

Towards a financial education geared to common good:

Some preliminary proposals

PAUL H. DEMBINSKI¹

OBSERVATOIRE DE LA FINANCE (GENEVA) & UNIVERSITY OF FRIBOURG

1. The context – education, for whom?

- (1) In his remarks to the CAPP Consultation in September 2013, Archbishop Martin wrote « Economics cannot be based on individual or corporate profit alone but has responsibilities towards the common good » and, in the closing paragraph, he stressed that « economists can and must be men and women of vision ». The question thus facing us is to be more specific on how the education of economists and financial managers could/should contribute to make this happen.
- (2) Number of reports and analyses of the financial crisis have identified insufficient financial literacy as one of its significant causes. In response to this diagnosis, financial education is nowadays often seen as an important tool of crisis prevention. For this reason, at the G20 meeting in St Petersburg (July 2013), Russian Presidency and OECD working under G20 mandate, have presented a document devoted to *Advancing National Strategies for Financial Education*². Introducing this report, M. Angel Guria – Secretary General of OECD – writes: “Thus, effective financial education can equip our citizens with the skills to take advantage of available financial services and to better assess the (financial) risks they confront. Financial education is also critical to restore trust and confidence in the financial system, promote financial stability and provide the necessary public backing to financial reforms. “
- (3) Clearly G-20 & OECD see financial education a means to reduce the asymmetry of understanding (not of information) between the sellers and users of financial services and provide stability to the whole construct. Despite the importance of this endeavour, even an utmost financial literacy would be of little help in responding to the challenges identified by Archbishop Martin. His remarks challenge the very foundations of the contemporary economic and financial construct. Therefore, when speaking of education in this

¹ Warm thanks to M. François-Marie Monnet and to Etienne Perror s.j. for their comments and remarks on an earlier version of this paper.

² http://www.oecd.org/finance/financial-education/G20_OECD_NSFinancialEducation.pdf

context, target groups of educational effort are much narrower than the general public: future and present designers of products, managers or board members, regulators and broadly understood politicians in charge of economic and financial matters.

2. Thinking « out of the box »

- (4) According to the Congregation for Catholic Education schools and universities ought to be places “where people learn how to live their lives, achieve cultural growth, receive vocational training and engage in the pursuit of the common good; they provide the occasion and opportunity to understand the present time and imagine the future of society and mankind.” Then the document spells out more specifically the mission of Catholic institutions : “At the root of Catholic education is our Christian spiritual heritage, which is part of a constant dialogue with the cultural heritage and the conquests of science; Catholic schools and universities are educational communities where learning thrives on the integration between research, thinking and life experience.”³
- (5) When searching for ways of renewing financial and economic education one has to keep in mind that for each audience a subtle balance has to be maintained between two fully legitimate aspirations. On one side, the transfer of existing knowledge which will enable new generations to earn their living, i.e. be productive under present organisational settings while contributing incrementally to increase their efficiency. On the other hand, the provision of critical tools and perspectives enabling to imagine and initiate organisational, structural or product change. While such a perspective may put short-term efficiency at risk, it may also pave the way for a better – in moral terms - future of society and mankind. While the first consideration is conservative, the second is potentially disruptive. On the balance, the purpose of the renewed educational effort should be is selective imitation and vision rooted in Christian values.
- (6) The fact that present-day university and business school education in finance, management and economics is largely inadequate to cope with current (and future) challenges has been widely diagnosed by a large spectrum of authors. Many see the main cause of this failure in the broad intellectual paradigm which provides roots and justification to much of the dominant worldview and practice in economic and financial matters. This paradigm is so natural to most scholars and practitioners who are at pain to take the necessary distance so as to give it a name. Indeed, the simple act of naming the paradigm would, on one side, be emancipatory but on the other disorientating as the references, natural until then, would automatically be put in jeopardy. For the time being, let us call the dominant paradigm the “efficiency

³ “Educating Today and Tomorrow” – Instrumentum laboris, 2014, consulted at http://www.vatican.va/roman_curia/congregations/ccatheduc/documents/rc_con_catheduc_doc_20140407_educare-oggi-e-domani_en.html

paradigm”.

3. An oppressive paradigm

- (7) In consequence, the first task of any educational effort in line with Archbishops demands, is to be an “eye opening” exercise that would push the audience outside of the paradigm – worldview and praxis. By doing so some distance, necessary for any critical or creative thinking and action, should be created. This can be done by addressing any of the four main characteristics that lock the paradigm and make it almost impossible to be challenged from within.
- (8) First, the paradigm is scientist and a-historic in the sense that the knowledge it generates is supposed to be progressing continuously towards the ultimate understanding of the universal, i.e. a-historic and a-cultural, “laws” of economic life. The practical dominance of the paradigm over curricula is visible in the overall trend to replace courses in economic history or history of economic thought by classes in empirical methodology used for “testing” the predictive power of theories by (highly quantitative econometrics) theory – methodology. Whereas history might give students the sense of plurality of approaches and possible inspirations, empirical methodology reinforces the scientist pretension to “objectivity”. The same slightly destabilizing effect can be achieved by courses focusing on descriptive statistics that would sensitize on the fact that many different ways exist for quantifying the same reality. In consequence, in order to lessen the paradigm grip over student audiences is to re-establish and reinforce reality - related teachings, especially the history-related once. The reading of works – not only excerpts – of classical authors in economics and finance should also be recommended.
- (9) Second, the paradigm pretends to be purely positive, as opposed to normative, and by the same token “value-free”. In fact, any in-depth epistemic debate within the dominant paradigm in economics has ceased in late 1960’s; it barely existed in finance which crystallized as an autonomous field of economic knowledge about the same time and is emerging only now in management. This means, that in normal curricula the fundamental notions like “reality”, “quantification”, “model” not to mention “human being” or “enterprise” are defined once for all but not discussed in the light of variety of their meanings or in a critical perspective. The philosophical, sociological or ethical content of these fundamental notions is simply ignored. In this sense, the economic sciences are autistic, unwilling and unprepared to any kind of interdisciplinary dialogue with philosophy or ethics, and broadly understood social and human sciences. In consequence, any opening that curricula may make in the direction of epistemic and ethical discussions of fundamental hypothesis on which the paradigm stands, will allow audiences to better understand the (often outrageous) simplifications – including the ethical ones – contained in the acquired knowledge.

- (10) Third, the paradigm is totally individualistic and strictly utilitarian. The epistemic status of homo oeconomicus or homo financierius is still unclear: is it an abstract construct devoid of pretensions to represent reality, or is it a model capturing the essentials of human nature. Despite this lack of clarity, most of the current reasoning and theorizing – including most of Nobel Prize winners - is based on “the conventional assumption that people behave rationally and selfishly”⁴. Sticking to this assumption, has devastating practical results as the subliminal message is that it captures the essential and universal truth about human nature. In consequence, selfish activity is often seen as a tool of liberation from oppressing institutions or cultural constraints. On the macro level, the general interest – as the sum of individual satisfactions or utility levels – is used as the yardstick for overall efficiency. Greater the overall increase better the outcome, irrespective of underlying distribution of losses and gains. This anthropological – micro & macro - stance has nourished a wide imperialism of this economic paradigm which has invaded field as distant from economic & finance activity as family or political life. Only by dissecting the construct of homo oeconomicus and its followers in the light of alternative anthropologies, specially the Christian one, can an audience take full account of the perverse – because nourishing distrust - economic, managerial and financial consequences of this otherwise seductive and powerful thinking.
- (11) Finally the fourth aspect of the dominant paradigm is it's prescriptive and – even in some cases – performative power. It is performative when the model based conclusions immediately become realities and influence practical business decisions without due account has been taken of the underlying, often simplistic, assumptions. The case of finance, is a good illustration as since its inception in 1950s, the model-based conclusions have been implemented and become standard business solutions. This is particularly true in risk metrics and in portfolio management. This knowledge has laid the foundations of modern markets, products, institutions and regulations. In finance, as nowhere else, the intellectual conception of some tools and products — such as option pricing formula – was instrumental in bringing them almost immediately into being. The prescriptive power of the paradigm contributed to spreading out into real life of utilitarian, egoist and even deceptive behaviours which, as some studies suggest, have become the social “norm” in some portions of finance. The production of knowledge which is potentially performative or prescriptive confronts the researchers in these with special responsibility for the reality they might contribute to create. Such situations require specially serious and mature ethical judgment. The invention of securitization techniques is good case in point.

⁴ Royal Swidish Academy of Sciences « Scientific Background on the Sveriges Riskbank Prize in Economic Sciences in Memory of Alfred Nobel 2014 » p. 44

4. Ways ahead

- (12) This short description of the main shortcomings of the “efficiency paradigm” suggest the main directions in which the curricula should be enriched, or more precisely rebalanced. At each level of education, starting with the college or bachelor degrees, the relevant “equilibrating” insights have to be introduced as core elements (as opposed to marginal or electives as it is often the case now) of the curricula. At master level, the explicit dialogue or confrontation with other disciplines, their findings and methodologies should become part of the agenda. In doctoral studies, the confrontational dialogue has to be actively encouraged on all four fronts: epistemic, ethics, history and social sciences including anthropology.
- (13) At all levels the adequate balance between potentially productive and disruptive knowledge has to be found. Here the responsibility of teachers is immense. They have to distil as much critical content as the audience can cope with without falling into depression. Probably, Christian higher education institutions and business schools should initiate such a rebalancing of curricula while clearly communicating the reasons for it to their constituencies.
- (14) The content of executive and advanced professional education should also be re-examined in the perspective of the preceding remarks. These audiences have a first-hand knowledge of business realities but often lack conceptualisation tools. A collection of causes related to real dilemmas should be assembled (or developed) in order to help adult practitioners to “think out of the box” of the dominant paradigm and be able to promote innovative solutions in line with Christian values.
- (15) Another effort should be made to promote pluralism of approaches within schools and faculties of finance and economics at research level. This relates to the promotion policies and institutional solutions that enhance trans-disciplinary projects. A recent manifesto by likely minded teachers and researches – including two members of our group - has summarized the different avenues – it is to be found in the appendix.
- (16) At this stage a warning is required. It has been articulated by prof. Etienne Perrot s.j. who kindly agreed to comment on a previous version of this note. “One should not be misled by thinking that it will suffice to include in a curriculum a course in scholastic philosophy or moral theology. In fact, a discursive knowledge of values will not automatically turn them into a principle for action. Such a discourse is more a justification of action than a true motivation. Students in all audiences have to discover in themselves the fundamental drivers of human action. This can be achieved only through an active pedagogy confronting students with dilemmas where they have not only to find the “best way” but to justify why spontaneously they have chosen this road in comparison to other alternatives. Teachers will need to provide a critical perspective because only in such

case the students will discover their margins of freedom, they will not confuse reality and sheer formalisation. This being said, a Christian education has to go beyond the simple instrumental rationality which links means and goals, it has to extend to the weberian substantial rationality which links the instrumental rationality to what gives sense to goals and objectives. And sense is given by values, sentiments and imagination. In substance what is needed it that each student experiments his own singularity when confronted with precise situations and his freedom which allows him to overcome professional or other conditionings. This is the only way to neutralize the performative nature of the paradigm.

- (17) Obstacles will be many. Resistance will come from two main directions: establishment in the field of academia and establishment of the business community. Institutions that would embark on the road to critically rebalancing their curricula have to be prepared to being ostracized by their fellow institutions, while single teachers or researches may discover – as some of them already did - that their fundamental options have unexpected consequences in terms of acceptance of their writings for publication or in terms of their career. These obstacles are serious, overcoming them requires courage, but also enhanced collaboration among likeminded institutions, researchers, professors and doctoral students. The construction of career tracks for young scholars is in this respect critical.
- (18) The difficulty for graduates on the labour market may also be significant but, the corporate cultures are many and some of them are changing. As long as graduates will be able to demonstrate good professional skills, they will find jobs but possibly not in any institutions.
- (19) Will these changes in curricula suffice to change the dominant paradigm on which operates our profit geared economy? Will this allow to make a visionary out of every manager or economist, will their visions be rooted in Christian values? This is far from certain but is a duty for those committed not only to teach the truth about economics and finance but to the Truth of the Gospel.
- (20) In early 2001, when closing the celebration of the Jubilee, JP II remained us the words of the Lord “Duc in Altum”. Today these words may apply to education in economics and finance which has to be prudently steered across uncharted waters for the sake of better serving the common good. All practical steps require enhanced collaboration not only among Catholics, but more broadly among Christians who share the same anthropological foundations.
- (21) Possible practical steps – (a) engage on these issues Catholic and Christian universities and business schools, possible also the Vatican Congregation for Catholic Education, (b) build an alliance of like-minded institutions to develop joint research & teaching projects, case studies, career tracks; (c) search for alliances in business world so as to give to this work a practical

dimension and jointly develop relevant executive education and management seminars.

- (22) Among inspirational examples – the one reported recently by FT October 10, 2014 “Justin Welby invites financiers to join quasi-monastic community by Michael Stott “Wanted: thoughtful young bankers, bound for the top but willing to spend a year along the way in prayer and service to the poor. The Archbishop of Canterbury, Justin Welby, wants to help change the culture of the financial services industry by offering places in a new quasi-monastic community to be created in a corner of his Lambeth Palace residence. There, budding bankers and other future leaders aged 20 to 35 will spend 12 months “in God’s time” under a prior studying ethics and philosophy, praying and serving the poor. The archbishop will be abbot of the community, which will take the name of one of his predecessors at the see of Canterbury, St Anselm. A former oil industry executive with a longstanding interest in business ethics, Mr Welby will talk about his initiative during a panel discussion at the International Monetary Fund’s annual meeting in Washington on Sunday with Bank of England governor Mark Carney and fund managing director Christine Lagarde”.

Appeal of teachers and researchers:
**« Renewing the research and teaching in finance, economics and management
to better serve the common good»**
(Genève-Fribourg-Zürich mars 2011)

- (1) The authors of this appeal are deeply concerned that more than three years since the outbreak of the financial and macroeconomic crisis that highlighted the pitfalls, limitations, dangers and responsibilities of main-stream thought in economics, finance and management, the quasi-monopolistic position of such thought within the academic world nevertheless remains largely unchallenged. This situation reflects the institutional power that the unconditional proponents of main-stream thought continue to exert on university teaching and research. This domination, propagated by the so-called top universities, dates back at least a quarter of a century and is effectively global. However, the very fact that this paradigm persists despite the current crisis, highlights the extent of its power and the dangerousness of its dogmatic character. Teachers and researchers, the signatories of the appeal, assert that this situation restricts the fecundity of research and teaching in economics, finance and management, diverting them as it does from issues critical to society.
- (2) This appeal is public and international and it may be seen as part of a broader framework of convergent initiatives. Under current conditions, the academic world cannot be expected to train the open, innovative, responsible minds that are required for facing current and future challenges. This situation is restricted neither to Switzerland nor to Europe. Research on economics, finance, and management ought to contribute to the common good and avoid complacent analysis about the supposed benefits that the economic system may derive from of financialization of economic and social activities driven by the alleged benefits of financial innovation and speculation.
- (3) Professors, lecturers and researchers have been entrusted by society with the task of serving the society through their search for a better understanding of reality. Only in this context does academic freedom have a real meaning. Such freedom entails a responsibility and not a mere license. Today the major priorities for research in finance, economics and management should be to examine their foundations as well as the implications of these foundations for practice in light of the events that led to the financial crisis. Only on the basis of such an examination will it be possible to design policies and remedies which lead to a balanced functioning of the economy.
- (4) It is imperative to go beyond discussions between specialists with a similar cast of mind. Inevitably such discussions are likely to fall short of a critical examination of premises. The present situation requires the opening of the disciplines of economics, finance and management to a fundamental questioning, free of the trammels of the dominant conceptual framework, which is required for their regeneration. However, such efforts face strong resistance within the academic world and must therefore seek external support. Affirmation of the need of the disciplines of economics, finance and management for plurality of approaches entails debate concerning these disciplines' epistemological, ethical and anthropological foundations.

- (5) As trustees of the confidence of citizens and as producers of ideas that influence attitudes, behaviours and policies, we wish to draw the attention of public opinion and politicians to the fact that the conditions required for the responsible carrying-out of our mission are missing. This appeal is addressed, on the one hand, to students, researchers early in their careers, colleagues and economic actors and, on the other hand, to those with essential roles in the management of academic education and research such as rectors, presidents and deans of academic institutions, and administrators of research funding. All these parties have role to play in to ensuring the fulfilment of conditions for a fundamental regeneration of our disciplines and for the required return to Intellectual pluralism.
- (6) Teachers of higher education, the signatories of this appeal, wish to suggest some courses of actions that would promote such pluralism, the only defence against the risk of blinkered dogmatism and the misguided loss of intellectual and political direction which is the result of this dogmatism.. These courses of action include:
- Undertaking a critical retrospective review of recent teaching and research in economics, finance and management with the aim of raising awareness concerning the relevance to society of work in disciplines which are supported by public funding. Academic freedom cannot be a justification for teachers and researchers to ignore their broader social responsibility.
 - Actively promoting interdisciplinarity at institutional level through the encouragement of enhanced communication, of opening dedicated institutional spaces and fostering links between academics in different disciplines.
- (7) Conditions have to be created to make intellectual pluralism a reality at all levels of the academic hierarchy--through measures such as the following:
- Consideration should be given when recruiting new academic personnel to their interest in broader socio-economic problems as well as in issues bearing on the equity, stability and sustainability of the economic and financial system.
 - The criteria for the evaluation of research should be expanded to include practical relevance and willingness, manifested in publications, to tackle interdisciplinary themes. Such an expansion would counterbalance existing criteria which attribute overwhelming importance to the number of publications in a limited number of highly rated, monolithic journals.
- (8) Subjecting prevailing main-stream thought to reasoned criticism is a scientific duty. Such criticism makes possible progress towards the goal of intellectual pluralism in the disciplines of economics, finance and management, an intellectual pluralism which is essential to the capacity of these disciplines to enrich public debate and to clarify the nature of policy choices.

This appeal with the identity authors is accessible on line in different linguistic versions (the original is in French) at the website of the Observatoire de la Finance (<http://www.obsfin.ch/>) and on the blog <http://www.responsiblefinance.ch/>.

Comments and signatures may either be posted online to the above mentioned blog or send by e-mail to manifest@obsfin.ch.

The authors of this appeal are the following (5 of April 2011) :

| <u>Titre/Prénom/Nom</u> | <u>Institution d'attache</u> | <u>Pays</u> |
|---|--------------------------------------|-------------|
| Prof. Hon. Claude Auroi | IUHEID - Genève | Suisse |
| Prof. Heinrich Bortis | Université de Fribourg | Suisse |
| Prof. Marc Chesney | Université de Zurich | Suisse |
| Prof. Paul Dembinski | Université de Fribourg | Suisse |
| Prof. Denis Dupré | Université de Grenoble | France |
| Prof. Rajna Gibson | Université de Genève | Suisse |
| Prof. Jean-Christophe Graz | Université de Lausanne | Suisse |
| Em. Prof. Chris Lefebvre | Université catholique de Leuven | Belgique |
| Prof. Rafeal Matos | HES Sierre | Suisse |
| Em. Prof. Claude Mouchot | Université de Lyon 2 | France |
| Prof. Alfred Pastor | IESE - Barcelone | Espagne |
| Prof. Étienne Perrot | Institut catholique de Paris | France |
| Prof. HES Marie-Françoise Perruchoud-Massy | HES Sierre | Suisse |
| Prof. Frédéric Poulon | Université Montesquieu – Bordeaux IV | France |
| Prof. Birger P. Priddat | Université de Witten/Herdecke | Allemagne |
| Gilles Raveaud | Université Paris 8 Saint-Denis | France |
| Maître de conférences | | |
| Prof. Sergio Rossi | Université de Fribourg | Suisse |
| Prof. Jean-Michel Servet | IUHEID - Genève | Suisse |
| Prof. Milad Zarin | Université de Neuchatel | Suisse |

5th of April 2011