

Pope Benedict prepares new encyclical

# What I told the Pope about how to shape the new capitalism

*Decent wages, dignity at work, no profit without morals - when it comes to reforming the unstable market economy, the Catholic church is leading where New Labour fears to tread. Yesterday, Will Hutton joined an extraordinary debate at the Vatican*

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For a man aged over 80, Pope Benedict XVI walks surprisingly quickly, racing into the Vatican's Salle Clemente yesterday lunchtime as if determined to show those waiting for him that he was compensating for being late. Then he took to the papal throne amid the splendour of the chapel, listening to the lead participants at an extraordinary Vatican conference on social capital and human development briefly reaffirm their commitment to the church's aim to champion a Catholic social doctrine.

As they spoke, he eyed up the rest of the room, an assembly of some of the Catholic world's richest and most influential businessmen and women along with a sprinkling of cardinals, archbishops and invited 'men and women of good will'. It was not to be a debate or a conversation; that had happened the previous day. Rather, it was his opportunity to give a carefully drafted pep talk to the Fondazione Centesimus Annus-Pro Pontifice - the foundation launched by his predecessor John Paul II to develop Catholic social policy - to think through how the church should react and try to reshape today's turbo capitalism, its unstable and powerful financial markets along with desperately widening inequality, and to listen to what we had to say on the great issues he confronts. He is working on a new papal encyclical on capitalism and society to be published later this year and this weekend was about giving him better ammunition.

Stalin was famously dismissive of the Pope, demanding to know how many armed divisions he could command. But Catholicism has outlasted both communism and socialism. And although the religion's critics are right to point to the paradox of its championing of the poor with its own love of the good life and exquisite art, together with its extraordinary capacity to be as deft as any secular politician in the pursuit of its aims, there is an integrity, appeal and spirituality about its purpose that even an agnostic non-Catholic like me has to concede. And having survived and entrenched itself for so long in so many countries, it finds itself as a genuinely global institution with a global capacity to make its values felt and heard; what a successful religion needs to be in an era of globalisation.

I was invited to the Vatican as one of those 'men and women of good will' to give my thoughts on what is happening in contemporary capitalism, and what could be done if it is not to become as destructive, iniquitous and unstable as it was 100 years ago.

The 'Centennius' in the Fondazione's title is the centennial of the first great papal encyclical on capitalism in 1891 delivered by Leo XIII. 'Rerum Novarum' (Of New Things) was the church's response to the then class war between capital and labour that threatened to end in revolution and worldwide communism, which the Russian Revolution in 1917 seemed to portend. Casting himself as the peacemaker, Leo XIII recognised the validity of the claims of an increasingly militant working class for better pay, working conditions and dignity at work. Capitalism could and should only survive if capital dropped its class war with labour, he warned, and instead should organise itself as a moral system accepting that turning work into mechanical drudgery was not in the interests of capital or labour.

Instead, he argued, capitalism had to understand that 'man's life is built from work' and that the quest for profit was not an end in itself. Rather, it was a necessary but insufficient condition in a larger human endeavour, development as a common good in which every man and woman could realise the potential -

and here enters religion - with which God had endowed them. A century later and the Catholic church is again alarmed by the way capitalism is developing. Whether sweatshop call centres, declining trade unions, directors paid tens of millions for failure while wages stagnate for all forms of unskilled labour, the church does not like what it sees. Hence the coming encyclical.

The church, like New Labour, is careful not to be anti-business or anti-capital. But where New Labour is silent, Catholics are prepared to mount a challenge. They want decent wages; more autonomy and dignity at work; they want the rich to accept obligations to promote the common good; firms to recognise that there is only any morality to profit making if it is as a consequence of delivering a declared economic purpose - to manufacture a great car, build a safe plane or whatever.

When Unilever was founded, I said in my remarks to the conference, it committed itself to make the best 'everyday things for everyday folk', Boeing to build the planes that flew fastest, safest, furthest, Sony to permanent innovation and so on. These great companies sought to make profits as a consequence of delivering a great economic objective; it was that purpose that is the social glue that makes a firm hang together and drives it forwards successfully over time. If capitalism organises itself along the lines of a private equity firm, interested only in financial leverage, avoiding tax and vast personal gain while putting two fingers up to concepts of the common good, it has lost the plot. Sooner or later, there will be a backlash and it is not even good for the business in the long term.

Yet what worries the church - and the businessmen and women who fund the Fondazione - is that this is where contemporary capitalism is heading. They want the stakeholder capitalism that to my surprise John Paul II advocated in his 1991 Encyclical. My position, which I outlined at the Vatican, is that stakeholder capitalism and the accompanying social policies are even more important in a 'knowledge economy' in which so much economic activity involves problem-solving, team-working, mental dexterity and the application of skill.

All over the advanced industrialised world, knowledge work is becoming more important (more than half of Swedish workers are now knowledge workers) and it is impossible to get the best out of knowledge workforces if the relationship with managers and owners is exploitative. Workers demand respect, inclusion and meaningful work, and that means firms with committed, engaged managers and owners.

This does not mean a land of Elysian fields in which no firm ever has to restructure, lay people off or take tough decisions. But it does mean trying to shape capitalism so that it does things in its own long-term interests and those of society. In the corridors afterwards, I was approached by business leaders worried that so many of their shareholders chose to be anonymous rather than accept ownership responsibilities. They wondered whether their firms could be organised along stakeholder principles if they subcontracted and offshored too much work and to what extent they could pay decent wages and still remain competitive.

A lot of businessmen and women in Britain share these worries, but our discourse rarely allows them to surface. Any politician who dares to voice them rather than be a cheerleader for the superclass, rampant profit-making and 'flexible' wages risks the ludicrous sobriquet of being anti-business.

It has been a surreal weekend. What was I doing standing in the beautiful Vatican gardens at an open-air morning Mass watching the green parrots swoop overhead? But there are a billion Catholics worldwide, not a trivial force for change if they can be mobilised. Gordon Brown would rather lose a finger than argue for this stuff as an overarching, interconnected doctrine. We stakeholders, believers in social justice and good work, make common cause with anybody we can find. And I'm delighted the Pope is one of them.