

Final

THE CHANGING ECONOMY AND ITS IMPACT ON THE CHURCH
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Good afternoon! I am pleased and honored at the opportunity to speak to this gathering of people charged with stewardship of the Catholic Church's finances. I have been asked to talk about how developments for the economy in the coming decade might affect the Church. I can say with relative ease what I feel the major economic themes for the 1990s might be. Three forces stand out: an intensifying of the trend toward globalization of world markets for goods and services, a continuation of pressures from the U.S. federal budget deficit, and ongoing demographic shifts that began during the 1980s.

It is a bit more challenging to assess how such economic developments will affect the Church, but I will do my best. The Church's concern with economics is nicely expressed in the term "diocese" used to define its administrative areas. As you may know, the origins of the term are in the Greek roots meaning "to keep house." In this sense, "diocese" is related etymologically to the word "economy." In housekeeping, as in economics, there is often a dichotomy between the ideals aimed for and the resources available for achieving them. On one hand, the Church seeks the spiritual well-being and also the physical welfare of everyone in its family or household. On the other, the Church must deal with financial realities--like whether to keep open shrinking parishes. These secular issues sometimes force it to act with an eye toward market dynamics that seem to conflict with its ultimate philosophical principles.

The three issues I intend to discuss carry implications for both these pragmatic and philosophical aspects of diocesan economics, and I will suggest some of these in my

concluding remarks. First, however, let me give you my thoughts on these trends--the globalizing market place, federal budget deficits, and demographic changes.

The Globalizing Marketplace

Very simply, globalization entails the increased linkage of individual national markets into a more intertwined worldwide network. Such a network permits freer exchanges of capital and labor resources as well as goods and services. Globalization is occurring largely because of the success of post-World War II policies to encourage freer trade, but it is also being hastened by broader applications of technology. Computers and satellite linkages make it possible to compare prices for products or locate sources of funds anywhere in the world and then to consummate a deal by phone or fax. This shrinking of physical distances has made national boundaries less and less important as far as business is concerned. Moreover, as Federal Reserve Chairman Alan Greenspan has pointed out, technology has also made many products, like radios and computing devices, much smaller. The use of high-tech components and new materials has reduced the physical dimensions and weight of many manufactured goods. This makes shipping easier and further contributes to the growth of international trade.

As we look ahead, globalization is taking giant steps forward in Europe. Members of the European Economic Community will lower many barriers to international trade in 1992. This will create a new, unified market boasting a greater number of consumers than in the United States. Communist countries may also show greater interest in engaging in trade with the rest of the world. The Soviet Union and its satellites and, despite its recent setback, China appear to be drawn toward the globalizing market structure. Their increased participation promises to expand sources for labor and markets for goods. The prospect of competition in the marketplace also moderates the military threats that for several decades have dominated our thinking in international

relations.

I feel that by making a broader range of products available at competitive prices, globalization promises to raise living standards around the world. There are, unfortunately, several obstacles in the path of globalization--in particular the resistance to free market competition represented by protectionism, the preparedness of U.S. industry to meet the demands of the global market, and the external debt burden of many less developed countries (LDCs). Protectionism is still a threat to greater merging of markets, particularly as trade imbalances persist in this country. We need to understand that attempting to assist uncompetitive industries through artificial trade restrictions gives them no incentive to improve. Protecting such industries also lowers our living standards by depriving consumers of lower priced imports or the full range of products available abroad. It also pushes our trading partners toward retaliating with protectionist barriers of their own--something that happened in the 1930s and helped push the world toward war.

The correct approach is not to protect our industries, but to bolster their competitiveness. American businesses, particularly small- and medium-sized firms, are somewhat behind their foreign counterparts in their ability to market abroad. They need to apply the great creativity they have shown in marketing at home to selling more of our products elsewhere in the world. In addition, the global marketplace will require of us a better trained, more flexible workforce that can adapt to changing market conditions. Information-based businesses are replacing hands-on manufacturing here, and many of the low-wage, low-skill jobs Americans used to do are being exported. We will need to commit the resources necessary to provide rising generations of workers and those already on the job the skills relevant to the new world economy.

There is also the nagging problem of less developed countries that are being excluded from the global market due in large measure to their heavy debt burdens. These countries have the farthest to go in providing better lives for their people, and the gains the rest of us make from broader world trade will be hollow ones as long as they are left out. The efforts to relieve LDC debt currently being conducted by this country and others are moving us slowly in the right direction, but we must continue to make this problem a top priority if we are to achieve a truly global market.

Deficit Considerations

The second long-term economic trend I would like to consider is the impact of our continuing federal budget deficit. Since 1982 we have run federal budget deficits twice to four times as large in dollar terms as those incurred at the height of the second World War. Of course, such deficits are a smaller percentage of GNP now than in 1944, but they are, even in relative terms, much bigger than in any of the 35 years between 1946 and 1981. Today's budget deficits are also troubling for several other reasons. For one thing, the funds they represent have largely gone to consumption rather than investment that would increase the nation's future productive capacity and enhance our global competitiveness. Second, the daunting size of our current obligations will inhibit our ability to undertake new investments in public programs for some time to come. Third, unlike most of our recent experience with public debt, we owe a goodly portion of today's debt to foreigners.

Our need to service this debt guarantees that in the next decade, we will continue to experience budget shortfalls, especially when the Social Security surplus, which is added to the budget through some "creative accounting" is discounted. Deficit spending has led us to borrow at such a rate that net interest grew from 9 to 14 percent of outlays between 1980 and 1988. If we could deduct interest payments from the budget, we would

be roughly in balance at present. Obviously we cannot do this. What's more, much of our spending requirements are locked into place. Entitlement programs account for about half of the budget, and discretionary programs have already been pared to minimal levels. Spending for education, for example, was only a small fraction higher in 1988 than in 1980.

In spite of these constraints, however, we are sure to experience greater demands for social investments in quality of life in years to come--environmental and medical concerns come immediately to mind. Public opinion polls show that the environment ranks at or near the top of voter concern in this country. In addition, it seems certain that our medical costs will grow. The aging of the population is just one force straining our medical system and pushing up costs. Price pressures in health care already outstrip other components of the consumer price index even though consumers are bearing more of the direct costs in higher insurance policy deductibles, copayments, and the like.

In addition, we have had to go increasingly to foreign sources for funds. During the past decade, the United States has had an historically low savings rate, and we have been unable to absorb the federal government's debt on our own. Thus we have had to rely on foreigners with higher savings rates to finance our spending. In order to repay this foreign portion of our debt, we will have to export more of our products, and this means that living standards may not increase as rapidly here as in the past. For this reason, we owe it to our children and grandchildren to take steps to bring the deficit under control.

Demographic Changes

A third continuing development, demographic changes, will have a considerable impact on our efforts to deal with the budget deficit and other aspects of our economy in the next decade. There are three major demographic strata to consider: the growing

ranks of senior citizens; the maturing baby-boom generation; and the "baby bust" generation that follows. Among these three groups, the numbers of senior citizens are expanding most rapidly. The continued growth of this segment of society has several implications. For one thing, it guarantees that entitlements will continue to contribute to fiscal budget deficits. Military and government pensions will have to be paid out to increasing numbers of recipients for longer periods. The Social Security fund is capable of handling these greater demands at present, but over the longer run may experience difficulties. Social Security is now in surplus because of the contributions of the large baby boom generation. The fund is likely to be drawn down as baby boomers retire in the second decade of the next century, though. As demand increases and techniques become more sophisticated, health care costs, particularly those related to long-term nursing home care, will probably continue to be affected.

The baby boomers, the large cohort born between the mid-1940s and the early 1960s, are passing from their years of household formation into their peak productive years. They will probably begin saving more for their retirement. I look for their added savings to lead to an increase in the saving rate that will improve Americans' ability to finance our own investment and government financing needs. It should also allow greater investment in productivity-enhancing projects, which in combination with the cohort's maturing job skills should improve U.S. competitiveness.

Following the baby boom, however, is the smaller cohort called by some the baby bust. Over the longer term, there could be economic shortfalls associated with their life cycles. Already businesses are feeling the pinch in attempting to find workers for the entry-level positions this age group traditionally filled, especially in the service sector. This change could create wage pressures throughout American industry. In addition, further down the road, it will be more difficult for a smaller number of active workers to

support the larger baby-boom generation through its retirement. We may well feel the need over the next ten years to liberalize our immigration policies to open new sources of labor for American industries.

Implications for the Church

Together the three economic themes I have outlined can be expected to influence the way the Church orders its priorities in the remaining years of this century, and I would like to conclude by mentioning a few of the possibilities I foresee. First, I think that today's movement toward the globalization of markets could help achieve some of the worldwide goals the Church has traditionally sought. The spread of free market structures across national boundaries could promote greater peace and better living standards for all the world's people.

The search for new sources of labor can also ultimately increase employment opportunities in less developed countries. However, we could also face the prospect of an ever-widening gulf between the world's haves and have-nots if an acceptable solution to the LDC debt problems is not found. Many countries with serious debt problems are in Latin America, one of the traditional strongholds of the Catholic Church. Their people have suffered declining living standards and social disorder in recent years, and they have been able to make little progress in preparing themselves for the information-oriented economy of the future.

Proponents of what is known as "liberation theology" believe that a blend of the Christian faith and Marxist economic and political doctrines could somehow cure such ills, but this to me is a misguided course. To be sure, in order to get their economies rolling, many of these countries need to move away from authoritarian governments that tend to protect favored industries from outside competition. But as Cuba, Nicaragua,

and virtually every other Communist experiment have shown, Marxist-style controlled economies do not better in meeting the needs of consumers. Still, until the hard-pressed people in the LDCs can see some hope of relief, the Church will likely continue to experience the internal tensions posed by liberation theology and also find its resources strained in the LDCs as private sector institutions are called upon to help with basic services that governments do not provide.

Continuing fiscal deficits in this country also carry implications for the Church's social and financial interests. Deficits have already led to cutbacks in the types of social programs the Church values, and it is unlikely that this situation will change in the near future. The Church is already an important provider of education, especially in the inner city, where parochial schools have been an extremely positive force. With government spending all but frozen, it could fall upon the Church to lend even greater assistance in meeting such educational needs as well as doing more to address problems like homelessness and hunger. At the same time, the possibility of slowing increases in U.S. living standards as we pay off foreign creditors may reduce the pool of discretionary income that supports the Church.

The idea of taxing Church properties or reducing exemptions for giving may also gain adherents. Personally, I would not like to see either of these proposals adopted. I believe that the Church must maintain its position outside political structures, where it can provide a frame of reference for the moral implications of our actions as individuals and as a nation. However, if we cannot cut other programs, we may have to raise taxes to bring the budget deficit into line. Of course, this approach, too, could cause a decrease in discretionary income and so affect Church revenues.

The potential effects of demographic changes are harder to predict. The anticipated increase in numbers of the frail elderly is one development that promises to place new demands on the Church to add to its facilities for supervised housing and long-term care. If we need to seek outside our borders for workers in the wake of the baby bust, helping immigrants adjust to America--and native Americans adjust to immigration--might be another cause the Church would find itself asked to undertake.

However, I feel that now as in the past the spiritual needs of people at all levels of our complex and fast-moving society remain the greatest challenge for the Catholic Church and other religious institutions. I am disturbed by the progressive ethical impoverishment that seems to have infected our society at the same time we are attaining higher levels of prosperity--the decay of ethics in politics and business, the escalation of drug and alcohol abuse, the savagery of crime, broken families and bruised children, homelessness--all these things seem so incongruous with the wealth we have been able to achieve. Religious institutions must help bring us to peace with ourselves, and this may require you to commit resources to developing new methods for spreading the Church's message.

Conclusion

In conclusion, globalization, federal deficits, and demographic shifts will continue to influence the U.S. economy through the last decade of this century. It will also affect the way the Church conducts its spiritual work and its business activities. I think that in spite of many difficulties to overcome, mankind has the possibility of leaving the twentieth century far better off than we entered it, at least in terms of our physical well-being. However, the work of the Church will not be diminished should we achieve greater physical comfort--the social problems we experience in this extraordinarily wealthy country of ours makes that all too apparent. Thus while I expect the Church to

be called upon to use its economic resources in new ways in the coming years, the basic mission is essentially unchanged: providing the inspiration that makes each of us work for the betterment of all of us.