Laudato Sí

Last week, the Vatican held a meeting of the mayors of some of the world’s largest cities to discuss climate change. This meeting was part of Pope Francis’s efforts to add to the discussion of climate change, which was the subject of a recent encyclical, Laudato Sí. In this report, we will begin with our position on climate change, discuss the encyclical and try to measure its potential impact on the direction of climate change policy. As always, we will conclude with market ramifications.

Climate Change
Since we began writing the Weekly Geopolitical Report in 2006, we have mostly avoided discussing the topic of climate change, although we have been monitoring the issue for years. We did examine geoengineering⁴ a few years ago and have looked at El Niño⁵ as well. There are a number of reasons why we have been reluctant to take on this topic. First, we are not climate scientists and the science involved is quite complicated; in general, our concern was our inability to accurately evaluate the methods and conclusions. Second, the topic is highly emotional; usually, we are willing to delve into controversial topics, but, without clear scientific or political consensus on the matter, it was unlikely that we could add anything to the discussion. In fact, the lack of global consensus was behind our initial report on geoengineering: if a consensus failed to develop, states and others might be inclined to take matters into their own hands and use geoengineering methods to affect the climate.

If one accepts that climate change is mostly caused by humans burning too many fossil fuels, the problem is figuring out the best way to reduce that consumption. The temptation to “free ride”³ the cuts in consumption is very strong. Every nation can come up with good reasons why it should be spared from reducing consumption while other nations should bear the brunt of the change. There is no supranational body that can consistently enforce international law. Even if a supranational law is agreed on, enforcement, outside of either a hegemon leading the attack or a U.N. body creating an “international force” (for which there will be free riding), is almost impossible. Although treaties may be made, history shows that during recessions or other calamities, environmental rules will often be ignored in pursuit of growth. In addition, climate change probably has a stronger negative impact on future generations than those currently roaming the earth. The temptation is strong to force these costs onto the ultimate powerless (those who haven’t been born yet).

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³ An economic term used to describe an economic entity enjoying the benefits of a public good without paying for it.
It is our perception that the consensus of both right and left-wing elites is that anthropogenic climate change is real and a major policy issue. Right-wing populists most strongly seem to oppose the concept and left-wing populists appear neutral.

Our position on climate change is similar to other policy issues; although we have opinions, we don’t view them as important to our primary task, which is operating in the financial markets. If policy is going to lean toward reducing greenhouse gases, it is our job to adapt our investing to this reality. In other words, we see our role as accurately determining the evolution of policy trends and investing accordingly. We don’t expect to be able to affect the direction of policy.

From this perspective, the Papal letter adds to evidence that sentiment is shifting toward anthropogenic climate change. However, Pope Francis’s perspective on this issue is fundamentally different than the usual discussions of this topic. And so, it isn’t obvious that his solutions will gain much traction. We would expect supporters of policy change toward reducing the consumption of fossil fuels will try to use the Papal position to support their goals. We suspect they will find a broader reading of the encyclical frustrating in that the goal of the letter isn’t to support a particular political or policy position. Instead, its goal is to change society at its roots. Thus, the encyclical will add to the commentary about climate change but, due to its lack of a clear policy direction, will have a limited impact on steering policy in the near term.

**Laudato Sí**

Like most encyclicals, this one begins with a recap of related comments from other encyclicals and seminal Catholic documents. Unlike many Protestant religions, Catholicism holds that both scripture and tradition are sources of revelation and so it is important to show that previous popes and bishop councils have held similar positions. Of course, relevant scripture is quoted as well.

The key point of this encyclical is that environmental concern is simply one facet of a spiritual whole; disregarding the earth is part of general sin. In other words, the same sin that leads to abuse of the poor, the elderly and the unborn and the disregard for the powerless is also behind the environmental degradation that has led to climate change. However, this sin isn’t simply bad individual behavior; instead, its origin is found in the very organization of modern society.

Catholicism has never accommodated itself to the Enlightenment. The Enlightenment, which strongly influenced nearly all modern political, economic and social movements, contains several key ideas. First, the Enlightenment focused on relying on reason to determine truth. The scientific method is part of this process. Instead of following revelation or tradition in finding truth, these philosophers said that people should weigh the evidence and draw their own conclusions. Second, the Enlightenment philosophers argued that people should be able to find their own happiness; Thomas Jefferson’s “life, liberty and the pursuit of happiness” in the Declaration of Independence was quite similar to arguments made by John Locke in his *Two Treatises of Government*. The Enlightenment political figures tended to support democracy over aristocracy as a better way to expand people’s ability to find fulfillment.

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4 This isn’t universally accepted; it is quite possible that Jefferson was influenced by another Enlightenment figure, Adam Ferguson.
In terms of economic relations, David Hume and Adam Smith, who laid the groundwork for classical economics, were both Enlightenment figures. Hume discussed, in his Treatise on Human Nature, the “is/ought” problem. Essentially, moralists were involved in telling people what they “ought” to do instead of observing what they actually did. What Hume and Smith observed in human nature was self-interested behavior. Hume postulated that self-interest was a powerful passion, so powerful that it could only be contained by the self-interest of others. In Wealth of Nations, Smith argued that economic behavior was driven by self-interest, and to get others to provide goods and services, it makes more sense to appeal to self-interest than to benevolence or duty. In other words, Smith and Hume advocated an economic system that relied on what they observed about human nature, not one that was dependent upon behaviors rarely observed.

The principles of free markets and democracy became powerful forces in the West. However, this does not mean they were completely accepted. There were two counter-reactions, traditionalists who tended to support the aristocracy and the Church, and radicals, who opposed the disparities brought by capitalism. The latter group found its best expression in Karl Marx and the Communist movement.

Catholicism rejects both communism and unrestrained capitalism as dehumanizing. It argues that both systems create disparities and divisions, and tend to treat humans as instruments instead of people created in the image and likeness of God. If self-interest becomes the principal driver of economic relations, then one is less likely to be concerned if a barista has a sick child at home…coffee needs to be served. If the state becomes the sole master, the state will tend to become abusive. Pope John Paul II, intimately aware of the dangers of communism, stood as a bulwark against it. At the same time, he was also well aware of the dangers that democracy and capitalism posed. Catholic theology sees both systems as reductionist; they reduce the human person to less than his true nature, which is human but also divinely inspired. Pope Francis calls for a “new synthesis” to overcome the “false arguments of recent centuries.”

Pope Francis and earlier popes have contended that capitalism tends to limit the scope of human concerns and interactions and is thus disordered. Only until we recapture the wholeness of relations and create a “seamless web” of life will we be able to fully respond to the crises we face, including the current ecological ones. So, in Laudato Si, Pope Francis talks about a complete ecology that goes beyond policy prescriptions. He warns that without this conversion, people will be tempted to seek mere technological repairs instead of true change. He is concerned that technology has become viewed as an unalloyed positive and yet there are numerous instances where new technologies have become disruptive, dangerous, and sometimes used by the powerful in murderous fashion. He is critical that ethos of technology, the scientific method itself, can be limiting and “one-dimensional.”

Imposing the scientific method as an “epistemological paradigm” on all of human relations is partly to blame for the problems in the environment, one sign that the reductionism of this mindset is limiting in a dangerous fashion.

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5 Laudato Si, paragraph 121.
6 Ibid, paragraph 106.
7 Ibid, paragraph 104.
8 Ibid, paragraph 106.
For this reason, Pope Francis is skeptical of market-based solutions to climate change,\(^9\) fearing they will be used in ways that undermine the poor and allow the powerful to maintain their lifestyles. Instead, the best response is a broad change in attitude and heart, the creation of a true ecology of humans. This one would be centered on Christ and would use it to “limit and direct”\(^10\) technology in a way to benefit all of society. A proper human relationship with nature is one of “stewardship” as opposed to dominance.\(^11\)

**The Impact of *Laudato Si***

Perhaps the most potent counterargument to this encyclical is the simple fact that capitalism, democracy and technological change has improved the material well-being of millions.

For what shall it profit a man, if he shall gain the whole world, and lose his own soul?  

\(^{13}\) Mark 8:36,King James Version.

(Please note: The above text was condensed to fit this text field. For a full view of the original content, please refer to the Weeky Geopolitical Report – July 27, 2015, page 4.)
pleasure but raises the risk of obesity. When society adopted capitalism, democracy and the acceptance of technological innovation, the costs are the aforementioned problems. The challenge of *Laudato Sí* is the contention that mere technological fixes or policy adjustments won’t address the core issue which, in the mind of the pope, is the continued uncritical acceptance of the ideas of the Enlightenment. Fixing the environment requires repentance.

Of course, returning to the Middle Ages would carry its own costs, which would be less material well-being, even a potential Malthusian nightmare where food supply proves unable to meet the demands of a 21st century human population. But the pope believes that reverting to this model, or a new synthesis of the Middle Ages with properly assimilated innovations, will ultimately make us happier, better people.

**Ramifications**

Among global elites, there is faith in progress, best expressed in innovation and technology. The center-left believes that governments do the best job in managing progress; the center-right believes that markets do the best job. The above discussion should make it clear that Catholic thought, as expressed by the teaching authority of the Church through the pope and the bishops, believes differently, that modern “progress” really isn’t an improvement of the human condition.

Often, the global elites will use encyclicals and other Catholic documents that support their positions. The center-right was a fan of Pope John Paul II, mostly due to his anti-communist stance. His experience with the problems of communism informed his world view and thought. The center-left is taking a liking to Pope Francis for his positions on the environment and other comments about social issues. The current pope is a non-European, informed by the “north/south” divide and the history of European colonialism. However, a closer reading of Catholic thought should give neither side comfort. The message of the Church is in opposition to the modern world that emerged from the Enlightenment.

We continue to closely monitor social, economic and political trends on climate change. Financial and commodity markets are already adjusting to potential policy changes. The collapse of coal-related equities is due, in part, to tighter environmental regulation. It is highly possible that the Saudi decision to expand oil output into an oversupplied market may be due, again in part, to worries that oil may be the next target for regulators. By cutting the price of oil, the opportunity cost of using alternative energy sources increases.

However, due to the sweeping changes demanded in *Laudato Sí*, we doubt it will have more than a passing impact on this debate. If the consensus of elite opinion moves to restrict carbon, which could occur, Pope Francis’s encyclical would contribute to that effort. However, it will not likely lead to global elites abandoning the Enlightenment.

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