<u>SPEAKING NOTES FOR TRANSLATOR USE ONLY</u>

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International Consultation
THE DEBT CRISIS, FINANCIAL REFORM AND THE COMMON GOOD

Speaking notes of
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I must say that I was somewhat surprised when I receivedtheinvitation to take part in this International Consultation. I am not an economist nor an expert in financial markets. My reflections will therefore be personal rather than scientific and I will be asking more questions than giving answers.

It is true that for a large part of my life, as Under-Secretary and later Secretary of the Pontifical Council for Justice and Peace, it was part of my work to follow international financial questions and in particular the activities of the International FinancialInstitutions. I had wide experience in working within the United Nations system and later became thePermanent Observer of the Holy See at the World Trade Organization as well as at the United Nations Office in Geneva with responsibility for following, among other institutions,ECOSOC and UNCTAD, the World Intellectual Property Organization and The International telecommunications Union, all of which were vital listening posts about what at that time was talked about as the New International Economic Architecture. That term"Architecture" is interesting. It implies that the world economy was not considered an integrated system, but an interconnected network of varying supports and strengths and importance. Interdependence was recognised, but power and strengths were not equal or at times even relevant.

But that was all ten years ago. For these last years my task now has been to be Bishop of a large diocese, in which almost one third of the population of Ireland lives. It is a challenging task to address the changes that are taking place in society and the effects that they have on evangelization. A busy bishop has much to do and little time to be an armchaireconomist.

However my experience in Dublin is unique also from the point of view of the current economic situation. For many years as an Irishman I was warmly greeted as someone from a country which had worked an economic miracle, a model for all similar countries to follow. Ireland had witnessed years ofgrowth. It had attracted high-quality foreign direct investment. Unemployment was at an all time low. Successful emigrants were returning from abroad because Ireland offered a family friendly environment for their children. Ireland for the first time in its history became a country of immigration. I have in the Archdiocese of Dublin over 70,000 Polish bornimmigrants who over the past ten years came to a country where, asthe Polish Ambassador told me,traditionally there were around 300 Polish citizens.

People asked what the secret of this economic policy was. There were a number of factors which could be pointed to. The first was that Ireland had opened its markets. That opening of markets went back toa courageous decision taken now almost half a century ago, when Ireland moved from being a highly protectionist economy with a strong nationalist dimension, to become one of the most open markets in Europe (and also then very much a culturally open society)It certainly was not a painless decision at the time but it opened the way for Ireland’s entry into the European Union, to being able to decouple its links with Sterling and then to enter into the Euro zone,withoutits big neighbourthe United Kingdom. There were also human factors: Ireland had a highly educated and very adaptive workforce whichwas spread well across the national territory. The Irish were outgoing and optimistic and even Christian, all factors which helped spread a positive and feel-good climate.

Today things have changed. I am no longer so warmly welcomed. I try to lie low to escapeanswering questions about how this successful economy could have collapsed into a situation in which the country had to seek a bailout from a Troika formed by theIMF, the European Central Bank and the European Commission. All the major Irish banks have had to be taken over and guaranteed by the government. Elements of disastrous and unscrupulous management of banks have emerged. The construction industry had gone into an uncontrolled boom. We have hundreds of thousands of new housing units which have never been occupied. House prices then tumbled. A spate of property developers went dramatically bankrupt. House owners became ever more indebted and the reduced value of their property has left them in negative equity. The complexity of many shady operations, many of which involved widespread international operations, are so hard to document that judicial processes will take many years, if ever, to reveal what took place.International financial transaction take place virtually and rapidly and an old-fashioned paper trail is hard to identify and to verify, even by expert investigators.

Ireland's stock of bad household debt is a major impediment to the country's economic recovery as it prepares to complete its EU/IMF bailout this year, and there remains a risk that the government will have to inject further capital into its lenders. One in five Irish home loans, worth 25 billion Eurosare not being fully repaid. Irish people owe €37,572 per capita – the lowest level of personal debt since October 2006. Household debt as a proportion of disposable income only changed by 0.1%, however, to 197.3% because incomes also fell.

The control of the Troika is such that officials come to Dublin each week to verify if the programmes of imposed austerity are being followed to the letter, especially in the areas of public expenditure which cost most. Sadly these are the human dimensions of social protection and education and health care. Certainly there was room for control of expenditures in those areas, but it is also important to remember that the educated workface which was at the heart of Ireland’s earlier success was in no small part due to the quality of our education and health system. Now the coming generationwill have a more limited access to those factors which foster innovation and creativity which are at the centre of a knowledge based economy. There is enormous resentment that the effects of a financial crisis are being paid by those who need social support. We are in that situation recalled by Pope Benedict when he addressed the problem of unemployment and economic marginalization in *Caritas in Veritate.* He expressed his anxiety about “a downsizing of social security systems as the price to be paid for seeking greater competitiveness...[while overlooking the priority of the goal of access to steady employment for everyone".

Today unemployment, especially youth unemployment, is rising. Emigration has returned in great numbers. Just over one year ago theAnnual Congress of the former ruling political partyhad to share a large convention centre with a Canadian sponsored job market, inviting talented and qualified young people to emigrate. There were more candidates for emigration than delegates at the political party congress.

What happened to bring about this change and its social and human consequences? Certainly some factors were external to Ireland, as the crisis was not limited or limitable to any one country. The deeper question is why was what was happening not noticed. Where were the regulators? One could suspect that sometimes the regulators were in bed with the construction developers. But beyond regulation there was also the more fundamental question as to why in the culture of better-times-Ireland as a society and as an economic model very few adverted to the fact that the success and the sustainability of any economic model ought to have been evaluated in terms of the long term sustainability of jobs, mortgages and borrowing, of life style, of education and health care and sustainable opportunity for young people. Reflection on the economy had become decoupled from what the real purpose of an economy was and the people it was supposed to support.

In the 1990’s, at the height of the popularity of theories of “small government”, I remember giving a talk reflecting on what might be the ability of small government to face the social consequences of a major economic crisis. I was writing about development models for the poorer countries, but the question was then and is still today not irrelevant to the Irish situation. In terms of international development there was a strong sense at that time – and not an unfounded one –

that it was not governments which created jobs, but business. Business, however, thrives in good times, and when the good times die then it is governments who pick up the bill.

Let me not be misunderstood. I am a strong believer in the importance of the free market. Overall it has produced a system for the supply of goods and services which has worked better than any other system. This was stressed especially by Pope John Paul II in the Encyclical *Centesimus Annus*. But the market is not a totally rational instrument. People's fears and anxieties and not just their reasoning are part of the reality of the market system. Market mechanisms are not pure mathematical systems. Regulation and transparency are a necessary part of a market equation, but for a certain moment in time there was fear that almost any external regulation would actually defeat the freedom which the market requires and thus be damaging. We have to rethink and redesign the concept of regulation in line with the realities of today's world. Who might be the global regulators, who is a world authority. Is the term world authority realistic in a multi-polar world? Can such an authority actually be worldwide or will there always be those who choose to remain outside it?

For the market to be free there must be clear rules about competition and these rules must be enforceable and must be fair. In a global economic vision where foreign inward investment in a country's economy was vital, many arrangements were made which did not necessarily reflect economic freedom. Foreign companies negotiated packages with governments of developing countries which reduced the risk to be assumed by foreign investors to such an extent that these agreements seriously reduced the possibility of local companies ever entering into the market on truly competitive and fair terms. Big businesses can be bullies and they can bully and bribe those who have the responsibility for regulation. The current discussions on taxation of larger and smaller transnational business show how difficult it can become to determine where their activities are domiciled. In today's globalized, digital culture the concept of territoriality has become relativised and this is not going to be easy to turn around.

The globalization of financial activity can be a positive phenomenon yet when things go badly the globalized response is to send the problem back to where it all started locally. I believe that it was the outgoing Chairman of the Bank of England who said that "banks live globally yet when they die, they die locally".

Not just in the financial world, we live in an age where there are global realities, but we do not have global instruments to supervise them. National interest is still a factor which plays a strong role in the very institutions where policies are formulated to "govern" global realities. National interest includes the interest of national private business and very often private business interests play a big part in determining national political interest.

International treaties and agreements are generally negotiated by civil servants who are paid to protect national interest. The term "the international community" is a "non-entity". It is a termwhich we use too easily without attempting to identify exactly what it is, except that it is the "good party" in any dispute.

Again what does international community means in terms of economicrealities?The International Organization which has in effect the strongest powers other than the UN Security Council is the trade disputes mechanism of the World Trade Organization. Yet again we see within the WTO just how difficult it is to attain agreement and to make agreements work. The Doha Round agreements are over ten year old and have so far failed. It is also interesting to see how individual countries play different roles and different game-plans fro one organization to another: Brazil and India are considered developing countries in the UN but are looked on as trading giants by their neighbours and vital players in trade negotiations in the WTO. This differentiation makes realistic concepts of global governance In the financial area all the more complex.

As I have said, I am a strong believer in the importance of the free market. Overall it has produced a system for the supply of goods and services which has worked better than any other system. But Pope John Paul stressed in *Centesimus Annus* the limits that must be posed when speaking of tbe market. There are certain good which do not belong on the market because they are not goods to be bought and sold.

For much of that time in which I worked in international life, the dominant context within was that of the Cold War and especially the later period of the Cold War when the rigidity of the communist system was weakening and contacts between both sides of Europe were becoming more common.

There was still a sentiment that the communist block was here to stay and that we had to come to agreements and build a sort of *détente* which would benefit both sides. There was also a feeling that perhaps there was something to be learned from the achievements of the communist block

This was a time in which socialism was in the air internationally. It was also a time in which some of which the weaknesses of a more capitalist system were being polemically aired. Capitalism was being linked in certain areas of public opinion with corrupt Latin American regimes, with exploitative multinational business which plundered Africa, and witha certain anti-Americanism. Interesting an article last year in *The Economist* suspected that the Pope from Latin America would be influenced by the deviation of the forms of capitalism which he had experienced in his own country and in his continent. In looking at the few quotes the magazine could find, Pope Francis's comments on "savage capitalism" and "neo-liberalism" were not appreciated but his comments on fighting corruption and tax evasion were.

Only a few *nostalgici* unconditionally mourned the definitive fall of communism in Europe. But the desire for a third way continues to flourish. Germany prides itself on its own social market economy model and hoped to spread its philosophy within the European Unity and especially in the emerging economies of its changed Central and Eastern European neighbours. In Britain, New Labour defined itself as almost as a Third Way, a centrist platform designed to offer an alternative to both complete capitalism and absolute socialism, a middle way between the neo-liberal free market economics of the New Right and post-1945 Labour concern for social justice. New Labour accepted the economic efficiency of free-markets and believed that they could be detached from capitalism to achieve the aims of socialism, while maintaining the efficiency of capitalism. A policy of social partnership policy was significant in Ireland's economic success was also in its own way a form of third way but failed because it became a sort of protectionism for each side.

There has never been a successful project of sustainable social development and inclusion which was not accompanied by sustained economic growth. But sustained economic growth has never on its own attained social progress. The difficulty of maintaining this balance can be seen right down to our own day in the discussions about how to balance foster growth and maintain social sustainability, the discussion austerity versus growth.

Inevitably the question arises as which are the non-economic values which economic growth requires in order to achieve social progress and inclusivity? Where do we find economic models which manage to foster both growth and equity? What is the place of ethical values in the design of an economy? How can such values be promoted and inserted into the governance of international financial activity?

The economy is part of a wider social framework. This is not just moralising. An economy is more sustainable if it springs up within a stable society in which human needs are addressed and in which people have voice and in which all feel that they can be participants. Exclusion weakens any society; exclusion damages an economy. A society which fosters innovation and participation is the type of society which best fosters a knowledge based economy. An economy which fosters passivity will be a weaker economy. An economy which generates crass inequalities will be a fragile economy.

Economics belongs within the framework of ethics. Ethics belongs to the real world and is not a sort of pop-up which can appear on the computer screen when required and then can be deleted into a no-where world when it is not convenient. What Kant said of politics can be applied to economics, namely that for economics to move forward it must first of all give precedence to ethics. Amarthia Sen stressed that an absence of reference to moral philosophy leads to an impoverishment of economics. Pope John Paul stressed that there are fundamental human needs that do not belong in the market place, as goods that can be simply bought and sold. Pope Benedict has called for the insertion into economic models – including businesses – of the value of gratuity as a complement to profit alone. Even the most capitalistic systems see a place for corporate social responsibility. Economics cannot be based on individual or corporate profit alone but has responsibilities towards the common good.

The concept of the common good is not just an abstract ethical concept. I was quite struck by a comment I read recently which said that in today's Europe the greatest contribution to the common good is job creation. And jobs are created by the private sector! Again an interesting link between economic and ethical language!

Social and economic progress belongs together. At a time of rapid change or at a time of challenge such as ours, ownership of social change is vital if change is to be accepted and fully embraced. Ownership of social process does not mean exclusive private possession of the process on the part of any sector. Each sector of society must be able to find ownership within the terms of its own heritage and competence. In this sense, ownership must be collective and differentiated. The question arises then as to who wants to own policies of austerity? More precisely the question is how to we generate real ownership of austerity? Austerity is needed in Europe. The only way you will attain balanced budgets is through matching spending and income. It is like the only infallible way to control your weight is that of matching calorie intake with the calories you burn.

There is a danger today right across Europe that the policy of austerity is not being fully owned but is managed in a one-sided way and indeed that the necessary austerity of today could turn into a ideology of the future. There is a certain flight from political ownership. In Ireland it is easy to put the blame on the previous government. In other countries politicians play games and protest parties emerge which in the long term only weaken democracy. But these may well be the natural reactions to valid economic programmes which appear simply to be imposed or through cutbacks which are applied arbitrarily across the board and no not appear to differentiate according to real situations.

This sense of ownership is linked with a true understanding of pluralism. A friend of mine, a human rights expert, always reminded me that democracy requires within it some groupings which are not democratic in their structures. That might seem a contradiction. But democracy without groups which unflinchingly espouse and defend values and principles could easily slip into a dangerous relativism of constant compromise. When it comes to the defence of unchanging values in a society characterised by radical and continual change there may be need of some whose principle is "no surrender". Who can do that within international the financial world

What happened? How can the overall economic climate change almost overnight? Who was asleep or were we all asleep? We clearly see today that an economic crisis is not just about banks and financial institutions: it is about people's lives, their jobs and their businesses their homes and their mortgages and of their hopes and aspirations. We have great young people but our years of prosperity have not left them a legacy of hope. Their hopes are frustrated by the lack of opportunity. Their hopes are frustrated when they look back at examples of cynicism and corruption which make them ask if it is really worthwhile working for solidarity and a sense of common purpose.

What have charity and gratuitousness to say to the realities and mechanisms of economic life? What might be the place of the idea of *sharing* in today's competitive, market and profit-driven economy? Pope Benedict recognises the irreplaceable role of the market but notes that "without an internal form of solidarity and mutual trust the market cannot fulfil its proper economic function". The economy serves the common good but economic growth on its own will never respond to all the needs of social development. Development needs both economic growth and solidarity. Pope Benedict invites all of us to explores way of illustrating that economic growth and solidarity are not two totally parallel tracks: "solidarity and reciprocity can also be conducted *within* economic activity and not only outside or after it".

The de facto interdependence of people and nations is not matched by ethical interaction of consciences and minds that would give rise to truly human development. Interdependence must become solidarity especially in our current world order and especially the challenges of globalization which the Pope describes as "the explosion of worldwide interdependence". Pope Francis speaks about "the globalization of indifference". It would be interesting for us to examine what are the mechanisms which would create an opposing globalization of concern and solidarity which respects market autonomy yet in which the primary capital to be safeguarded and valued today is the human person in his or her integrity.

If the economy is part of a wider social framework, then economic thought is not just the art of economic pragmatism or of opposing ideologies. Economists can and must be men and women of vision. The challenge of fostering polices which generate growth and equity is not one which is to be answered in the pulpit, but in universities and in research institutes. Economist can and must be men and women of vision. Austerity versus growth is a challenge about the ethics of economics and not about scoring points politically. Vision is part of the vocation of the economist and it is also worthwhile to remember that it is economists with vision are the ones who win the Nobel prizes. And they win Nobel prizes because they see their task as that of serving and improving humanity.