FONDAZIONE CENTESIMUS ANNUS – PRO PONTIFICE

International Consultation onThe Debt Crisis, Financial Reform and the Common Good

27-28 September, 2013

Casino Pio IV (Pontifical Academy of Sciences) – Vatican City

Short Summary

The aim of this consultation was to reflect on the conditions and the possible results of a dialogue between Church leaders and moral theologians, on the one side, and academic economists, central bank leaders, professional bankers and investors on the other. About 50 personally invited participants were asked to reflect on the following question: the Church, specially Pope Francis, is making urgent appeals for a correction in the way the world economy works, to give full status to solidarity and to design governance in a way which corrects injustice; is it possible to build a bridge between these general appeals and the real decisions which policy makers and finance professionals have to face in the very difficult present context of international financial reform?

The *Centesimus Annus – Pro Pontifice* published a report on the risks of financial globalization as early as in 2000; at the Foundation's 2012 annual meeting in Milan, several participants, including Cardinal Scola himself asked if it was not a special duty for the Fondazione *Centesimus Annus – Pro Pontifice* to help elaborate a better rationale of the present financial disorder, so that most people could start to feel really responsible, rather than a mere link in an incomprehensible chain of events.

- An appalling initial diagnosis was made by the Archbishop of Dublin, Monsignor Diarmuid Martin: the recent history of Ireland, from a triumphant liberalized economy into its present state of financial near-failure, economic recession and social regression, is a sad example of the consequences of the financial crisis. Archbishop Martin also drew on his past experience in international organizations to underline how difficult it is to define world governance in the present inter-governmental institutional set-up. His appeal for ethics in the market economy and a new way in international finance was echoed by many of the following interventions.

- A number of papers from distinguished academic economists (Profs. Quadrio-Curzio, Dempster, Coffman, Medova, Marseguerra, Giraud, Dembinski, Pastor, Garonna) showed that, although there is no unanimity on its causes, it is now possible to find a consensus on what happened since the crisis began in 2007 in the United States. There were always economic cycles and asset bubbles, but some are worse than others and this is certainly the worst since the 1930s. It seems clear that some useful financial innovations (derivatives and credit swaps) were turned away from their original functions to become purely speculative products; in some places this combined with a highly leveraged housing bubble. But it also must be said that the financial operators (banking and 'shadow-banking') were trying to satisfy a real demand for security and high returns, while supervisors did not stop the process; the needs of an older population with high pension entitlements is also a new relevant factor for the expectation of high investment returns. Thus responsibilities of events must be shared by many actors.
- Contrary to the East Asian debt crisis of 1997, where quick reforms were imposed, sometimes using 'second best solutions' (Prof. Estanislao, Manila), the US and European financial mess is taking a long time to repair. The reduction of the mountain of private debt, partially transformed into excessive public debt is being approached so far by putting the burden on debtors only. European economies are obstructed by a continued 'credit crunch' while ailing banks are artificially maintained. Debt rescheduling, which could have important redistributive effects, is delayed due to the impossible decision of 'who' should support the cost. In the meantime, unemployment, and specially youth unemployment remains devastatingly high.
- In the case of Europe, any judgement on the way the Eurozone is slowly struggling out of this situation should not ignore the great progress made in the last five years in a co-operative, supranational institutional effort at financial governance, which presently translates into the necessary banking union project (J. Bonnici, JM González-Páramo). This must be complemented by pragmatic reconstruction efforts oriented, for example, at helping small and medium-sized businesses to find non-banking financial sources. A special mention was made of the European Financial Fund and the EuroUnion Bond guaranteed by real assets, as proposed in 2012 by prof. Quadrio-Curzio with Romano Prodi.
- The supervision errors of the past are being compensated now by additional rules imposed on the financial sector. But this 'top-down' approach has its limits: a proliferation of new rules could contribute to further de-humanize finance instead of repairing its past errors (S.

Fieler). One of the aspects where one may sometimes expect more decisive talk from the Churches is that of clearly sanctioning corruption and illegal action cases.

- A constructive approach is also getting support among a growing number of financial professionals, convinced that “ethics, moral values and prudence need to be seen at all levels”. A new banking philosophy is appearing in some large financial groups, based on corporate social responsibility and a conviction that only long term goals will ensure the sustainability of business (F. Vanni d’Archirafi). Examples were given where large banks actively try to care for the needs of globalized urban poor populations in an effort which might turn decisive in the world-wide fight against poverty; in fact a number of large companies are already involved in the debate on the new Millennium Development Goals at the United Nations.
- Can ethical questions raised by the Churches help the international decision process on financial reform? An example of a fruitful dialogue was given by Can. Mark Oakley (Church of England): in London, at St. Paul’s Cathedral, the Archbishop of Canterbury recently took the time to speak to thousands of City employees and students, together with Catholic Church leaders. Monsignor Toso reminded that the Pontifical Commission for Justice and Peace subscribed to a number of detailed governance proposals two years ago, some of which are being applied by governments. From a more fundamental perspective, Church leaders can contribute ideas for a radical rethinking of economic life when inspired by the logic of gift and family life (Mons. Melina) or the idea of subsidiarity, which sheds a revealing light on the present limitations of nation-states (Prof. Diotallevi).

As a conclusion, the ambition should be that of “building a globalization of concern and solidarity against the globalization of indifference” (Mons. Martin, quoting Pope Francis). This conference was a true effort at removing prejudice and building dialogue: as a follow-up, it might be worthwhile thinking on how to support and outline the details of a new way in finance. This initiative should always be based on strongly informed, competent and self-critical contributors from different circles, including Church leaders, in a common effort towards finance serving the common good.