicastery is engaged by the specific area of the world of finance which may be referred to as the management of financial assets or investing,¹ and on how this financial activity can be enabled to promote, on the one hand, the wellbeing of both the earth and its people (inhabitants), and on the other hand, good governance of the State with reference to some principles of the Church's Social Teaching.*

Introduction:

The global financial crisis (2008-2011), whose roots lay in questionable (aberrant) practices in the financial markets had a lot of lessons to teach about the financial industry. The former Pontifical Council for Justice and Peace of the Holy See made itself an advocate of some of these lessons, publishing a small study in which it called for a *reform of the international financial and monetary systems in the context of a global public authority*. In so doing, the Vatican Dicastery was inspired and guided by the suggestion of the Council Fathers of Vatican II that “*giving witness and voice to the faith of the whole people of God*”,² the

¹ Though conceived, as observed above, as a follow up on the "Note" of the Pontifical Council for Justice and Peace, *Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority*, (2011), it is proper to note that the publication of this document, *Mensuram Bonam*, now follows upon the publication of *Oeconomicae et Pecuniariae Quaestiones, Considerations for an ethical discernment Regarding some Aspects of the Present Economic-Financial System*, (2018) by the Congregation for Doctrine and Faith and the Dicastery for Promoting Integral Human development.

SECOND VATICAN ECUMENICAL COUNCIL, The Pastoral Constitution on the Church in the Modern World *Gaudium et spes*, 3.

Church provides eloquent proof of her solidarity with, as well as her respect and love for the entire human family with which it is bound up, by engaging with it in conversation about its various problems.³The study, “*Towards reforming the International financial and monetary systems in the context of global public authority*”⁴ sought to initiate one such conversation, at the same time making suggestions for ending the crisis and avoiding its recurrence.

Since then, the Vatican Dicastery (for Justice and Peace) has merged with three others, becoming now the *Dicastery for Promoting Integral Human Development* (August 2016). Following the publication of the Encyclical Letter of Pope Francis, *Laudato si, On the Care of our Common Home* (2015), on integral ecology and on how everything on earth and in *our common home* is interconnected, the attention of the new Vatican Dicastery is engaged by the specific area of the world of finance which may be referred to as *the management of financial assets or investing*,⁵ and on how this financial activity promotes the wellbeing of both the earth and its people (inhabitants). In the light of the present Conference, one may couch the interest and pursuit of the Vatican Dicastery as “*investment within the framework of the environment, society and governance*”; and its point of departure is its own handbook, the Scriptures!

Towards an Identification of an ESG Framework:

The Sacred Scriptures address the issue of the management of (financial) assets and property in the patriarchal narratives in the Pentateuch (the five Books which begin the Bible).⁶ The issue continues to surface in other parts of the Old Testament,⁷ as care for one’s property, money lending, usury, or pledges taken on loans⁸ and the debt cancellation of the Jubilee year. In the Gospels, “asset management” is an image which Jesus evokes, often in parables, to present people’s responses to the offer of the Kingdom of God.

³ *Ibid.*

⁴ PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, *Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority*, Vatican City 2011.

⁵ Though conceived, as observed above, as a follow up on the “Note” of the Pontifical Council for Justice and Peace, *Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority*, (2011), it is proper to note that the publication of this document, *Mensuram Bonam*, now follows upon the publication of *Oeconomicae et Pecuniariae Quaestiones, Considerations for an ethical discernment Regarding some Aspects of the Present Economic-Financial System*, (2018) by the Congregation for Doctrine and Faith and the Dicastery for Promoting Integral Human development.

⁶ Cf. Ex 22:24; Lev 25:36, 37; Deut 23:20-21.

⁷ Cf. Jer 15:10; Ezek 18:17; Ps 15:5; Prov 28:8; Lev 25; Deut 15:1-5.

⁸ Cf. Dt 24:10-13,17; Amos 2:6-8; Job 22:4-6.

Now, while in the Gospels "asset management", as *investment*, is an imagery which appears in parables to describe the wise and creative response of people to the Gospel, which Jesus praises, the Gospels and passages in the Pentateuch and in the prophets show how the management of assets (investments) in the forms of loans and money lending generated instances of cruelty, lack of compassion and solidarity, and impoverishment. Accordingly, in the legal tradition of ancient Israel, usury was proscribed,⁹ and the Jubilee Year restored people to their property and gave them a new lease on life! Thus, asset management and investment, as financial activities, can be ambiguous and questionable in their morality and contribution to living out the sense of the solidarity of the human family. Ambiguity in the conduct and character of financial activity for the wellbeing of all still persists in our world and even in Church circles. Hence the challenge is on and pressing that all forms of financial *activity*, especially *investing*, be directed to serve the wellbeing of all, respecting fairness, justice, moral and ethical standards.

Pope Francis jolted the conscience of a world infatuated with money, its transactions and its processing hub of the *stock markets*, when he asked, rhetorically, “*can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?*”¹⁰ Thus, though money is a useful tool of communication and encounter, as Pope Francis observed, addressing members of the *Fortune-Time Global Forum 2016* during their visit to the Vatican,¹¹ it may not supplant or replace the human person in importance. “Money”, according to Pope Francis, “must serve, not rule.”¹² Thus, the Holy Father links problems in the financial sector to a “profound human crisis: the denial of the primacy of the human person! We have created new idols. The worship of the ancient golden calf (cf. Ex 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human purpose.”¹³

Accordingly, we should expand our efforts to align the management of finance and our assets with the wellbeing and inclusive flourishing of the human family, not according to some *invisible hand* (cf. Adam Smith), but according to the *visible hand* of, for example, the

⁹ Cf. Ex 22:25; Lev 25:35; Dt 23:20; Ezek 18:14-17, Ps 15:5.

¹⁰ Pope Francis, Apostolic Exhortation *Evangelii Gaudium* (24 November 2013), 53.

¹¹ September 6, 2016.

¹² *Evangelii Gaudium*, 58.

¹³ *Ibid.*, 55.

four classical principles of the Catholic social teaching:¹⁴ because they do inspire harmonious living in society, and promote within the human family a sharper insight into its full destiny on earth, namely, to coexist for the common good, to fashion a world to man's surpassing dignity, and to meet the urgencies of our age with a gallant and unified effort born of love.¹⁵

These classical principles are:

- 1) *Personality/Personhood*, as an expression of every human person's metaphysically added value, understood as a bearer and owner of inalienable and irreplaceable dignity.
- 2) *Solidarity*, not as a vague sense of compassion, but, as the virtue, in the words of Pope John Paul II, which makes one commit to the wellbeing of another.
- 3) *Subsidiarity*, according to which "*all societies of a superior order must adopt attitudes of help (subsidium) -- therefore of support, promotion, development -- with respect to lower order of societies.*"¹⁶ *Solidarity* and *subsidiarity* thus have, as scope, the development of persons and their dignity.
- 4) *Common good*, understood not as gross national product or gross domestic product, but as the guarantee of personal, familial and associative good. The common good of every person in a human community is thus the fundamental right to life and to its full realization.
- 5) To these four principles, one may now add, in the light of the UN celebration of "earth day" and of Pope Francis' Encyclical letter on integral ecology, "*care of the earth*", our common home.

In principle, then, the financial system, its operation and transactions must be grounded and guided, not primarily by profit and maximisation of returns for investors and shareholders, but by moral principles that are the fruit of faith and charity,¹⁷ and which construct a veritable *ESG framework*.

The necessity, on the one hand, of a moral compass in financial investment and operations is also confirmed by Pope Benedict XVI who observes wisely in his Encyclical Letter,

¹⁴ Cf. *Compendium of social teaching of the Church*, §160; "*This understanding is such that it inspires harmonious living in society.*" §77.

¹⁵ Cf. *Gaudium et spes*, 91.

¹⁶ Cf. *Compendium*, §185-186

¹⁷ The recently published text *Oeconomicae et Pecuniariae* makes the same call.

Caritas in veritate, that, “the economic sphere is neither ethically neutral, nor inherently inhuman and opposed to society. It is part and parcel of human activity, and precisely because it is human, it must be structured and governed in an ethical manner.”¹⁸ On the other hand, the need for such moral guidance to promote an ESG agenda is also confirmed by the Bishops of the United States who in their 1986 Pastoral Letter, “*Economic Justice for all*, observed, “*economic life raises social and moral questions for each of us and for society as a whole*”,¹⁹ and that “*it is in making decisions about managing resources and investments that we give proof of our Christian identity (moral fibre) and the conviction that local and global economies must be viewed not only in terms of production and distribution, but also in terms of their effect on the environment and the dignity of the human person.*”²⁰

It is noteworthy that when the United States Bishops talk of “*effect*” of global and local economies, they speak of the *environment* and the *dignity of human persons*; and these are two crucial parameters of the *ESG* framework.

In what follows, I shall briefly present (trace out) the significance (basis) of the *ESG* framework in Church teaching, and illustrate how it is pursued in economics, business and investing through the application of the principles of the Church’s Social Teaching.

The ESG Framework in Church Teaching:

In the Judeo-Christian Scriptures, the teachings about the origins of the world and of human beings in the creation narratives (Gen 1.3) are set within a *network of relationships*: God and human persons, the human person and his/her neighbour, and the person and creation. As a *relational being*, the human person is a *subject of dignity*, called to coexist with other members of the human family, indeed, to *be their keeper* (Gen 4:9), and to *care for creation* with a view to ensuring the common good of all. These teachings are the foundation and the moral compass for evaluating the justice of these fundamental relationships and the virtuousness of the conduct of human persons, including their financial activities.

¹⁸ *Caritas in Veritate*, 36.

¹⁹ UNITED STATES CATHOLIC BISHOPS, Pastoral Letter on Catholic Social Teaching and the U.S. Economy, *Economic Justice for All* (1986), 6.

²⁰ Cf. *Ibid.*, Pastoral Letter on investments, environment and the dignity of the human person.

Thus, according to the *Book of Wisdom*, the human person is “to govern the world in holiness and justice, and to render judgment in integrity of heart.” (Wis 9:13). In view of this, Abraham was chosen already in the *Book of Genesis* “to charge his children and his household after him to keep the way of the Lord by doing righteousness and justice” (Gen 18:19). In the Scriptures generally, but especially in the prophetic tradition, "*doing righteousness and justice*" takes the form of an unconditional fidelity to God and his covenant laws, and a reverential concern for the neighbour and for creation. When, as in *Isaiah* 24:4, the people sin, transgressing God's covenant laws, the earth languishes and is laid waste, and its inhabitants suffer. Thus, not only do the Covenant laws and the prophets call for obedience, they also both proscribe abusive treatment and exploitation of the poor and prescribe great solicitude for the poor and the earth. It is for this reason, for instance, that there is a legislation to observe a *jubilee year*, to give the poor a new lease on life and to allow the land to rest (Lev 25; Dt 15).

This unity of reciprocal relationships, especially between *human beings* and *creation*, is what inspired Pope Benedict XVI to observe that “*the book of nature is one and indivisible,*” and that “it takes in not only the environment but also life, sexuality, marriage, the family, social relations: in a word, integral human development. Our duties towards the environment are linked to our duties towards the human person, considered in himself and in relation to others”.²¹

Let us recall, by the way, the classic definition of the State by St. Augustine in his great book "*De civitate Dei*". The accounts of the origins of the world and the human family in the *Book of Genesis*, inspired St. Augustine to teach about the need for the State (and its governance) by the human person in his book, “*De Civitate Dei*”. There, referring to the account of the murder of Abel by Cain, St. Augustine underlines the necessity of a "*status iustitiae*", because that episode of murder unleashed complete anarchy. According to this original insight of St. Augustine, a minimal guarantee of a minimal state of minimal justice is the ultimate goal of every State. For, the purpose and the goal of the State is nothing else than the *welfare of its citizens (person), and every person*, because every person is a subject of dignity, created by God in *his image and likeness*.

²¹*Caritas in veritate*, 51.

In other words, the State, *per se*, has no value, without the *human person, the bearer of dignity*; but the existence of a person is also inconceivable without the State. Without the State, as St. Augustine argued, the person is nothing, because the person would be living under and among an anarchic gang of robber.²²

Again, on account of this unity of reciprocal relationship between the person and the State, the extinction of the State and the Nation, through bad governance or otherwise, is quickly followed by the extinction of the human person. Accordingly, the security of every human person, especially the weak, the unborn and newly born, the handicapped and the dying is the sole purpose and *raison d'être* of a good State, which must be more than of “gang of robbers”. This underlines the significant role and place of *good governance* in a State!

The Church’s Social Principles (CSP) and the Application of an ESG Framework:

Our question now is not about investment business in general, and society in a general and abstract sense. The question now is about real decisions by real leaders in economics, investment and politics, and how the **CSP** help promote **ESG** business and investing.

As Pope Francis explains an observation we made earlier, “We can no longer trust in the unseen forces and the invisible hand of the market. Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programmes, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality.”²³ Accordingly, business leaders and investors need to develop good habits of *discernment*, a process of *discovering the good in the concrete here and now*, by employing the great principles of human dignity, the common good, subsidiarity and solidarity as **beacons** to shed light on the reality before them, and as **lenses** to focus on it properly. Within the complex reality of business, these same beacons or lenses will help make sound judgments and act properly about their *investments*. I want to touch briefly on three *investment objectives* that connect discernment with outcomes.

²² St Augustine underlines this in the famous 4th chapter of the 4th book of “*De civitate Dei*” (*Remota iustitia quid sunt regna nisi magna latrocinia?*).

²³ *Evangelii Gaudium*, § 204.

1. The first objective is to *invest* in the production of **Good Goods**. Businesses must *attend to people's needs* by producing goods that are truly good and services that truly serve. Businesses have an ability or opportunity to provide what everyone needs in the way of food, shelter, and so on. But are they truly good? The answer does not reduce to price or to legalities. Rather it should be asked: *How do these products and services contribute directly or indirectly to human well-being?* Customers are not just objects or consumers, but persons. Further, businesses must be alert for opportunities to serve deprived populations and people in significant need. *Solidarity with the poor* and *care of environment (creation)* are facets of the service which business provides to the common good.
2. Second, businesses should *invest* in the provision of **Good Work**. By organizing good and productive work, businesses make a contribution to the community by fostering the special *dignity of human work*. Businesses are communities that require *investment ... in their training, working environment etc.*, not mere commodities! Further, applying the principle of *subsidiarity* contributes to the full human development of employees, by providing them with opportunities to exercise appropriate authority as they contribute to the mission of the organisation. They also allow workers to influence the overall direction of the business and accept their right to participate in intermediary bodies such as unions. In well-defined functions, the front-line and middle levels should exercise authority and should receive the needed training and resources in order to succeed. In a time when knowledge and information continue to be increasingly important factors of production, applying the principle of subsidiarity can justify *investment* in staff, in order to strengthen “the initiative, innovation and creativity, as well as the sense of common responsibility”²⁴ in companies.
3. The third objective is **Good Wealth** and its **distribution**. By being *good stewards* of the resources given to them, businesses create sustainable wealth through efficient and productive processes that produce healthy profits. But generating wealth in a business is insufficient without the wider context of *stewardship* for the natural and

²⁴ *Vocation*, § 48.

cultural environment, and *just distribution* to all stakeholders who have made the wealth possible and depend on it: employees, customers, investors, suppliers, and the larger community.

These three objectives show that businesses and required investments are multidimensional realities. They are not to be reduced to a single objective such as maximizing profit or enhancing shareholder wealth – just as marriage may not be reduced to sentiment between partners, or education to credentials for a career. Rather, a flourishing business enterprise contributes to the larger common good by *investing* in its threefold goals or purpose of good goods, good work and good wealth.

Here are instances of the *ESG framework*, and here are beacons and lenses provided by the *CSP*, to businesses and their *investment* activities and cultures. The *CSP* are principles which guide the discernment of the *investment* areas or *needs* of community (services, goods), navigating the challenges of *investment options* and deciding on what is right and truly useful, instead of the ethically inadequate and sometimes even perverse.

Thus, what the *ESG framework* seeks to promote coincides with what the Popes have frequently talked about, as the need for greater social and environmental responsibility on the part of the business world. Pope Benedict XVI writes in his Encyclical Letter, *Caritas in Veritate*, writes that, “there is nevertheless a growing conviction that business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business: the workers, the clients, the suppliers of various elements of production, the community of reference.”²⁵ Pope Francis extended this responsibility further, when, in his address to the World Economic Forum 2014, he said: "Those working in these sectors have a precise responsibility towards others, particularly those who are most frail, weak and vulnerable. In fact, those who have demonstrated an aptitude for being innovative and for improving the

²⁵*Caritas in Veritate*, 40.

lives of many people by their ingenuity and professional expertise can further contribute by putting their skills at the service of those who are still living in dire poverty."²⁶.

Care of the Earth, our Common Home:

The precarious state of our common home has been the result largely of a false economic model that we have followed for too long. It is a voracious economic model which is exclusively profit-oriented, short-term sighted, and perpetuates the myth of unlimited economic growth. While we see its disastrous impacts on the natural world and in the lives of people, we are still resistant to change. “Economic powers continue to justify the current global system where priority tends to be given to [...] the pursuit of financial gain, which fail to take the context into account, let alone the effects on human dignity and the natural environment” (LS 56).

We are aware that “by itself the market cannot guarantee integral human development and social inclusion” (LS 109) and that “environmental protection cannot be assured solely on the basis of financial calculations of costs and benefits” (LS 190). We need a paradigm shift in all our economic activities, inspired again by *CSD(P)*.

All economic activities, should be at the service of the entire human community. As Pope Paul VI wrote: “God intended the Earth and everything in it for the use of all human beings and peoples. ... created goods should flow fairly to all”.²⁷ It is an essential component of the Church’s social teachings. “The principle of the subordination of private property to the universal destination of goods, and thus the right of everyone to their use, is a golden rule of social conduct and “the first principle of the whole ethical and social order”.²⁸ (LS 93).

Thank you all for your kind attention!

²⁶ POPE FRANCIS, Message to The Executive Chairman of The World Economic Forum on the occasion of the Annual Meeting at Davos-Klosters (Switzerland) (17 January 2014).

²⁷ Pope Paul VI, Encyclical Letter *Populorum Progressio*, n. 22.

²⁸ Pope John Paul II, Encyclical Letter *Laborem Exercens*, n. 19.