

CATHOLICS CALLED TO ETHICAL INVESTMENTS



BY REV. SÉAMUS P. FINN, OMI

INVESTING FOR
CATHOLICS

ABOUT SÉAMUS P. FINN

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Rev Séamus P. Finn, OMI

Rev Séamus P. Finn, OMI has been Director of the Justice, Peace and Integrity of Creation Ministry, Missionary Oblates of Mary Immaculate in Washington DC since 1986.

The office supports the mission of the congregation and is also responsible for the Socially Responsible Investment program both for the U.S. province and for the General Administration of the congregation. This program includes an active screening process as well as shareholder activism and a robust program of engagement with the managers of major U.S. and European corporations. The program is grounded in Catholic Social Teaching on the promotion of the dignity of the human person and on active solidarity with the work of Oblate missionaries throughout the world.

Fr. Finn has represented the Oblates at the Interfaith Center on Corporate Responsibility www.iccr.org in New York since 1988. He represents the Oblates on the executive committee of the International Interfaith Investment Group www.3ignet.org Fr. Séamus believes that the active integration of the faith and values of the religious community into their advocacy efforts and into their financial investment decisions can be a leaven for promoting sustainable human communities. He also believes that faith communities and can make a positive contribution to the search for innovative policy alternatives that allow the poor and marginalized to access the benefits of globalization. He represents the Missionary Oblates on the boards of directors of a number of organizations supported by the Oblates both in the U.S. and internationally. Visiting most of the places where Oblates work, Séamus has tried to explore and develop ways in which the OMI JPIC office in collaboration with many coalition partners can be supportive of the mission of the congregation, through addressing public policy issues and public officials, and through the work of the office with corporations He is a leader in faith-based socially responsible investing, and is active with the Interfaith Center on Corporate Responsibility and the International Interfaith Investment group.

He completed his doctorate at Boston University School of Theology in 1991.

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The occasion of the recent financial crisis provided the background for Pope Benedict XVI to remind Catholics and society at large about the importance of grounding financial and economic decisions in a moral and ethical framework that is informed by the scriptures, the moral law, the church's teaching and the experience of the people of God. In the encyclical *Caritas in Veritate*, the Pope articulates a vision and offers a comprehensive framework to guide Catholics concerning the fulfillment of their vocations in the marketplace and particularly in the financial and economic sectors. This timely encyclical builds on the already existing documents in the tradition about the important role that financial markets play in society and the responsibility of political authorities for their regulation and the responsibility of those who manage and participate in these markets.

Context of the Current Crisis

The financial crisis is described by the Holy Father as an opportunity to “re-plan our journey, to set ourselves new rules and to discover new forms of commitment, to build on positive experiences and to reject negative ones. The crisis thus becomes an opportunity for discernment, in which to shape a new vision for the future.¹ The crisis is therefore seen as an invitation to all to review the purpose of financial markets, to examine the foundational principles that guide the market and to consider the moral and ethical demands that should inform and guide the activities and the institutions that constitute the market.

¹ Pope Benedict XVI, *Charity in truth: Caritas in Veritate: Encyclical Letter “Charity in Truth*, (Washington, DC: United States Conference of Catholic Bishops, 2009), 22.

The major actors that are identified in the functioning of a financial system are; (1) the political authorities who define its framework and parameters and regulate its operation; (2) the professional especially in the institutions, public and private, that are major players in the system; and (3) the individuals and institutions that make use of the services and the instruments that the system provides. Respect for the rights of workers is identified early in the encyclical as an example of one principle that should be integrated into the system and that should inform the individuals and the institutions that participate in the system. “Large multinational companies as well as local producers.” are identified as those institutions who sometimes fail to respect this right.²

Justice and Moral Implications of Economic Activity

Justice is identified, by the social doctrine of the Church, as the core virtue that “must be applied to every phase of economic activity, because this is always concerned with man and his needs.”³ By reiterating this teaching the encyclical harkens back to the questions raised in the pastoral letter of the bishops in the United States nearly twenty five years ago. “What does the economy do for people? What does it do to people? And how do people participate in it?”⁴

Every activity within the economic cycle, such as, “locating resources, financing, production, consumption have moral implications”⁵ that must be examined. The implications of these and the many other activities that constitute the cycle can be both immediate and obvious, long term and hidden. They are also the activities that are most familiar in that they constitute the steps in the industrial processes that are the most obvious. “Every economic decision has a moral consequence” according to the Holy Father, a reality that may have been more readily identified in former times when the context for economic activities, including investing was more local and regional.

This reality, though perhaps less visible in terms of the chain of cause and effect associated with particular decisions or actions, is verified by the both the studies of the social sciences and “the direction taken by the contemporary economy.” The reality of numerous global corporations operating a supply chain that circumscribes major regions

² Ibid.

³ Ibid, 37

⁴ United States Catholic Conference, *Economic justice for all: pastoral letter on Catholic social teaching and the U.S. economy*, (Washington, D.C.: U.S. Catholic Conference, 1986), 1

⁵ *Caritas in Veritate*, 37

of the world with value added at numerous steps along the way is neither visible to the average consumer nor within the scope of any specific political authority.

The fact that each of the operations of these corporations are integrated into a financial system that is global and multi-polar and is “no longer circumscribed within territorial limits” renders the identification of the moral/immoral implications and consequences less transparent and more difficult. The absence of regional and global political authorities or the existence of robust regulatory and monitoring frameworks renders this analysis also more difficult. Absent such authority, “respect for the canons of justice” throughout the different economic processes in the financial system, is identified in the encyclical as a way to address the challenge that this reality presents.⁶

Economic Activity and the Common Good

The proliferation of a vision that identifies human beings as self-sufficient, capable of overcoming all adversity and eliminating the presence of evil in the world has led to a false sense of priorities and “salvation with immanent forms of material prosperity”. The consequence of this vision in the economic sphere is the “conviction that the economy must be autonomous, that it must be shielded from “influences” of a moral character”. This abuse of the economic process has resulted in untold destruction and countless misguided decisions and actions, because of the absence of any moral or ethical compass. This vision and these convictions have resulted in the creation of a financial system “that trample upon personal and social freedom, and are therefore unable to deliver the justice that they promise.”⁷

The logic of commerce and the financial markets should always be “directed towards the pursuit of the common good”. This long-standing principle of the church’s social teaching is foundational if these activities are to safeguard and promote the dignity of the human person and contribute to the well being of all. The political community is identified, in accordance with the tradition, as having a specific responsibility in this arena. The encyclical points out “grave imbalances are produced” when economic action is detached from political action. The creation and accumulation of wealth that respects and partners with political action “that is conceived as a means for pursuing justice through redistribution” is consistent with the traditions vision of promoting the common good.⁸

⁶ Ibid.

⁷ Ibid, 34

⁸ Ibid, 36.

Ethics-based Economics

The benefits of a people-centred ethics, for both the correct and beneficial functioning of an economy is also highlighted in the encyclical. By striving to meet the deepest needs of the human person, the economy is grounded in an ethical foundation that helps it to function properly. One of the consequences flowing from the foundation of economics and economies in a people-centred ethics is a “movement of ideas associated with the responsibilities of business towards society”.⁹ The recovery and expansion of ethics in the world of economy, finance and business is a positive step and is demonstrated by the renewed interest in ethical courses and seminars in the curriculum of business centres and schools as well as the spread of systems and codes of ethical certification in the business community.

In the financial sector the emergence of “ethical” accounts and ethical investment funds are in evidence. These funds are building on record and accomplishment of the socially responsible investment movement, which was in numerous instances pioneered by the work of prophetic individuals and institutions from different faith traditions. The history of the involvement of many religious orders in the field of micro finance and micro credit provides a foundation for further expansion and innovation in the field of ethical financing. “These processes are praiseworthy and deserve much support. Their positive effects are also being felt in the less developed areas of the world.”¹⁰

The call for the infusion of ethics throughout the whole economy should also be a focus of the mission of the church and all Catholics. The long-term stability and constructive functioning of the financial system and economies depends on such a solid foundation. The establishment and promotion of ethical sectors or segments of the economy and finance is an important foundation for the creation of an ethical economy. “The Church's social teaching is quite clear on the subject, recalling that the economy, in all its branches, constitutes a sector of human activity” and should therefore be ethical by its very nature.¹¹

⁹ Ibid, 34.

¹⁰ Ibid, 45.

¹¹ Ibid, 45.

Socially Responsible Corporations and Integral Human Development

The vision of integral human development is also an important benchmark and goal for the entire financial system. In a globalized world where many are still excluded from the essential necessities of life and too many lack access to the education and resources necessary to build safe and sustainable communities and societies, “the intention to do good must not be considered incompatible with the effective capacity to produce goods.”¹² The professional in the banking and financial services sector are invited by the Holy Father to “rediscover the genuinely ethical foundation of their activity, so as not to abuse the sophisticated instruments which can serve to betray the interests of savers.”¹³ These tools and mechanisms must be evaluated both in terms of their contribution to the productive functioning of the system and their effectiveness in contributing to the well-being of human kind and the earth. “Right intention, transparency, and the search for positive results are mutually compatible and must never be detached from one another”¹⁴

The responsibility of all investors is highlighted in the encyclical within the context of sustainable integral development. While recognizing the positive contributions that the financial services sector has contributed to development in many corners of the world, the vigilance and responsibility of investors in such activities is vital. This is identified as especially true when investors join in any experiments with new forms of finance where risk will usually be greater and the probability of success less certain. Investors are asked to pay special attention to “different types of businesses” who see the achievement of more humane markets and societies within the context of making profits. This is especially desirable in companies that are operating “in those countries that are excluded or marginalized from the influential circles of the global economy”.¹⁵

Creation and Economic Activity

Pope Benedict clearly identifies the duties and responsibilities that the financial sector must assume in relationship to the natural environment. The charge that is made to all is to recognize that; “The environment is God's gift to everyone, and in our use of it we

¹² Ibid, 65.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid, 47.

have a responsibility towards the poor, towards future generations and towards humanity as a whole".¹⁶

In placing concern for creation within the context of the love that Jesus demonstrated for the poor and the commitment of the church to the poor everywhere, the encyclical reiterates the common humanity that is granted to all and the universal claim to the goods and benefits of the earth which is entrusted to their care. This achieves special significance with the sphere of economic activity especially those activities that rely on the earth and the riches of the natural environment as a resource. The fact that these contributions have only recently been highlighted in the "costs of doing business" and that there is a growing movement to include them in the balance sheets of corporations and institutions, is a further indication of the importance of this awakening and the responsibility of investors. One way to cope with this problem of "externalities" may be to put a price on them and to compel the participants in the market to pay for them.

For investors the charge that was issued by the Holy Father in this area, as an "urgent duty", is clear and states that efforts must be made "to find institutional means of regulating the exploitation of non-renewable resources, involving poor countries in the process, in order to plan together for the future".¹⁷ This understanding of the earth as a living organism with resources that are exhaustible and given as a gift to all, that can be seriously damaged for generations or even destroyed, has presented a number of new challenges to the models of doing business that have been prevalent for years. "At the same time we must recognize our grave duty to hand the earth on to future generations in such a condition that they too can worthily inhabit it and continue to cultivate it".¹⁸ This new awareness of the recognition of creation as a gift from God that must be safeguarded and preserved must also be integrated into the evaluation and decision-making process of investors.

Strengthening the 'covenant between human beings and the environment' was a theme that Pope Benedict first addressed in his world Day of Peace address in January 2008. He returns to it again in the encyclical and uses it as the foundation for his call to all government and competent authorities to counter the destructive ways of treating the environment that have become commonplace. Specifically, the encyclical calls for a greater transparency about the use of natural resources, which are a shared patrimony, and a commitment to assume responsibility for the economic and social costs that are

¹⁶ Ibid, 48

¹⁷ Ibid, 49.

¹⁸ Ibid, 50

incurred by those who benefit and not by others or future generations.¹⁹ In describing the responsibility that the Church has toward creation the Holy Father teaches that “she must defend not only earth, water and air as gifts of creation that belong to everyone. She must, above all, protect mankind from self-destruction.”²⁰

Catholic Investors and Faith-Consistent Investments

The encyclical pays special attention to the challenges the contemporary international economic scene and the global financial system places on those involved in all aspects of the business enterprise. This includes those who are active participants through direct investments in corporations or those who participate through their pension funds. The growth of corporations, with a global footprint, has in many instances, broken the relationship that existed between enterprises and their communities of origin and is among the challenges faced by conscientious investors who want to evaluate the shares that they own. When companies have hundreds of thousands of employees with operations in fifty, ninety or more than one hundred countries this challenge is magnified.

A number of ethical concerns and questions are also raised for investors by the business model employed by corporations with a global footprint; (1) “they are almost exclusively answerable to their investors, thereby limiting their social value”; (2) “it is becoming increasingly rare for businesses to depend on a single territory”; and (3) those who direct such enterprises are rewarded for short-term results and not long-term sustainability. This can easily weaken the commitment of those who direct the corporation to the other stakeholders who are identified as “the workers, the suppliers, the consumers, the natural environment and broader society”.²¹

The encyclical recognizes the growing need for greater social responsibility on the part of business and 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.” Concern for the treatment and well being of these stakeholders must also be priorities in the evaluation and monitoring done by the investor. The distinction between managers of companies who place a priority on keeping large sometime anonymous shareholders happy and

¹⁹ Ibid.

²⁰ Ibid, 49.

²¹ Ibid, 40.

those who are described as “far-sighted” and much more aware “of the profound links between their enterprise and the territory or territories in which it operates”²², is another piece of valuable insight for the investor.

Pope Benedict reminds Catholics of the teaching of Pope John Paul II in the encyclical, *Centesimus Anus*, “that investment always has moral, as well as economic significance.”⁹⁶ This, the Holy Father goes on to state, “remains valid today, despite the fact that the capital market has been significantly liberalized, and modern technological thinking can suggest that investment is merely a technical act, not a human and ethical one.” An examination of the ways in which capital is generated is always a requirement of justice and therefore must be included in the due diligence of the Catholic investor.²³

Tools and Funds Available to Catholic Investors

Many research tools have become available in recent years to help the Catholic investor respond to the invitation that the Holy Father makes in “*Caritas in Veritate*”. Whereas previously it may have seemed a daunting task to evaluate the far-flung operations of most companies, technology and expertise have been developed to collect and analyze the data in a way that makes it accessible to the person or institution that wants to invest their assets in a manner that is consistent with their Catholic faith. The ongoing work of the service providers who are doing the research, developing the tools and creating the funds is amazingly user friendly. Through its Investing for Catholics division, for instance, Index Fund Advisors has created a number of funds with socially responsible screens that can readily respond to the priorities of Catholics investors.

Conclusion

In an increasingly globalizing world that is reflected in the instant and constant flow of information, the hope of faithfully living out one’s vocation in the arena of investments may seem too much of a burden. The guidance of the Holy Father in *Caritas in Veritate* combined with advancements in technology and expertise makes the realization of that dream a possibility within an investment process that is both reliable and transparent.

²² Ibid.

²³ Ibid.

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