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INCLUSIVE GROWTH AND FINANCIAL REFORMS:
GLOBAL EMERGENCIES AND THE SEARCH
OF THE COMMON GOOD

Edited by

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VOLUME'S ABSTRACT

The book collects contributions presented and discussed during International Conferences and Consultations organized by the “Centesimus Annus – Pro Pontifice” Foundation (CAPPF) in the two-year period 2015 – 2016. In particular, articles here reported derive from two International Conferences held in the Vatican (“*Rethinking Key Features of Economic and Social Life*”, 25-27 May 2015, and “*Business initiative in the fight against poverty. The Refugee Emergency, our Challenge*”, 12-14 May 2016) and an International Consultation held in Malta (“*A Dialogue on Finance and the Common Good*”, 29-30 January 2016). Summary reports and final proposals of the meetings are also included in the volume.

Specifically, three dramatic issues, here envisaged as true global threats, are considered. First the refugee emergency, currently one of the most compelling humanitarian challenges confronting governments around the world. Then the challenges of non-inclusive growth and, more generally, the difficulties faced to achieve true human development and, finally, the ethical issues involved in designing and implementing effective financial reforms.

The common thread running through all the contributions is that the future of human beings is today in jeopardy as a result of a number of interlinked and highly dependent phenomena such as excessive consumption in rich countries, inequality between and within countries, extreme poverty, migration, violence, environmental degradation. What we need today is a resolute determination to change behavior at all levels. Politicians, leaders and single citizens in their daily action have all to be far more sensitive than they are today to the common well-being. They should seriously start taking care of both the others and the environment. This requires a difficult and challenging cultural change, but it is

necessary if we are willing to effectively face the present global emergencies.

The book includes an Introduction by Giovanni Marseguerra (CAPPF Scientific Committee Coordinator) and Anna Maria Tarantola (CAPPF Board member and Delegate the for the Scientific Committee).

DISCORSO DEL SANTO PADRE FRANCESCO
AI PARTECIPANTI
ALLA CONFERENZA INTERNAZIONALE
DELLA FONDAZIONE
CENTESIMUS ANNUS – PRO PONTIFICE

Sala Clementina
Venerdì, 13 maggio 2016

Cari amici,

vi rivolgo il mio caloroso benvenuto e ringrazio il Presidente per le sue cortesi parole. In questi giorni di riflessione e di dialogo, avete preso in considerazione il contributo della comunità degli affari alla lotta contro la povertà, con particolare riferimento all'attuale crisi dei profughi. Sono grato per la prontezza con la quale portate la vostra competenza ed esperienza nella discussione su queste delicate questioni umanitarie e sugli obblighi morali che esse comportano.

La crisi dei profughi, le cui proporzioni stanno crescendo ogni giorno, è una di quelle a cui mi sento particolarmente vicino. Nella mia recente visita a Lesbo, sono stato testimone di strazianti esperienze di sofferenza umana, specialmente di famiglie e bambini. Era mia intenzione, insieme ai miei fratelli Ortodossi il Patriarca Bartolomeo e l'Arcivescovo Geronimo, di offrire al mondo una maggiore consapevolezza di queste «scene di tragico e davvero disperato bisogno», e di «darvi risposta in un modo degno della nostra comune umanità». Al di là dell'immediato e pratico aspetto del fornire aiuto materiale a questi nostri fratelli e sorelle, la comunità internazionale è chiamata a individuare risposte politiche, sociali ed economiche di lungo periodo a problematiche che superano i confini nazionali e continentali e coinvolgono l'intera famiglia umana.

La lotta contro la povertà non è soltanto un problema economico, ma anzitutto un problema morale, che fa appello ad una solidarietà globale e allo sviluppo di un approccio più equo nei confronti dei bisogni e delle aspirazioni degli individui e dei popoli in tutto il mondo. Alla luce di questo compito impegnativo, l'iniziativa della vostra Fondazione è particolarmente tempestiva. Traendo ispirazione dal ricco patrimonio della Dottrina sociale della Chiesa, la presente Conferenza esplora da diversi punti di vista le implicazioni pratiche ed etiche dell'attuale economia mondiale, mentre, nel medesimo tempo, cerca di porre le fondamenta per una cultura economica e degli affari che sia più inclusiva e rispettosa della dignità umana. Come san Giovanni Paolo II ha più volte rilevato, l'attività economica non può essere condotta in un vuoto istituzionale o politico, ma possiede una essenziale componente etica; deve inoltre sempre porsi al servizio della persona umana e del bene comune.

Una visione economica esclusivamente orientata al profitto e al benessere materiale è – come l'esperienza quotidiana ci mostra – incapace di contribuire in modo positivo ad una globalizzazione che favorisca lo sviluppo integrale dei popoli nel mondo, una giusta distribuzione delle risorse, la garanzia di lavoro dignitoso e la crescita dell'iniziativa privata e delle imprese locali. Un'economia dell'esclusione e dell'inequità ha portato ad un più grande numero di diseredati e di persone scartate come improduttive e inutili. Gli effetti sono percepiti anche nelle società più sviluppate, nelle quali la crescita in percentuale della povertà e il decadimento sociale rappresentano una seria minaccia per le famiglie, per la classe media che si contrae e, in modo particolare, per i giovani. I tassi di disoccupazione giovanile sono uno scandalo che non solo richiede di essere affrontato anzitutto in termini economici, ma che va affrontato anche, e non meno urgentemente, come una malattia sociale, dal momento che la nostra gioventù viene derubata della speranza e vengono sperperate le sue grandi risorse di energia, di creatività e di intuizione.

È mia speranza che la vostra Conferenza possa contribuire a generare nuovi modelli di progresso economico più direttamente orientati al bene comune, all'inclusione e allo sviluppo integrale, all'incremento del lavoro e all'investimento nelle risorse umane. Il Concilio Vaticano II ha giustamente sottolineato che, per i cristiani, l'attività economica, finanziaria e degli affari non può essere separata dal dovere di lottare per il perfezionamento dell'ordine temporale in conformità con i valori del Regno di Dio. La vostra è in effetti una vocazione al servizio della dignità umana e della costruzione di un mondo di autentica solidarietà. Illuminati e ispirati dal Vangelo, e mediante una fruttuosa cooperazione con le Chiese locali e i loro Pastori, così come con altri credenti e uomini e donne di buona volontà, possa il vostro lavoro contribuire sempre alla crescita di quella civiltà dell'amore che abbraccia l'intera famiglia umana nella giustizia e nella pace.

Su voi tutti e sulle vostre famiglie invoco la benedizione del Signore e i suoi doni di saggezza, di gioia e di forza.

ADDRESS OF HIS HOLINESS POPE FRANCIS
TO PARTICIPANTS
IN THE INTERNATIONAL CONFERENCE
OF THE
CENTESIMUS ANNUS – PRO PONTIFICE FOUNDATION

Clementine Hall
Friday, 13 May 2016

Dear Friends,

I offer a warm welcome to all of you and I thank your President for his kind words. In these days of reflection and dialogue, you have considered the contribution of the business community to the fight against poverty, with particular attention to the current refugee crisis. I am grateful for your readiness to bring your expertise and experience to the discussion of these critical humanitarian issues and the moral obligations that they entail.

The refugee crisis, whose proportions are growing daily, is one especially close to my heart. In my recent visit to Lesbos, I witnessed heartrending scenes of human suffering, especially on the part of families and children. It was my intention, together with my Orthodox brothers, Patriarch Bartholomew and Archbishop Ieronymos, to make the world more aware of these “scenes of tragic and indeed desperate need”, and to “respond in a way worthy of our common humanity”. Apart from the immediate and practical aspect of providing material relief to these brothers and sisters of ours, the international community is challenged to devise long-term political, social and economic responses to issues that transcend national and continental boundaries, and affect the entire human family.

The fight against poverty is not merely a technical economic problem, but above all a moral one, calling for global solidarity and the development of more equitable approaches to the concrete needs and aspirations of individuals and peoples worldwide. In the light of this demanding task, this initiative of your Foundation is most timely. Drawing inspiration from the rich patrimony of the Church's social doctrine, the present Conference is exploring from various standpoints the practical and ethical implications of the present world economy, while at the same time laying the foundations for a business and economic culture that is more inclusive and respectful of human dignity. As Saint John Paul II frequently insisted, economic activity cannot be conducted in an institutional or political vacuum, but has an essential ethical component; it must always stand at the service of the human person and the universal common good.

An economic vision geared to profit and material well-being alone is – as experience is daily showing us – incapable of contributing in a positive way to a globalization that favours the integral development of the world's peoples, a just distribution of the earth's resources, the guarantee of dignified labour and the encouragement of private initiative and local enterprise. An economy of exclusion and inequality has led to greater numbers of the disenfranchised and those discarded as unproductive and useless. The effects are felt even in our more developed societies, in which the growth of relative poverty and social decay represent a serious threat to families, the shrinking middle class and in a particular way our young people. The rates of unemployment for the young are not only a scandal needing to be addressed first and foremost in economic terms, but also, and no less urgently, as a social ill, for our youth are being robbed of hope and their great resources of energy, creativity and vision are being squandered.

It is my hope that your Conference will contribute to generating new models of economic progress more clearly di-

rected to the universal common good, inclusion and integral development, the creation of labour and investment in human resources. The Second Vatican Council rightly pointed out that, for Christians, economic, financial and business activity cannot be separated from the duty to strive for the perfecting of the temporal order in accordance with the values of God's Kingdom. Yours is in fact a vocation at the service of human dignity and the building of a world of authentic solidarity. Enlightened and inspired by the Gospel, and in fruitful cooperation with the local Churches and their pastors, as well as other believers and people of good will, may your work always contribute to the growth of that civilization of love which embraces the entire human family in justice and peace.

Upon all of you, and your families, I invoke the Lord's blessings of wisdom, joy and strength.

DISCURSO DEL SANTO PADRE FRANCISCO
A LOS PARTICIPANTES
EN LA CONFERENCIA INTERNACIONAL
DE LA FUNDACIÓN
CENTESIMUS ANNUS – PRO PONTIFICE

Sala Clementina

Viernes, 13 de mayo de 2016

Queridos amigos:

Os dirijo mi calurosa bienvenida y agradezco al presidente sus corteses palabras. En estos días de reflexión y de diálogo, habéis tomado en consideración la aportación de la comunidad económica en la lucha contra la pobreza, con particular referencia a la actual crisis de refugiados.

Os agradezco la prontitud con la que aportáis vuestras capacidades y experiencia en la discusión sobre estas delicadas cuestiones humanitarias y sobre las obligaciones morales que conllevan.

La crisis de los refugiados, cuyas proporciones están creciendo cada día, es una de aquellas con la que me siento muy cercano.

En mi reciente visita a Lesbos, fui testigo de experiencias de sufrimiento humano desgarradoras, sobre todo de familias y niños. Era mi intención, junto con mis hermanos ortodoxos el patriarca Bartolomé y el arzobispo Jerónimo, ofrecer al mundo una mayor toma de conciencia de estas «escenas de trágica y desesperada necesidad», y hacer que a las se «responda de un modo digno de nuestra humanidad común».

Más allá del aspecto inmediato y práctico de ofrecer ayuda material a nuestros hermanos y hermanas, la comunidad internacional está llamada a encontrar respuestas políticas, sociales y económicas de larga duración a problemáticas que

superan los confines nacionales y continentales e involucran a toda la familia humana.

La lucha contra la pobreza no es solamente un problema económico, sino, sobre todo, un problema moral, que hace un llamamiento a una solidaridad global y al desarrollo de un acercamiento más equitativo en relación a las necesidades y las aspiraciones de las personas y los pueblos de todo el mundo.

A la luz de esta tarea comprometedora, la iniciativa de vuestra Fundación es particularmente inmediata. Inspirándose en el rico patrimonio de la doctrina social de la Iglesia, esta Conferencia explora desde diversos puntos de vista las implicaciones prácticas y éticas de la actual economía mundial, mientras, al mismo tiempo, busca poner las bases para una cultura económica y de los negocios que sea más inclusiva y respetuosa de la dignidad humana. Como san Juan Pablo II destacó en varias ocasiones, la actividad económica no puede ser llevada a cabo con un vacío institucional y político, pero posee un componente ético esencial; debe, además, ponerse siempre al servicio de la persona humana y del bien común.

Una visión económica exclusivamente orientada al beneficio económico y al bienestar material es – como la experiencia cotidianamente nos muestra – incapaz de contribuir de modo positivo a una globalización que favorezca el desarrollo integral de los pueblos en el mundo, una justa distribución de los recursos, la garantía del trabajo digno y el crecimiento de la iniciativa privada, así como de las empresas locales.

Una economía de la exclusión y de la inequidad ha creado a un número cada vez mayor de desheredados y de personas descartadas como improductivas e inútiles.

Los efectos se perciben también en las sociedades más desarrolladas, en las que el crecimiento en porcentaje respecto a la pobreza y a la decadencia social representan una seria amenaza para las familias, para la clase media que se reduce y, de modo particular, para los jóvenes. Los índices de desocupación juvenil son un escándalo que no sólo requiere ser

afrontado sobre todo en términos económicos, sino que se debe afrontar también, y no menos urgentemente, como una enfermedad social, dado que a nuestra juventud se le roba la esperanza y se despilfarran sus grandes recursos de energía, de creatividad y de intuición.

Mantengo la esperanza de que vuestra Conferencia pueda contribuir a generar nuevos modelos de progreso económico más directamente orientados al bien común, a la inclusión, al desarrollo integral, al aumento de trabajo y a la inversión en los recursos humanos.

El Concilio Vaticano II ha destacado, justamente, que para los cristianos, la actividad económica, financiera y de negocios no se puede separar del deber de luchar por el perfeccionamiento del orden temporal en conformidad con los valores del Reino de Dios.

Vuestra vocación es, en efecto, una vocación al servicio de la dignidad humana y de la construcción de un mundo de auténtica solidaridad. Iluminados e inspirados por el Evangelio, y mediante una fructuosa cooperación con las Iglesias locales y sus pastores, así como con otros creyentes y hombres y mujeres de buena voluntad, pueda vuestro trabajo contribuir siempre al crecimiento de la civilización del amor que abraza a toda la familia humana en la justicia y la paz.

Sobre todos vosotros y vuestras familias invoco la bendición del Señor y sus dones de sabiduría, gozo y fortaleza.

ANSPRACHE VON PAPST FRANZISKUS
AN DIE TEILNEHMER
DER INTERNATIONALEN KONFERENZ
DER STIFTUNG CENTESIMUS ANNUS – PRO PONTIFICE

Clementina-Saal
Freitag, 13. Mai 2016

Liebe Freunde!

Ich heiÙe euch herzlich willkommen und danke dem Präsidenten für seine freundlichen Worte. In diesen Tagen der Reflexion und des Dialogs habt ihr den Beitrag des Unternehmertums zum Kampf gegen die Armut in den Blick genommen, mit besonderer Aufmerksamkeit für die derzeitige Flüchtlingskrise. Ich bin für eure rasche Bereitschaft dankbar, mit der ihr eure Kompetenz und Erfahrung in die Diskussion über diese heiklen humanitären Fragen und der mit ihnen verbundenen moralischen Verpflichtungen einbringt.

Die Flüchtlingskrise, die von Tag zu Tag größere AusmaÙe annimmt, gehört zu jenen Krisen, denen ich mich in besonderer Weise nahe fühle. Bei meinem kürzlichen Besuch in Lesbos war ich Zeuge herzerreißender Erfahrungen menschlichen Leids, vor allem von Familien und Kindern. Ich wollte zusammen mit meinen orthodoxen Brüdern Patriarch Bartholomaios und Erzbischof Hieronymos bewirken, dass die Welt sich »dieser Situationen tragischer und wirklich verzweifelter Not« bewusst wird und »in einer Weise reagiert, die unserem gemeinsamen Menschsein würdig ist«.

Über den unmittelbaren und konkreten Aspekt der materiellen Hilfe für diese unsere Brüder und Schwestern hinaus ist die internationale Gemeinschaft aufgerufen, langfristige politische, soziale und wirtschaftliche Antworten auf Problematiken zu finden, die die nationalen und kontinentalen

Grenzen überschreiten und die gesamte Menschheitsfamilie betreffen. Der Kampf gegen die Armut ist nicht nur ein wirtschaftliches Problem, sondern vor allem ein moralisches Problem, das an die globale Solidarität appelliert und zur Entwicklung fairerer Ansätze gegenüber den konkreten Bedürfnissen und Wünschen der Personen und Völker weltweit aufruft. Angesichts dieser anspruchsvollen Aufgabe ist die Initiative eurer Stiftung besonders aktuell. Aus dem reichen Erbe der Soziallehre der Kirche Inspiration schöpfend, untersucht die gegenwärtige Konferenz unter verschiedenen Gesichtspunkten die praktischen und ethischen Implikationen der aktuellen Weltwirtschaft, während sie zugleich die Grundlagen für eine Unternehmens- und Wirtschaftskultur schaffen möchte, die inklusiver ist und der Menschenwürde größere Achtung entgegenbringt.

Wie der heilige Johannes Paul II. häufig unterstrichen hat, darf insbesondere die Marktwirtschaft sich nicht in einem institutionellen oder politischen Leerraum abspielen, sondern besitzt eine wesentlich ethische Komponente. Darüber hinaus muss sie sich immer in den Dienst der menschlichen Person und des Gemeinwohls stellen. Eine ausschließlich am Profit und am materiellen Wohlstand orientierte Wirtschaft ist nicht in der Lage – so zeigt es die tägliche Erfahrung –, auf positive Weise zu einer Globalisierung beizutragen, die die ganzheitliche Entwicklung der Völker in der Welt ebenso unterstützt wie eine gerechte Ressourcenverteilung, die Gewährleistung würdiger Arbeit und die Entwicklung privater Initiativen und lokaler Unternehmen. Eine Wirtschaft der Ausschließung und der Disparität hat zu einer größeren Zahl von Entrechteten und als unproduktiv und nutzlos ausgesonderten Menschen geführt. Die Folgen sind auch in den entwickelten Gesellschaften wahrzunehmen, in denen der prozentuelle Anstieg der Armut und der soziale Verfall eine ernsthafte Bedrohung darstellen für die Familien, für die im Schwinden begriffene Mittelschicht und vor allem für die jungen Menschen. Der Prozentsatz der Jugendarbeitslosigkeit ist ein

Skandal, der nicht nur zuerst und vor allem wirtschaftlich angegangen werden muss, sondern nicht weniger dringlich als gesellschaftliches Übel, da unsere Jugend der Hoffnung beraubt wird und ihre Energie, Kreativität und Vision verspielt wird.

Ich hoffe, dass eure Konferenz zur Entwicklung neuer Modelle wirtschaftlichen Wachstums beitragen kann, die klarer auf das Gemeinwohl, die Inklusion und die ganzheitliche Entwicklung, auf die Schaffung von Arbeit und die Investition in Humanressourcen ausgerichtet sind. Das Zweite Vatikanische Konzil hat zu Recht unterstrichen, dass die wirtschaftliche, finanzielle und unternehmerische Tätigkeit für Christen nicht zu trennen ist von der Pflicht, für die Vervollkommnung der zeitlichen Ordnung in Übereinstimmung mit den Werten des Reiches Gottes einzutreten. Eure Berufung ist in der Tat eine Berufung im Dienst der Menschenwürde und des Aufbaus einer Welt authentischer Solidarität. Vom Evangelium erhellt und inspiriert und in fruchtbarer Zusammenarbeit mit den Ortskirchen und ihren Hirten sowie mit anderen Gläubigen und Männern und Frauen guten Willens möge eure Tätigkeit stets zum Wachstum jener Zivilisation der Liebe beitragen, die die ganze Menschheitsfamilie in Gerechtigkeit und Frieden einschließt. Auf euch alle und eure Familien rufe ich den Segen des Herrn und seine Gaben der Weisheit, der Freude und der Stärke herab.

INDIRIZZO DI SALUTO AL SANTO PADRE
DEL PRESIDENTE DELLA
FONDAZIONE CENTESIMUS ANNUS – PRO PONTIFICE

DOMINGO SUGRANYES BICKEL

13 maggio 2016

Santo Padre,

Con negli occhi e nel cuore le tante immagini di distruzione, di profughi, di sfollati, noi sentiamo la paura di tanti che temono di perdere un benessere diventato fragile, mentre altri anelano ad una vita migliore.

D'altronde il lavoro da noi svolto in ambito economico ci ha convinto del potenziale insito nell'economia di mercato. Non si tratta di adesione ideologica né di autocompiacimento, bensì di fatti: stimolare e diffondere l'attività imprenditoriale può aprire ai poveri la strada per diventare "degni attori del loro stesso destino", citando l'espressione di Sua Santità all'Assemblea delle Nazioni Unite.

Tuttavia la libera iniziativa non basta. Bisogna aprire l'orizzonte imprenditoriale alle nuove realtà sociali e organizzare la transizione verso la nuova economia preannunciata dalla rivoluzione tecnologica affinché essa giovi ai più. Ciò implica adeguamento e una fertile inventività.

Affinché il benessere creato raggiunga i più, anche noi possiamo fare cose concrete: fra cattolici, e tra tutti i cristiani, si possono promuovere iniziative più ambiziose di solidarietà contando sull'aiuto di molti. Ciò significa andare oltre e mirare ad una dimensione più grande, senza scapito delle molte iniziative di beneficenza già esistenti.

Oggi, nell'ambito economico e finanziario molte autorità competenti rivendicano una ricostruzione etica. Questa è la nostra sfida: portare la riflessione profonda e ricca della Chie-

sa ai leader dell'economia di ogni convinzione religiosa, e anche ai non credenti, per accompagnare la riflessione morale e agglutinare le "nuove coalizioni" per il bene comune.

Siamo commossi e grati a Sua Santità per averci ascoltato e sollecitiamo la Sua parola e la Sua benedizione.

ADDRESS TO THE HOLY FATHER
FROM THE PRESIDENT OF THE
CENTESIMUS ANNUS – PRO PONTIFICE FOUNDATION

DOMINGO SUGRANYES BICKEL

13 May 2016

Holy Father,

With the many images of destruction, of refugees and displaced persons before our eyes and in our hearts, we understand and feel the fear of many who are afraid of losing their present fragile state of well-being while others are yearning for a better life.

Our own experience within the economic sphere has convinced us of the inherent potential of the market economy. This is neither ideological adherence nor self-praise, but facts: stimulating and promoting business activities can open the way for the poor to become “dignified agents of their own destiny” to quote an expression used by Your Holiness at the United Nations General Assembly.

Nevertheless, free initiative is not enough. It is necessary to open-up the business horizon to the new social realities and organize a transition towards the new economy, in the wake of the technological revolution, so that it benefits as many as possible. This involves adaptation and fertile inventiveness.

We can also do practical things to help this newly created affluence to reach as many people as possible. Among Catholics and all Christians we can promote more ambitious solidarity initiatives and can rely on the help of many. This means going further and aiming for a wider dimension, without detriment to the many existing charitable initiatives.

Today, many in the economic and financial spheres are demanding an ethical reconstruction. This is our challenge:

to bring the Church's rich and profound social insights to business leaders of all religious convictions and even to non-believers. It should go hand in hand with existing moral reflections and help form "new coalitions" for the common good.

We are touched and deeply grateful to you for receiving and listening to us and we ask for your words and your blessing.

SALUDO AL SANTO PADRE
DEL PRESIDENTE DE LA
FUNDACIÓN CENTESIMUS ANNUS PRO PONTIFICE

DOMINGO SUGRANYES BICKEL

13 de mayo de 2016

Santo Padre,

Tenemos en la vista y en el corazón el recuerdo de tantas imágenes de destrucción, de personas desplazadas, de refugiados, sentimos el temor de muchos a perder su frágil bienestar y el deseo de otros de acceder a una vida mejor.

Por nuestra experiencia económica tenemos un conocimiento vivido del potencial de la economía de mercado: no es por adhesión ideológica, ni por autocomplacencia, sino por los hechos: alentando y difundiendo la iniciativa empresarial es como se abre en cualquier sitio el camino para que los pobres sean *“dignos actores de su propio destino”* como decía Su Santidad hace unos meses en la Asamblea de Naciones Unidas.

Pero no basta la libre iniciativa: es necesario abrir el horizonte empresarial a nuevas realidades sociales y organizar la transición a esa nueva economía que se abre con la revolución tecnológica, de tal manera que el beneficio de los avances llegue a todos. Esto supone capacidad de adaptación y de fértil innovación.

Para que el bienestar creado alcance a muchos, nosotros también podemos hacer cosas concretas: entre católicos y entre todos los cristianos se pueden abordar iniciativas mucho más ambiciosas e importantes de solidaridad, con la ayuda de muchos. Ello no supone desplazar ninguna iniciativa caritativa ya existente – son muchísimas – pero requiere ir más lejos y hacia mayores dimensiones.

En el mundo económico y financiero se alzan voces de muchas autoridades responsables que reclaman una reconstrucción ética. Aquí está nuestro desafío: llevar la profunda y rica reflexión de la Iglesia católica a responsables económicos de todas las convicciones religiosas o incluso no creyentes para sostener la reflexión ética y formar nuevas coaliciones para el bien común.

Estamos conmovidos e inmensamente gratos a Su Santidad por recibirnos y solicitamos su palabra y su bendición.

GRUSSWORT DES PRÄSIDENTEN DER STIFTUNG
CENTESIMUS ANNUS – PRO PONTIFICE
AN DEN HEILIGEN VATER

DOMINGO SUGRANYES BICKEL

13. Mai 2016

Heiliger Vater,

wir haben so viele Bilder der Zerstörung, von Flüchtlingen und Vertriebenen vor Augen und im Herzen. Daher können wir die Angst so vieler Menschen nachfühlen, die befürchten, ihren brüchig gewordenen Wohlstand zu verlieren. Andere wiederum sehnen sich nach einem besseren Leben.

Durch die von uns im wirtschaftlichen Bereich geleistete Arbeit haben wir das der Marktwirtschaft innewohnende Potential erkannt. Dabei handelt es nicht um eine ideologische Frage oder um eine Art Selbstgefälligkeit, sondern um Tatsachen: die Förderung und Verbreitung der unternehmerischen Tätigkeit kann den Armen den Weg eröffnen, ihr »Schicksal in würdiger Weise selbst in die Hand zu nehmen«, wie Eure Heiligkeit in Ihrer Ansprache vor der Generalversammlung der Vereinten Nationen gesagt haben.

Freiwillige Initiativen allein genügen aber nicht. Der unternehmerische Horizont muss sich auf die neuen sozialen Wirklichkeiten hin öffnen und den Übergang zu einer von der technologischen Revolution verheißenen neuen Ökonomie herbeiführen, damit sie der Mehrheit zugute komme. Das setzt Anpassungsvermögen und eine fruchtbare Erfindungsgabe voraus.

Auch wir können uns ganz konkret dafür einsetzen, dass der erreichte Wohlstand so vielen Menschen wie möglich zuteil werde: unter Katholiken und unter allen Christen kön-

nen ambitionierte Solidaritätsprojekte gefördert werden, bei denen wir auf die Mithilfe vieler Menschen zählen. Das bedeutet, dass wir Grenzen überschreiten und unseren Blick auf eine größere Dimension richten müssen, was allerdings nicht zu Lasten bereits bestehender Wohltätigkeitsprojekte gehen darf.

Im wirtschaftlichen und finanziellen Bereich fordern heutzutage viele zuständige Autoritäten einen ethischen Wiederaufbau. Wir stehen vor der Herausforderung, dass wir den wirtschaftlichen Führungskräften jedes religiösen Bekenntnisses, aber auch den Nichtglaubenden, die tiefgründige und reiche Lehre der Kirche übermitteln sollen, um das moralische Denken zu begleiten und »neue Koalitionen« für das Gemeinwohl zu bilden.

Eure Heiligkeit, wir sind innerlich bewegt und dankbar, das Sie uns Gehör geschenkt haben. Wir bitten Sie, nun Ihr Wort an uns zu richten und uns zu segnen.

INTRODUCTION:
A CALL TO ACTION FOR THE COMMON GOOD

GIOVANNI MARSEGUERRA and ANNA MARIA TARANTOLA

1 – Recent decades have witnessed the consolidation of a global economic system strongly characterized by exclusion and inequality. The fundamental structure of the world economy is rapidly and radically changing as a result of a largely excessive and misplaced faith in the omnipotence of the markets. The distortions and dysfunctions of the free market economy tend today to adversely affect the lives of individuals and communities as profoundly as probably never before. *“In this context, some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world”* (Pope FRANCIS, *Evangelii Gaudium*, n. 53).

The truth is that the future of human beings is today in jeopardy as a result of a number of interlinked and highly dependent phenomena such as excessive consumption in rich countries, inequality between and within countries, extreme poverty, migration, violence, environmental degradation. What we need today is a resolute determination to change behavior at all levels. Politicians, leaders and single citizens in their daily action have all to be far more sensitive than they are today to the common well-being. They should seriously start taking care of both the others and the environment. We are aware that this requires a difficult and challenging cultural change, but it is necessary if we are willing to effectively face the present global emergencies.

2 – In His message to the participants at the 2016 CAPPF International Conference, Pope Francis called the Foundation for a thorough reflection aimed at elaborating new paradigms for our economy. In the words of the Pope: *“It is my hope that your Conference will contribute to generating new models of economic progress more clearly directed to the universal common good, inclusion and integral development, the creation of labour and investment in human resources”*.

Pope Francis also clearly pointed out the many serious deficiencies and misconceptions which characterizes our current socio-economic model: *“An economic vision geared to profit and material well-being alone is – as experience is daily showing us – incapable of contributing in a positive way to a globalization that favours the integral development of the world’s peoples, a just distribution of the earth’s resources, the guarantee of dignified labour and the encouragement of private initiative and local enterprise. An economy of exclusion and inequality (cf. Evangelii Gaudium, n. 53) has led to greater numbers of the disenfranchised and those discarded as unproductive and useless. The effects are felt even in our more developed societies, in which the growth of relative poverty and social decay represent a serious threat to families, the shrinking middle class and in a particular way our young people. The rates of unemployment for the young are not only a scandal needing to be addressed first and foremost in economic terms, but also, and no less urgently, as a social ill, for our youth are being robbed of hope and their great resources of energy, creativity and vision are being squandered”*.

3 - The *Centesimus Annus – Pro Pontifice* Foundation (CAPPF) has taken very seriously the Holy Father’s recommendation and, consistently pursuing its statutory aim of analyzing the implications of the Catholic Social Teaching (CST) for business and economic practice, in the two-year period 2015-2016 has addressed a number of these new and relevant socio-economic issues which can be considered as real global emergencies threatening a truly balanced peoples’

development. Responding to Pope Francis' continuous call to action for building more sustainable and inclusive communities and in order to thoroughly investigate the above mentioned dramatic issues, the CAPPF organized in the two past years two International Conferences held in the Vatican ("*Rethinking Key Features of Economic and Social Life*", 25-27 May 2015, and "*Business initiative in the fight against poverty. The Refugee Emergency, our Challenge*", 12-14 May 2016) and an International Consultation held in Malta ("*A Dialogue on Finance and the Common Good*", 29-30 January 2016)¹. All these conferences have repeatedly emphasized the need both to rethink the growth model which currently underpins the global economic system and to start constructing alternatives to promote human dignity.

4 - The articles collected in this volume report with a few minor changes presentations given during these international conferences and consultations. The final Section, moreover, includes summaries and concluding reports of the meetings and provides a concise overview of what emerged from the discussions.

Given the broad range of issues examined, the purpose of this short introduction is not to give a detailed account of the various papers but instead, on the one hand, to introduce the reader to the main themes analyzed and discussed and, on the other, to shed light on the underlying principles of the CST. The next three paragraphs of this Introduction, in particular, are devoted to a synthetic analysis of the three core Sections of the volume. Three dramatic issues, here envisaged as true global threats, will be considered. First the refugee emergen-

¹A further Conference was organized in New York on September 23rd 2016 in cooperation with Fordham University on the theme "*Pope Francis' Call for Escaping Poverty: Practical Examples and New Proposals*". Of this recent event we will report in this volume only a short summary elaborated by Brian A. Strassburgher, S.J.

cy, currently one of the most compelling humanitarian challenges confronting governments around the world. Then the challenges of non-inclusive growth and, more generally, the difficulties faced to achieve true human development and, finally, the ethical issues involved in designing and implementing effective financial reforms.

5 – At a time when each day witnesses a new surge in the number of people uprooted by persecution and violence, the refugee emergency is probably one of the major challenges currently confronting the world. And, in fact, Pope Francis has repeatedly required the world attention to this shocking tragedy. The real dimensions of this catastrophe are clearly indicated by Jakob Kellenberger: 38 million of internally displaced persons (IDPs) as a consequence of armed conflict or other forms of violence and about 20 million of IDPs as a consequence of natural disasters and climate change.

The main causes of this unending emergency may be broadly envisaged, on the one hand, in the shameful number of ongoing armed conflicts and tensions around the world and, on the other, in the outrageous extreme poverty affecting large parts of the world's population, the two causes being of course strongly interlinked. With hindsight, therefore, developed countries were wrong to make largely insufficient efforts both in pursuing effective conflict prevention policies and in promoting true economic development in many of the most deprived areas of the world.

In this respect, the case of EU is paradigmatic. According to the United Nations, more than 1 million of refugees and migrants sought to enter the EU in 2015, and over 90% were from the world's top 10 refugee producing countries². Recent

²U.N. High Commissioner for Refugees, Refugee/Migrants Emergency Response - Mediterranean, at <http://data.unhcr.org/mediterranean/regional.php>

decades have witnessed in the EU a remarkable lack of strong leadership and strategic vision which is particularly disappointing when considering that historically the development of the EU has largely been driven forward by several key countries acting as “engines” of the unification process and capable of forging EU common foreign and security policies. Now, instead, most of the effort at EU top level meetings is devoted to lengthy discussions on implementing implausible systems for refugee distribution. With limited or none practical consequence.

At the same time, a high degree of acrimony and a lack of trust among EU member states seem to prevail today. The responsibility to provide help to refugees and displaced persons, to respond to their emergency needs for food, shelter and health, are the missed elements of the current EU approach to the refugee tragedy. The refugee crisis created deep divisions within the EU and the long standing core EU principle of solidarity seems today almost totally forgotten. Instead, narrow national agendas are taking increasing priority over more solidarity based and Europe-wide proposals. The risk now, as clearly indicated by Msgr. Perego, is that of the European integration process taking a strong step backwards or even completely falling apart, as the degree of Euroscepticism in the population continues to rise.

Europe’s demographic squeeze calls instead for greater efforts to attract migrants and to promote a better understanding of the important economic and social role they may play both in the country where they work and in their home country. As emphasized by Archbishop Paul R. Gallagher, migrants are protected by international human rights law and deserve the same human treatment as anybody else in a specific country. Moreover, they represent for host countries an opportunity and not a threat. The prevailing response of developed countries to such mass displacement has been instead the construction of walls and barriers, sometimes made of bricks and always made of suspicion and distrust. On the

contrary, effective integration policies can transform people's lives for the better. This requires a proper and effective education program, including the teaching of the host country language, and increased working opportunities.

Looking ahead, it's clear that the push factors behind international migration are not going to weaken in the near future. Current large political, demographic and economic imbalances suggest that migration will increase even further in the next coming years. It should also be considered that the wide diffusion of social networks has greatly increased states' permeability. Social media are new communication channels in migration networks which *de facto* facilitate migration. Worldwide displacement is today difficult to stop. Wars, conflict and persecution are forcing people to flee their homes and seek refuge and safety elsewhere. It is therefore time, as strongly advocated by Adrian Pabst, to forcefully promote good practices based on generosity, reciprocity and contribution. Human beings are capable of both virtue and vice, and virtue is to be encouraged in order to mitigate vice.

In sum, what is required today is a radical change of approach when considering immigrants. They are, and indeed must be considered as, a truly precious resource for Europe to build its future on more stable grounds. As it is becoming increasingly evident, effective management of migratory flows requires a three pillar action policy. First, promote the successful integration of migrants into their host societies through a consistent and warm acceptance in solidarity. Second, foster investments in the countries of origin (i.e. the sources of international migration) to launch or support their development processes and, third, continue the fight against illegal immigration. Each of these pillars is essential. To persist instead in a policy of refusal would be a capital mistake for Europe in particular and for developed countries in general. In this respect, it is worth reflecting on the remarkably prescient words of the Pope Emeritus Benedict XVI in the

Encyclical Letter *Caritas in Veritate*: “As society becomes ever more globalized, it makes us neighbours but does not make us brothers” (*Caritas in Veritate*, n. 1).

6 - A consistent concern of the catholic social teaching in the past century has been the effort to achieve genuine integral development of human beings, of societies and of the whole human family. The results so far, however, have been rather poor or even disappointing. For example, thirty years ago, Saint John Paul II in his Encyclical Letter *Sollicitudo Rei Socialis* made it clear how far was the goal of human development: “The first negative observation to make is the persistence and often the widening of the gap between the areas of the so-called developed North and the developing South. This geographical terminology is only indicative, since one cannot ignore the fact that the frontiers of wealth and poverty intersect within the societies themselves, whether developed or developing. In fact, just as social inequalities down to the level of poverty exist in rich countries, so, in parallel fashion, in the less developed countries one often sees manifestations of selfishness and a flaunting of wealth which is as disconcerting, as it is scandalous.

The abundance of goods and services available in some parts of the world, particularly in the developed North, is matched in the South by an unacceptable delay, and it is precisely in this geopolitical area that the major part of the human race lives.

*Looking at all the various sectors – the production and distribution of foodstuffs, hygiene, health and housing, availability of drinking water, working conditions (especially for women), life expectancy and other economic and social indicators – the general picture is a disappointing one, both considered in itself and in relation to the corresponding data of the more developed countries. The word “gap” returns spontaneously to mind” (*Sollicitudo Rei Socialis*, n. 14).*

More recently Benedict XVI in the *Caritas in Veritate*, having recognized that some results have indeed been achieved, remarked at the same time how long the path to true human

development still was: *“It is true that growth has taken place, and it continues to be a positive factor that has lifted billions of people out of misery – recently it has given many countries the possibility of becoming effective players in international politics. Yet it must be acknowledged that this same economic growth has been and continues to be weighed down by malfunctions and dramatic problems, highlighted even further by the current crisis”* (Caritas in Veritate, n. 21).

Finally, in His apostolic exhortation *Evangelii Gaudium* Pope Francis takes a rather gloomy view of current human development: *“Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape. Human beings are themselves considered consumer goods to be used and then discarded. We have created a ‘throw away’ culture which is now spreading. It is no longer simply about exploitation and oppression but something new. Exclusion ultimately has to do with what it means to be a part of the society in which we live; those excluded are no longer society’s underside or its fringes or its disenfranchised – they are no longer even a part of it. The excluded are not the ‘exploited’ but the outcast, the ‘leftovers’”* (*Evangelii Gaudium*, n. 53).

As clearly pointed out by His Eminence Cardinal Luis Antonio Tagle, the point is that economic activity as an engine for wealth generation should be coupled with distributive justice in order to achieve the common good. This however is the missing piece of the current so called economic “progress”. The need of identifying a different organization of economic activities couldn’t be more urgent.

In order to elaborate on a new model of socio-economic system, Giovanni Marseguerra reminds us that small and medium-sized enterprises (SMEs) are all over the world key factors to ensure economic growth through innovation and social integration through job creation. SMEs’ innovative capacity is indeed crucial in the knowledge economy both as a

long run objective to stimulate growth and as a crucial response in time of crisis. A key threat to SMES' innovation capacity, however, is today represented by counterfeiting, which is a substantial share of the illegal and criminal part of the informal economy. In this respect it appears today mandatory to develop a proper and effective anti-counterfeiting policy to foster growth through innovation because *"Wherever the rule of law is not respected and, even more, wherever the economy lacks an essential ethic reference, it is always the poorer part of population who pay the highest price"* (FCAPP 2015 Statement).

The above emphasis on the relevance of SMEs both in the fight against poverty and for promoting human development is reinforced by the analysis of Andreas Widmer. Moving from the assumption that the goal of the economy is human flourishing and human excellence, Widmer points out that currently we have a lack of SMEs in emerging markets and fewer and fewer of them in developing countries. According to his figures, the SME sector is almost entirely missing in developing countries since it comprises only 16% of GDP and 18% of employment. To build a stronger middle class in these countries is essential for society to develop and, in this respect, SME entrepreneurs are the key building block. Not only for their capacity to produce and share economic value but also for their constant fostering of responsible freedom as engine of economic activity.

The link between freedom and human development is central also in the analysis of Robert Gahl. According to Gahl, today's crisis requires a rebirth of freedom in accord with the highest aspirations of the human person towards those goods that offer sustained and sustainable human flourishing. With specific reference to the issue of consumerism, he notices how consumption can become a moral disorder when sought for selfish and materialistic utility. In this respect, Gahl points out how the methods and tools of recent development in contemporary psychology can be used to protect the market and the

full freedom of all participants. His analysis shows how scientific advances offer an opportunity to overcome materialism and to consume the goods of the earth with responsibility. His conclusion is that “only by fostering freedom can sustainable development be achieved”.

Inequality is another factor strongly undermining human development. Despite overall reductions in poverty, in recent years inequality has increased globally including in developing economies. Huge disparities of income, wealth, education and medical care persist between and within countries and regions. The drivers of inequality are multidimensional and they often reflect economic, political and social systems which are not sufficiently inclusive. High levels of inequality are a severe threat to social cohesion, create social and political conflict and ultimately undermine poverty reduction efforts. Furthermore, as indicated by Josef Bonnici, growing income inequality is negatively affecting growth by depriving the ability of middle and lower income families to accumulate physical and human capital. Inequality of opportunity is at the core of social injustice that has dragged an increasing number of families towards the brink of poverty. In response to such dramatic social injustice, the proposal of Bonnici is to set up a Voluntary Solidarity Fund as a way to address, in a practical way, the impact of increasing income inequality. The idea behind this proposal is that there is much that can be done by those in the upper middle and higher income groups in alleviating the situation of those who are less fortunate. The proposal is an attempt to bring solidarity in practice.

7 – As clearly pointed out by Fr. Joseph Galea Curmi, Catholic Social Teaching provides principles for reflection, criteria for judgement and guidelines for action as well as tools for conscience formation. Principles, criteria and guidelines are particularly relevant in the aftermath of the crisis for guiding the process of deep change required for the financial system, and especially for the banking sector, to serve the

economy and the society. *“Saving banks at any cost, making the public pay the price, foregoing a firm commitment to reviewing and reforming the entire system, only reaffirms the absolute power of a financial system, a power which has no future and will only give rise to new crises after a slow, costly and only apparent recovery. The financial crisis of 2007-2008 provided an opportunity to develop a new economy, more attentive to ethical principles, and new ways of regulating speculative financial practices and virtual wealth. But the response to the crisis did not include rethinking the outdated criteria which continue to rule the world”* (Laudato si’, n. 189).

Domenico Siniscalco, in his analysis of the economic consequences of financial reforms, recognizes that a proper audit of the crisis which began in 2007-2008 is still to be carried out. However, a few milestones have been identified. 1) the financial crisis is related to a set of co-determinants: global unbalances; banking deregulation; interconnectedness between public debts, private debts and banks; lack of long term view. 2) the impact on the real economy, unemployment and inequality has been dramatic; 3) the macroeconomic effects have been severe, but have been contained by a huge policy effort. It is fair to say however that, despite significant progress to date on global policy reform, there is much to be done before a more resilient financial system has been secured. In this respect, the role of Central banks has been decisive in the near past and is probably going to be even more decisive in the future.

According to Robert Annibale, banks are still recovering from the loss of trust and faith resulting from the global financial crisis. During a time when the financial services sector continues to recover and works to rebuild its reputation, restoring and strengthening public confidence and trust is essential to the future of the global financial system.

What is today required is a more ethical economic and financial system. *“The economy needs ethics in order to function correctly – not any ethics whatsoever, but an ethics which is people-centred”* (Caritas in Veritate, n. 45). Unfortunately, however,

the ethical dimension is today more often juxtaposed than conjugated with economic and financial analysis and practice. Finance should be a means to an end, a way to make firms more productive, thus helping them to promote the common good. When finance becomes instead the end, wealth creation does not lead to more human and social well-being. Much effort today needs therefore to be devoted to build a bridge between common aspirations to global economic justice, solidarity, effective financial reform, and the concrete decisions of policy makers and financial institutions officers. In particular, to develop a culture of ethics for global financial institutions requires more than just a commitment to discourage or prevent wrongful activities. It requires the obligation to conduct business that engages positively with society and drives tangible, sustainable impact. Correct compensation policies can help.

8 - From the very beginning of his pontificate, Pope Francis has taken a firm stand against modern slavery, in its various and different forms, calling all communities to firmly reject all systematic deprivation of individual freedom for the purpose of personal and commercial exploitation. A call to action for the common good is a consistent element of Pope Francis' teaching. *"The dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies. At times, however, they seem to be a mere addendum imported from without in order to fill out a political discourse lacking in perspectives or plans for true and integral development. How many words prove irksome to this system! It is irksome when the question of ethics is raised, when global solidarity is invoked, when the distribution of goods is mentioned, when reference is made to protecting labour and defending the dignity of the powerless, when allusion is made to a God who demands a commitment to justice"* (*Evangelii Gaudium*, n. 203).

There is today an urgent plea for a change of direction in the evolution of the world's economy, rediscovering and pro-

moting the concept of human development – a structural principle of CST – which is truly multidimensional and requires to focus on the whole person and on all persons. Human development includes, of course, economic development, which arises from the cooperation of entrepreneurs and employees directed at the common good and is promoted by the mutual and fruitful interactions of enterprises, institutions and society; human development also consists of social development, which promotes cohesion through the unity of society and territories, and is fueled by the non-profit sector increasing role; and, finally, subsumes intergenerational development, based on sustainable social security systems, which lead to the enhancement of the needs of the young generations and promotes the role of the family as the essential actor of the society.

The search of the common good requires, as an essential preliminary step, to strengthen bonds of relationship and community. Family and local communities remain essential but it is essential also to work to create community in the world of business and economics. *“In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society (Centesimus Annus, n. 35). The common good is reached when we work together to improve the wellbeing of people in our society and the wider world. “We can no longer trust in the unseen forces and the invisible hand of the market. Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programmes, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality” (Evangelii Gaudium, n. 204).*

The path towards inclusive growth is not a simple one. It requires the joint and cooperative effort of political leaders,

public and private institutions, firms and citizens. It requires a global project, strong cooperation, simple and effective regulations and concrete actions. No one can think to be excluded. It is a duty for each of us.

SECTION 1
GLOBAL EMERGENCIES, GLOBAL THREATS

FACING THE REFUGEE EMERGENCY

JAKOB KELLENBERGER

1. You have invited me to introduce the topic as part of the business initiative in the fight against poverty which is, as you are all aware, the main target of today's development policies. According to figures relating to the end of 2014 or mid 2015 there are 19.5 million refugees worldwide (the 5 million Palestinian refugees of concern to UNWRA included), 38 million IDP's as a consequence of armed conflict or other forms of violence and about 20 million IDP's as a consequence of natural disasters and climate change. Despite the fact that you want me to speak on "Facing the Refugee Emergency" my assumption is you wish me to focus on what is called the "Mediterranean or European refugee crisis". (I take it that by "crisis" we mean a delicate situation where decisions have to be taken under time pressure). This crisis is not an old one: *Corriere della Sera* of 26 April published a table showing that the "Mediterranean landings" were clearly below 100.000 between 2008 and 2013, reached 216.054 in 2014 and peaked at 1.051.078 in 2015. So far this year arrivals are below 200.000.

You might understandably ask the question what do we understand by "migrants who have arrived in Europe from the Mediterranean?" Migrants as a generic term for all those who cross borders voluntarily or not, migrants as a term for all those who cross borders voluntarily or migrants as a synonym of refugees in search of protection. Four days later, *Il Sole 24 Ore*, when reporting on the previous day's decision by the Austrian cabinet wrote about a sharp increase of refugees in Austria with 88.160 asylum seekers in 2015.

Terminology matters, not least before frightening Europe's population by the all too familiar metaphor of waves of refugee and migrants. I wonder if the European debate would not have been more rational and flexible if the necessary distinctions between different people on the move and the respective applicable legal frameworks had been made in time. I know the differences between migrants and refugees are not always that clearcut, but it is important to keep the basic differences in mind.

2. We have refugee emergencies and we have emergencies caused by internal displacement as a consequence of armed conflicts, other forms of violence (OSV), natural disasters in general and climate change in particular. My understanding is you want me to focus on refugee emergencies, primarily those caused by armed conflicts and OSV. I would simply remind you that IDPs are equally very vulnerable. Their legal situation particularly as far as protection responsibilities are concerned, is however different.

Imagine nevertheless for one moment what it could mean if IDP's were to cross the borders, looking for better protection and assistance. Today there are as many IDPs in Syria, Iraq, the two Sudans and Somalia as there are refugees worldwide when we count those of concern to the UNHCR. My intervention focuses on refugees as a consequence of violence and armed conflicts in particular.

3. The first question I wish to address is: what needs to be done immediately to diminish the number of refugees and IDP's as a consequence of armed conflict and OSV's? The obvious answer is : much more has to be invested in conflict prevention. This has been recognized for years, but little has happened. Reports published on the occasion of the 2015 Review of the United Nations peacebuilding architecture, use clear language. A better developed sensitivity to situations where peace is at risk and a corresponding readiness to

invest in conflict prevention are indispensable. One of the reports uses the term « sustaining peace » as encompassing both conflict prevention and peace-building after conflicts. As far as people who move for economic and social reasons are concerned, the answer has been given long since with no effects or only limited ones : much more should be invested in their countries of origin in order to create prospects, not least in the form of jobs. The problem has remained the same for too long: how do you ensure ODA and other financial resources are really spent on the creation of jobs? In fact, you cannot. Many in power will always use the Sovereignty argument in order to prevent a degree of involvement being reached which enables you to ensure the money is spent on where you want it. It is no coincidence that Good Governance is on the development policy agenda of many States. I think conditionality should become tougher in this respect. Sad to say, many Governments still do not see Sovereignty as an obligation to work for the well-being of their people but as a means to stay in power and cash in on the money arriving through different channels.

One of the arguments last year when the refugee crisis seemed at its worst in the Mediterranean area was that more should be undertaken in favour of conflict prevention, peace building and support of neighbouring states. This however was of no help in the short term when the refugee crisis needed to be faced. A way must equally be found to develop a sense of responsibility on the part of the countries of origin of refugees and migrants to the extent we are not faced with failed States who assume no responsibilities.

The Co-Founder of Cap Anamour in an article published in the 15/8/2015 issue of Frankfurter Allgemeine Zeitung drew our attention to the fact that no African President, minister or senior official ever visited places where their citizens arrived as refugees (or not). Is it that they don't care about the fate of their citizens and we have started to find this normal?

4. If armed conflict cannot be prevented, then the degree to which international humanitarian law is respected will have a strong influence on the number of refugees and IDP's. If provisions on the protection of civilians are ignored or dealt with as an issue of secondary priority, residents will start to move in order to find places where they feel better protected. The same can happen when they see better prospects of being assisted away from home, for example, in IDP refugee camps. In today's major armed conflicts producing the highest numbers of IDP's and/or refugees, there is poor respect for IHL regarding the protection of civilians. Even if violence does not reach the level of armed conflict, respect for International Human Rights Law still plays a similar role. This law however has no legal standing on the conduct of hostilities. To put it bluntly while looking at today's situation : if IHL were better respected in Syria, Afghanistan, Iraq, in South Sudan etc the number of IDP's and refugees would be lower. Improving compliance with IHL's existing laws is considered the priority by those dealing with the humanitarian consequences of armed conflicts and OSV's. Judging by the outcome of the December 2015 International Red Cross and Red Crescent Conference, States do not show much a sense of urgency in this respect. To be in full control of every process leading to the development of IHL seems to matter more to them than the setting up of modest mechanisms which might lead to some improvements... and yet. Nothing will happen until another proposal is presented at the next International Conference in 2019. Consequently it would be wrong to argue they see a close link between compliance with the law on the protection of civilians and the number of refugees and IDP's. Or if they see it, the so called Sovereignty matters most of all. Having followed the war in Syria for the last five years, you will have noted: to lower the number of refugees or IDP's is not a major concern of the Parties in conflict. They wish to remain in power.

5. Where Refugee (IDP) emergencies cannot be prevented, it is important to be aware that refugees (the same holds true for IDP'S) want to stay close to their places of origin. I will limit the following remarks to refugees. This experience has been made long since in the Afghan context for example, where refugees preferably went to Pakistan and Iran. The same happened with Syrian refugees who first went in large numbers to Turkey, Lebanon and Jordan. It is essential that the neighbouring countries hosting large communities of refugees get the necessary international support to offer an infrastructure attractive enough for refugees to stay until the moment they can return home. In the case of protracted conflicts, education must be part of the programme. I wonder if this well established fact was not ignored for too long in the Syrian context. Could what has been settled in the 18 March agreement with Turkey not have been agreed before? Should other neighbouring States of Syria hosting large communities of refugees not get much more generous support in order to be in a position to offer refugees a decent life until they can return home? I understand Jordan receives a good deal of support, but what about Lebanon, which moreover is in a very delicate political situation? I wonder if the EU and its member States had been more aware of the gaps, grey areas and untested waters of their so-called common asylum-system, would they not have invested much more for refugees in the region. The difficulties of the EU to apply a common asylum system with a minimum degree of solidarity between member States should have been and should be an additional incentive to support Syria's neighbours as strongly as possible. It is remarkable that the EU praised itself for a European asylum system while many member States never cared to translate into national legislation the three directives which, together with the two ordinances, form this system. It is equally remarkable that decisions on the distribution of refugees are not or cannot be enforced due to the resistance by some member

States. I understand that a first and failed attempt to have a distribution system dates back to 2001. No wonder certain Member States – for example Austria at the end of April – prepare to take quite radical measures having lost any trust in a viable EU distribution system. After the latest news from Poland, the Czech Republic and Hungary rejecting any degree of solidarity with other EU member States, Vienna must feel encouraged to continue its present policy.

Yes, the principle of proximity matters. This may be a partial explanation for the fact that not more IDP's cross the border and become refugees. You probably know that the strong increase in the number of IDP's is one of the sad developments of recent years.

There are twice as many IDP's as a consequence of armed conflicts and OSV's than refugees.

6. One assumption often heard is that many of the refugees moved to Europe as a consequence of the paradise story spread by human traffickers.

Why is it – with all the EU's means of communication and those of its member States – this misleading narrative couldn't be opposed by a more realistic one, speaking also about the refusal of EU member States to receive refugees, States who only became members in 2004 and profit moreover from generous financial support by other European member States. I know it is difficult to explain how members of a Community of values – the self understanding of the EU – can justify such attitudes.

Why not explain to them that there is no functional European asylum system with all the uncertainties linked to this ? How to understand that not more could be undertaken and at an earlier stage to prevent these human traffickers doing their deadly job? I think these are questions which will have to be answered one day. It could be painful for the EU and its claim to have a common asylum system.

7. What to do in the EU should the present drop in the number of migrants and refugees prove to be only temporary? After all, the war continues in Syria; Libya remains more or less a failed State and Lebanon, hosting more than 1 million refugees or a quarter of its population, is in a very precarious situation. And future developments in Turkey after PM Davutoglu stepped down or was forced out look more uncertain than some weeks ago. Negotiations between the EU und Turkey are not finished either and the debate on Turkey's status as a safe country may not be over.

I see two options: the first is radical and is based on the assumption that an EU internal distribution system will not be agreed: scrap the so-called European asylum system and transfer responsibility for asylum issues back to the member States. After all, they have maintained it is their responsibility to decide on the number of migrants they accept. This option will probably mean the end of the Schengen system – a setback, not a drama. This being said: wouldn't it indeed be disappointing if a refugee crisis of limited proportions had the potential to bring down an important policy in a Union of more than 500 million inhabitants? This can only be thought in a Union with low standards of solidarity or where some member States think solidarity only works in one direction, meaning in their favour. Individual EU member States will remain bound by the provisions of the 1951 Geneva Convention and the 1967 Protocol as well as the EU provision on subsidiary protection.

The EU Commission looks determined to go the second way: re-enforce the European system with more reliable border controls and an element of solidarity between member States. The idea advanced at the beginning April to transfer responsibility for the treatment of asylum applications and the distribution of the refugees among member States to EU bodies no longer figures among them. The resistance of some member States must have been too strong.

We are not living in times where an increasingly heterogeneous EU is ready to transfer responsibility to the EU level.

Two different situations under which the distribution mechanism will be triggered are now being discussed. Warsaw, Prague and Budapest have already rejected the milder of two versions. Their refusal has the potential to start a discussion on solidarity within the European Union which goes far beyond the refugee issue. In both proposals under discussion, the obligation to receive refugees would be in function of a member State's population and economic strength. It is not clear to me whether Schengen can be maintained under such a system, but intensified controls at the borders may offer a solution. Refugees may always be tempted to go back to the country of their preference.

Thinking of the future, I do not believe we will have less refugee (or IDP) emergencies affecting Europe. First it does not look as though we have entered an age with less armed conflicts and OSV's. Second, numerous people think the number of people displaced internally or across borders as a consequence of natural disasters or climate change will increase. The latter will also imply some major legal work. There are indeed serious legal gaps with regard to cross-border movements, not least where admission, stay and basic rights are concerned. The so called *Nansen Initiative* is addressing these issues. The goal is to build consensus among States on principles to protect people displaced across borders. Planned outcome: a protection agenda.

It is an excellent and obvious idea to invest more in the Near and Middle East in Conflict Prevention and Peace Building. It is an obvious idea too to invest more in the creation of jobs in Africa and the region just mentioned. But even assuming these additional investments are being made, important short term effects on the flow of refugees and migrants are unlikely. This being said, the opening of a credible perspective for peace in Syria would lead many

Syrians to return home as soon as possible. But just now, it does not look as if such a development will materialize in the near future.

8. You are dealing mainly with the social aspects of business. I wish therefore to end my intervention on migrants in the specific sense, meaning people who move voluntarily for mainly economic reasons, and the EU. The UN Convention on the protection of the rights of all migrant workers and members of their families contains the following definition: «Person who is to be engaged, is engaged or has been engaged in a remunerated activity in a State of which he or she is not a national». In our European debate they appear as those who can be refused entry without any further problem if they do not have the necessary documents for staying and working in an EU-member state. Migrants play an important economic and social role for the countries where they send part of their income and for the countries abroad where they carry out jobs where nationals are not available. It goes without saying that migrants are protected by international human rights law and other bodies of law. It goes without saying they deserve the same humane treatment as anybody else in a specific country. Many people are not aware of the following figures that show the important role they play. Without their remittances millions of people, especially in failed or close to failed States, could not survive, nor send their children to school etc. Among the States where they send their money there are moreover others where there is little presence of humanitarian or development organizations. In 2015, according to the IOM, there were 240 million worldwide. The remittances they sent home are a major economic factor in the life of many countries. The estimated 583 billion US\$ is three times the amount of official development assistance (ODA) which sounds almost incredible. 436 billion were sent to developing countries. To give just one example of a country with no reliable statis-

tics: remittances (money transferred by migrants back home) must make up for more than 25% of the GDP of Somalia (Puntland and Somalia included). In Nepal, remittances account for 25% of the GDP.

9. A final word. The refugee crisis has been and remains a serious challenge to the EU from various aspects. Going back to the origins of the present crisis, Member States might ask whether more could not have been done to avoid dramatic developments like the ones in Syria. The Common Foreign and Security Policy is more of a pretence than a reality. Ad hoc coordinations of individual Member States foreign policy when seeming convenient to some Member States are not a common policy. The refugee crisis has been and is a serious reality check for the so called common EU asylum system. If progress has been made in recent times, it remains surprising that the EU seemed to live until recently in the belief it had a common asylum system operating under demanding conditions. We only gradually learnt that some of the directives which should constitute the system have not been translated into national law or in a way which leaves little common ground. I do not speak of the two Ordinances which are directly applicable.

The refugee crisis has confirmed what we know from other policy areas: the EU has become a very heterogenous Union in particular since the 2004 enlargement. It is more and more difficult to take timely decisions or any decisions at all. This clearly has wider implications than the refugee issue.

The EU's self-understanding is that of a Community of values. If this is taken seriously then it is difficult to understand why EU member States should not be capable of practising a generous approach towards genuine refugees in urgent need of protection. Well beyond the refugee question, the overriding question is the one on the minimal level of solidarity still existing between the member States.

REFUGEES AND ASYLUM SEEKERS: MEN AND WOMEN LIKE US

GIAN CARLO PEREGO

In the European context Italy registered a drastic decrease in economic migration – a fundamental agent of development and growth in our country – and a resumption of youth emigration (over 100,000 Italian youngsters left the country). In 2015 and the first few months of 2016 there was a sizable influx of forced migrants, landing in particular on the coast and ports of Sicily but also of Calabria, Puglia, Campania and Sardinia. In 2015, however, it was 9% lower than in 2014 (170,100 people in 2014 and 153,842 in 2015). In 2015 the route changed, especially for those leaving from the Middle East, the Horn of Africa and Asia who travelled to Turkey and then crossed over to Greece: over 850,000 people followed this route. For every person who landed in Italy five landed in Greece. In 2016 the picture changed again and Italy has become once more the preferred arrival point due to the closure of several European borders and the agreement between the European Union and Turkey. So far, however, arrivals are still about the same as last year.

1. WHICH COUNTRIES DO THEY FLEE?

In the first months of 2016 migration increased, compared to 2015, and is expected to keep increasing given the Middle East's continuing instability, the risk of serious disruption in North Africa and the dramatic situation of sub-Saharan countries and the Horn of Africa.

In these last 25 years more and more countries have become prey to wars, guerrilla warfare, insecurity and instabil-

ity. On top of ongoing wars and guerrillas and 59 countries where political and religious freedom is violated or at risk, there have been over 2,000 natural disasters between 2000 and 2012: over 60 million people have been forced to leave their homeland. The path of those who flee violence crosses the path of those who flee hunger and thirst: 840 million and 1 billion people respectively. Violence, fear and the “rage of the people” – as Paul VI warned in his encyclical *Populorum progressio* almost 50 years ago – accompany the movement of migrants, a small portion of whom crossed the Mediterranean sea in 2015 (154,000 people) and keeps crossing, landing mostly on the Italian coastline. Looking at the international situation we cannot but acknowledge our responsibilities: the responsibility of those who invaded other people’s land, of those who exploited people and natural resources, of those who have been selling arms and making money out of war. Evil practices that divided the world and weakened solidarity are the cause of these new migrations, landings and deaths. The responsibility is ours. This movement of people generated by us, by our indifference, lack of solidarity, exploitation, “just” wars and forgotten wars, as well as by climate change, has sorely challenged asylum laws. The right to asylum has been denied again and again, also by Italy in 2011.

2. ARRIVALS IN ITALY

In Italy Lampedusa was again the top landing spot (168 landings and 21,160 people), followed by Augusta (146 landings and 22,391 people), Pozzallo (104 landings and 16,811 people), Reggio

Calabria (90 landings and 16,911 people) Catania (64 landings and 9,464 people), Palermo (61 landings and 11,456 people), Trapani (55 landings and 8,136 people), Taranto (45 landings and 9,160 people). More people arrived in Crotona, Cagliari, Salerno, Corigliano Calabro and Vibo Valentia. The high number of arrivals in Lampedusa was partly due to the

implementation of the “hot spot” system, for the island is the European territory closest to North Africa.

Most of the migrants crossing the Mediterranean left from Libya (over 85%). 8% left from Egypt and a few thousand from Turkey, Greece and Tunisia. Overland crossings to Europe’s North- Eastern borders by the Balkans route also increased.

Change in migration routes was of course mirrored by a change in migrants’ nationalities: the Horn of Africa and Sub Saharan countries became the top source. In 2015 38,612 migrants came from Eritrea (a 10% increase on 2014); 21,886 from Nigeria (a 110% increase on 2014), 12,176 from Somalia (more than double than in 2014), 8,909 from Sudan (three times as much as in 2014) 8,123 from Gambia (a little less than in 2014) 7,444 from Syria (6 times less than in 2014 when Syria was in pole position). The number of people fleeing Senegal and Bangladesh is unchanged (a little over 5,000). On the other hand there are fewer migrants from Mali (5,752, about half as in 2014), Egypt (2,594 compared to 4,095 in 2014), Palestine (1,650 compared to 6,017 in 2014). All together the countries of origin of migrants landing in Italy are 65.

Broken down by gender there were 115,000 men and 20,000 women (for the latter a 15% increase on the previous year). Minors were over 15,000: 4,000 travelling with their families and 11,000 unaccompanied minors, 6,000 of whom disappeared after landing and are untraceable.

3. HOUSING FACILITIES

On January 1, 2016 out of 154,000 registered migrants 103,792 are staying at various housing facilities. 7,394 are housed in frontline facilities run by CDA, CARA, CPSA (2,000 less than in the previous year); 76,394 are housed in temporary housing facilities spread over the whole of Italy (over double as many as in 2015). **SPRAR** facilities for asylum seekers and refugees house 19,715 people, a little less than in 2015.

Broken down by region Lombardy houses 13,480, Sicily 12,373, Lazio 8,232, Campania 8,034, Piedmont 7,933, Veneto 7,922, Emilia Romagna 6,493, Puglia 5,839. Most of the people housed in CARA centers are in Sicily (3,389), Puglia (1,734) and Calabria (1,007). Most of the people housed in temporary facilities (CAS) are in Lombardy (12,499). Most of the people housed in **SPRAR** facilities are in Lazio (4,362), Sicily (4,023), Puglia (1,848), Calabria (1,730) and Campania (1,145). Two thirds of **SPRAR** beds are in these five regions, evidence that **SPRAR** projects were set up mostly by towns in the center and South of Italy. Overall the situation is still very difficult, both at ports of arrival and in many of the frontline facilities, and procedures vary considerably from region to region.

Most of the unaccompanied minors are aged 16 to 17 (80,6%) and come from Egypt (2,499), Albania (1,241), Eritrea (1,218), Gambia (1,028), Somalia (771), Nigeria (627) and Bangladesh (608). Unfortunately most of the 10,952 unaccompanied minors in Italy (as of November 30, 2014) are housed in temporary facilities in Southern Italy; only about 10% live with host families or in foster homes. Half of these minors live in two regions: 3,967 in Sicily and 1,123 in Calabria. Piedmont hosts 285 and Veneto 283. In 2015 there have been 82,940 asylum applications, a 40% increase over the previous year, and the Commissions ruled on 70,737 cases (a 95% increase over the previous year). In 2015 asylum was granted to 29,182 applicants (about 42%) and denied to over 52%. 6% have disappeared. Compared to 2014 the ratio is inverted: it was 60% granted to 27% denied.

4. HOUSING IN RELIGIOUS FACILITIES

On September 6, 2015, when the Pope made his appeal, about 23,000 asylum seekers had been offered hospitality by parishes, religious communities, monasteries and sanctuaries (according by a first survey made by the Italian Episcopal

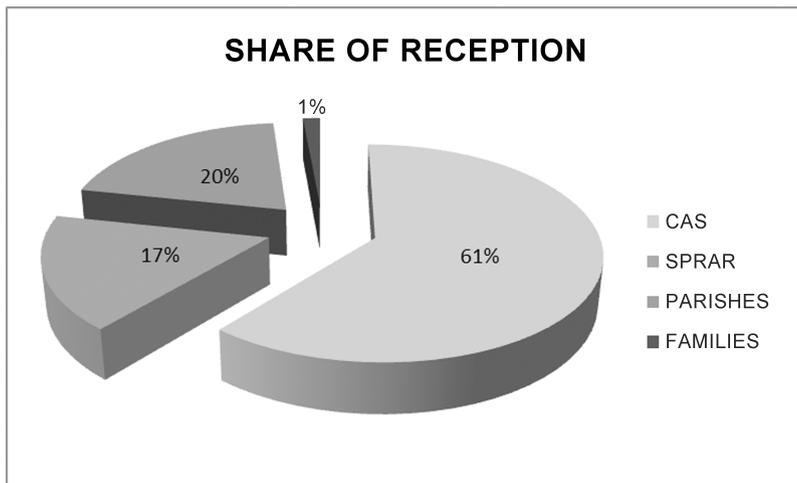
Conference). From that day on, following an appeal by the local Ordinaries, there has been a great show of solidarity which in many cases does not translate, unfortunately, into actual hospitality. In some dioceses parishes are having trouble promoting open doors and integration, which is why CARITAS and MIGRANTES have offered their help to promote solidarity at diocesan level.

As of **April 13, 2016** 196 dioceses answered the form sent out by the Italian Episcopal Conference to survey the situation. They are hosting 22,659 people, broken down as follows:

- 13,847 in facilities approved by the Prefectures and operating with funds of the Ministry of the Interior
- 3,904 in SPRAR facilities (funded by the Ministry of the Interior)
- 4,580 in 468 parishes (diocesan funds)
- 328 with 158 families or other arrangements (private or diocesan funds)

Chart 1

Breakdown of distribution among various facilities



(Source: MIGRANTES Foundation)

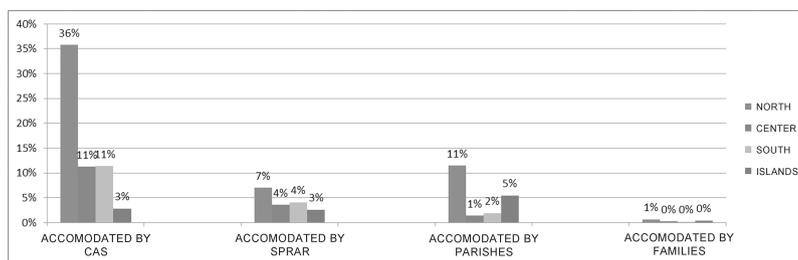
Analysis of data in the four geographical areas (North, Center, South and Islands) shows that migrants housed in **CAS** facilities are divided as follows: 36% in the North, 11% in the Center and South and 3% in the Islands.

7% of people housed in **SPRAR** facilities are in the North, 4% in the Center and South and 3% in the Islands.

11% of people housed by **parishes** are in the North, 1% in the Center, 2% in the South and 5% in the Islands.

1% of people living with **families** are in the North. A few live in the Center. South and Islands¹.

Chart 2
Migrant distribution by geographical area and type of facility



(Source: MIGRANTES Foundation)

The five Italian regions where dioceses host the greatest number of migrants (at CAS or SPRAR centers, parishes and families) are:

- **Lombardy** 5,632
- **Triveneto** 2,740
- **Sicily** 2,210
- **Piedmong/Val d’Aosta** 1,998
- **Calabria** 1,772

¹In the North 68 families host 148 people; in the Center 18 families host 52 people; in the South 27 families host 37 people and in the islands 45 families host 91 people.

196 dioceses filled and returned the form sent out by the Italian Episcopal Conference (29 are unable for various reasons to receive migrants). It can be assumed that they host about 1/5 of the total migrant input.

5. IMPROVING RECEPTION POLICIES: PROBLEMS AND RECOMMENDATIONS

1. The possibility of granting residence permits for humanitarian reasons to migrants who have been denied asylum should be urgently explored. It would prevent many undocumented people to stay in Italy illegally, prey to insecurity, exploitation and criminal gangs. Legal status is fundamental for those who can stay in Italy as well as those who must go back to the country of origin.
2. The outcome of extant migration management policies should be forcibly brought to the attention of EU authorities: hotspots, relocation and repatriation are border control measures that result in immediate selection of nationalities eligible for entry (Syria yes, Iraq no...). For thousands of people the only alternative is turning to human traffickers. Three **hotspots** are already operative in Italy (Lampedusa, Trapani and Pozzallo). Identification procedures carried out by FRONTEX, EUROPOL and EASO result in a preselection of migrants allowed to apply for asylum. Those who come from countries deemed to be "safe" are denied the right to request asylum. This violates the Geneva Convention (and the Italian law that implements it) according which asylum applications can be submitted by all, and every applicant has the right to have his/her application screened individually and thoroughly. Even people coming from Sub Saharan Africa often receive border rejection notification. As to **relocation**, envisaged by EU authorities to distribute hot spots identified asylum seekers among EU countries, the procedure is

neither speedy nor effective. Applicants are kept waiting two or three months before transfer to the few countries that have agreed to receive any. EU countries are not obliged to receive a fixed quota of asylum seekers transferred from countries such as Italy and Greece, which are under the heaviest migratory pressure. And the countries where most asylum seekers would like to go (Northern Europe) are not among the few who have agreed to receive some. For instance, EU guidelines envisage 39,000 relocations from Italy over a two year period, at a rhythm of 1,600 per month, but in actual fact only 190 asylum seekers have been relocated as of December 2015 (i.e. three months after implementation of the procedure). Furthermore only nationals of Eritrea, Iraq and Syria are given this possibility and Italy has very few of them (Eritrea excluded). Europe wide identification and relocation procedures must be urgently introduced, respectful of human dignity and human rights, truly enforceable and based on the solidarity of all EU countries. And new procedures must be found to manage arrivals, both of migrants and asylum seekers, endorsed by all EU countries, setting up fixed quotas for each country and, as much as possible, crosschecking availability/refugees' wishes.

3. Asylum applications should be processed more competently and faster: (a) reforming the system of territorial commissions and providing better training for staff; (b) hiring more staff so that all applications are processed within the six month period envisaged by EU norms. At the same time every effort should be made to speed up processing of appeals: at present one year, sometimes two, go by before these people receive a reply. In the meantime they are left in limbo, no longer eligible to reside in accredited facilities; prey to insecurity and exploitation they often disappear and become untraceable.

4. Reception procedures should be the same throughout Italy: same standards and same system of controls and audits. As is the case with other social services, charitable and no profit organizations should be given a role, within the framework of a regional plan, *overcoming the impasse of a statist approach that gives the right to submit refugee reception projects only to municipal authorities*. This, by the way, would be in accordance with European regulation on services to the person and Italy's Law #328. Transparent procedures would be advantageous both to refugees and those who provide for them. An October 2015 report of the Italian Ministry of the Interior shows that money spent on refugees has a positive impact on hosting communities: out of the € 30 to € 35 daily allowance per person about 37% goes to cover staff wages while about 23% is used to pay rent and buy food and clothing, positively impacting local suppliers. Once refugees are sure they can stay in Italy, efficient planning must be in place to provide them with housing and help them find a job. Without it, we create frustrated social outcasts, easy prey to exploitation. To this end we need specific programs at national and regional level to facilitate social and economic integration of the refugees, as of any other homeless and jobless individual. The synergy State-NoProfit-Church can be extremely fruitful (there are many positive examples of such a joint approach throughout Italy).
5. As regards unaccompanied minors, housing in inadequate collective structures has proved totally unsatisfactory. We need ad hoc facilities: not just small structures but foster homes and similar solutions: a specific system of family based services within the general one for asylum seekers, as advocated by the 2014 State – Regions Conference but not yet put in place. Finally, unaccompanied minors should be rapidly given tutors: trained volunteers, not mayors or aldermen who are unprepared and unfit for such a job.

6. CONCLUSION

Today Europe is split in two: countries willing to welcome refugees and countries who build barriers against a new “Lepanto”, where the enemy is no longer the Turk but the world’s poor. What Europe lacks is a feeling that social justice is a must: without it Europe risks to disintegrate, failing to appreciate a precious resource: immigration brings children, young people, families, what Europe needs to build its future. A great effort to learn and understand is asked of Christians and communities: from a social and political viewpoint in order to protect the dignity of the human person; from a cultural and pastoral one, while it is important to stress our Christian identity and the need to respect the basic rules of social coexistence, we must also be open to dialogue, set up rules and programs welcoming the wealth of different cultures and religions, especially – as Pope Francis reminds us in the Bull *Misericordiae vultus* – Jewish and Islamic ones. The quality of evangelization depends on how effectively and sincerely we put into practice the commandment “love thy neighbor”. Migration is the test.

THEMATIC PRIORITIES
OF THE HOLY SEE'S INTERVENTIONS
AT THE INTERNATIONAL ORGANIZATIONS

PAUL RICHARD GALLAGHER

Distinguished guests,
Dear Friends,

It's a pleasure to be with you this morning and to have the opportunity to discuss the *principal themes that mark the interventions of the Holy See at the various international and multilateral fora*. In doing so, I hope not only to offer you a vision of the relations between the Holy See and the Community of Nations, but above all, to invite you to consider some of the concerns that move Pope Francis and to consider ways in which *you might make these concerns your own* and, within your own spheres, support the action of the Holy See.

First of all, we should clarify precisely what is meant by the "Holy See". In the strict sense, the Holy See (or Apostolic See) refers to the See of St Peter and thus to the Pope, as St Peter's successor in that See. In its broader canonical sense, the Holy See refers to **the Pope and the Roman Curia**, as the central organ of governance of the Catholic Church (cf. *Can. 361*). Furthermore, at the level of international relations, the Holy See is considered, and has been for centuries, a sovereign juridical subject, independent from every other government or state. The Holy See is also the most ancient institution operating on the international scene, already in existence and active many centuries before the creation of modern states and still today universally recognised as a member of the international community; enjoying the proper

prerogatives of a state, to establish diplomatic relations and to enter into international treaties.

The Holy See then should not be confused with the small territory we call the Vatican City State, which is another international subject, distinct from it and created, indeed, with the scope of assuring the liberty, independence and autonomy of the Holy See. Nor can the Holy See be identified, *sic et simpliciter*, with the Catholic Church, which is the community of believers in Jesus Christ, united by bonds of faith and charity with one another, with their respective bishops and with the Bishop of Rome.

Given this particular nature, the international action of the Holy See has the principal scope of assuring the liberty of the Catholic Church and of her pastors, so that they may carry out, for their part, the mission of evangelization entrusted to them by the Lord Jesus (*Mt 28:19-20*). In addition to this, the Holy See itself, in the various contexts in which it operates, is committed to propagating that ethical guidance and those moral values, coming from the Gospels and proposed by Christian faith and morality.

The entire action of the Holy See, fundamentally, is at the service not only of the Church, but also of man himself, placed by God at the pinnacle of creation, with a dignity that is inseparable from his transcendent dimension. In this perspective, the Holy See acts firstly on the anthropological plane, which is built on this transcendent (or religious) dimension of human life and which is antecedent to state institutions, in the sense that its vindication does not depend on the recognition of the State and does not depend on the judgement of any legislator. The same transcendent dimension, however, needs definition and historical form, in order to give it a concrete expression: and it is at this level that the Holy See acts, with a commitment to address a fundamental message to all States, in order that integral respect for human dignity become the fundamental norm of the international order and of every civil system; so that respect for human

dignity may become the yardstick for the legitimacy of all other rules of behaviour. For this reason, in all its bilateral and multilateral relations, the Holy See insists on the primacy of certain principles, without which there cannot be a true civilisation.

Among such principles are found: the right to life at every stage of its biological development, from conception to natural death; the right to form and maintain a family; the right to educate one's children; the right to work and the right to receive a fair distribution of its fruits; the right to a collective and individual economic development; the right to freedom of thought; the right to freedom of conscience and of religion; the right to responsible participation in public life and to contribute to the common good; the right of access to justice and fair process, etc.

Another field of the Holy See's activity, apart from the anthropological, is the political-international. Always guided by its spiritual mission, in this field the Holy See works for the creation of an international order based on justice that allows and assists States to assure their citizens equality of access to the fundamental goods of material life (food, housing, work, etc), of the intellectual life (such as education and culture) and also those that concern the spiritual life (freedom of religion and of worship, in all their dimensions).

In the years immediately following the Second World War (1945-1950), the family of nations established a multilateral structure of coordination and common management of international affairs, with the aim of banishing war and promoting economic and social development in every country: the United Nations Organisation and the various organisms, agencies and programmes associated with it. That international structure was not ignored by successive Popes, who on five occasions have travelled to the UN Headquarters – Paul VI in 1965, John Paul II in 1979 and 1995, Benedict XVI in 2008 and Francis last September. *“All of them expressed their great esteem for the Organisation, which they considered the ap-*

appropriate juridical and political response to the present moment in history, marked by our technical ability to overcome distances and frontiers and, apparently, to overcome all the natural limits to the exercise of power. An essential response from the moment in which technological power, in the hands of nationalistic or falsely universalist ideologies, is capable of perpetrating tremendous atrocities”.

This is a quotation from the address of Pope Francis during his visit to the UN General Assembly. In the same discourse he remarked that: *“War is the negation of every right and a dramatic assault on the environment. If we want true integral human development for all, we must work tirelessly to avoid war among nations and peoples”.* Thus, peace among peoples continues to be at the centre of the international activity of the Holy See. The significant proposals for international peace during 2015, the notable scientific and technological progress of recent years (a large part of which is thanks to the activity of private enterprises), the emergence of a vast global middle class and the release of billions of men and women from the trap of poverty: all of these gains can be undermined and indeed overturned by the grave conflicts ongoing in our world, as well as by the persistent exclusion suffered by billions of human beings today.

As you know, we still live with the terrible reality of dozens of open conflicts in various regions of the world; in addition, there is the persistence of many residual situations of conflict that have been only partially resolved and that continue to cause death, destruction and suffering; finally, situations of grave instability continue, in which war could once again break out. To the conflicts among nations and to the long-running civil conflicts, one must add newly developed non-state conflicts, in the form of supranational terrorist organisations and international criminal organisations, including those dedicated to drug trafficking and to human trafficking, with no regard to the moral law, which are causing so much harm to millions of victims.

More specifically, the Holy See has never failed to manifest to Governments and to International Organisations the profound sorrow and concern of the Catholic Church for the difficulties of Central Africa, the Great Lakes' region, South Sudan, Syria, Iraq, Afghanistan and the many other situations of conflict and violence, many of them caused by criminal interests, which, nonetheless, lead to the loss of millions of human lives, to the gravest physical and psychological consequences among the survivors, especially among the weakest and the most defenceless, and to the destruction of cities and of precious infrastructure. In these contexts, the Holy See has used – and continues to use – all its diplomatic resources to contain the conflicts and to favour processes of reconciliation between governments and between peoples. The humanitarian organisms linked to the Holy See, such as *Caritas Internationalis* and the International Catholic Commission for Migrants, individual national Caritas organisations – both of developed and the developing countries –, as well as the regional and national Episcopal Conferences, engage generously to assist the victims of conflicts, to assist migrants and refugees, and all those affected by violence. They also support efforts at reconciliation.

There are then certain particular situations of conflict, among which those of the Middle East stand out. This region, which historically has had a decisive role in the birth and growth of our contemporary civilisation, finds itself immersed in a drama that draws together every form of conflict and every type of subject: state and non-state actors, cultural and ethnic groups, as well as groups devoted to fundamentalist violence, conventional arms and arms of mass destruction, terrorism and criminal behaviour, and the involvement, at times ill-considered, of States from outside the region.

The destruction, the pain, the suffering, the hatred, the atrocities and the unprecedented violations of human rights that characterise these conflicts are broadcast by the media in real time (cf. POPE FRANCIS, Discourse to the participants of a

meeting promoted by the Pontifical Council «Cor Unum», 17 September 2015), with the risk of generating, by this repeated exposure, a paralysing familiarization and indifference. Such realities, however, should shake the consciences of the entire international community and of all men and women, forcing a renewal and a reinvigoration of the juridical structures and of the existing politics, which must reshape themselves and move decisively to help, with a generous spirit, to limit and to heal, in so far as it is possible, the effects of the present armed crises. Also the business community should feel itself challenged by this reality, which in some way can have consequences for companies, for business leaders, for their workers and for their families. Furthermore, business leaders can – and in certain circumstances, should – bring to bear their own moral influence to help political leaders to reflect and to move public opinion to consider more carefully those proposals for peace and solidarity tirelessly promoted by the Holy See.

Together with these conflicts, and often as a result of them, we are witnessing today the exile of entire populations, a displacement which has now surpassed that caused by the Second World War! Populations and entire regions are being displaced, trying to flee from war, from persecution, from exploitation and poverty. This mass migration has recently moved to the centre of political attention, more, however, because of the additional and unexpected inconveniences placed on the receiving countries, than for the scale of the human tragedy, seen in the price paid by thousands of innocent victims.

The response to such mass displacement – owing also to concerns about terrorism and other local difficulties – especially in the most developed nations, has been a policy of refusal, exemplified, in some cases, by the construction of walls and barriers along national borders. It is a tragic phenomenon, which we thought had been left definitely behind by the events of the 1980s and 1990s. It represents an improvised and

ineffective security solution that hides a painful attitude of withdrawal and indifference. In opposition to this tendency, however, many organisations together with hundred of thousands of volunteers, coordinated or spontaneous, continue to mobilise in order to welcome our brothers and sisters, who have been forced to migrate or to flee. This is another area in which you, as business leaders, can help to sensitize the political class and public opinion.

The Holy See will continue to encourage Governments to overcome every form of narrow nationalism and, above all, to recognise the unity of the human race, trusting in the potential of man, when his dignity is respected and when he is treated as an equal subject, who can contribute to the State and to the progress of society. Both recent and ancient history teach us that migrants, also in the most dramatic of upheavals, have always been a positive contribution to the host country. But, more importantly, migrants are men and women, who enjoy the same universal rights, above all the right to life and to dignity. It is the task of all civil societies, including the commercial sector of those societies, to accompany this action and to engage actively in welcoming and integrating migrants and refugees.

As well as welcoming the displaced, the present situation requires an urgent commitment to resolving the issues that force populations to flee or that compel people to emigrate. The current crisis must become an opportunity to rethink and to change many political and economic decisions, and to discuss, in both public and private, the most important questions concerning peace, security, the conditions for legitimate defence and, in particular, cooperation in favour of development.

This consideration introduces the third and final general perspective which directs the action of the Holy See, and which might be defined as the ecological perspective, in both its environmental and social aspects, in the fullest sense of these terms, bearing in mind that *“a true ecological approach*

always becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear both the cry of the earth and the cry of the poor” (POPE FRANCIS, *Laudato Si’*, 49).

In this perspective, the Holy See has encouraged the solemn commitment undertaken by the governments of the world to implement the United Nations’ *2030 Agenda for Sustainable Development*; a timely commitment, that needs to be carried forward with courage, conscious at the same time, that without peace among the nations, it will be impossible to reach the objectives of progress and development.

Pope Francis has also explicitly shown his appreciation for the adoption of the 2030 Agenda, which defines itself as a Plan of Action for the prosperity of peoples and of the planet, and which also strengthens peace in the enjoyment of a broad liberty. The representatives of many governments have recognised that the eradication of poverty, in all its forms and dimensions, constitutes the greatest global challenge and that it is an indispensable requisite for sustainable development. To that end, they have promised to undertake the necessary courageous and transformative steps to attain and maintain a more just and stable world economic structure, one that is ecologically sustainable and capable of keeping pace with demographic growth and social changes.

The Holy See has participated actively in the drafting process of the Agenda and, already before the end of the negotiations, the Holy Father affirmed that the new 2030 Agenda for Sustainable Development represents a sign of hope for the whole of humanity. Equally, the Holy See participated in the negotiations for the binding *Paris Agreement under the United Nations Framework Convention on Climate Change* (UNFCCC) and at the Third International Conference on Financing for Development (Addis Abeba, July 2015), during which an ambitious Plan of Action was adopted, which is a necessary instrument for the implementation of the 2030 Agenda. On another level, the Encyclical Letter *Laudato Si’* offers to all Christians, and to people of good will, ethical and religious

guidelines that correspond to the abovementioned international commitments.

Your own Foundation, in particular, and indeed all Christian businessmen, on the basis of *Laudato Si'* and the international documents we mentioned, can find inspiration for developing commercial behaviour and actions that will have a positive impact on the common good, on the protection of the environment and on the welfare of families.

Unfortunately, the praiseworthy international proposals in favour of the environment and of human and economic development, and also the new impulse that the Pope's teaching gives to business people and to other economic actors, risk being undermined by war and the consequent humanitarian crises that worsen the already gravely disadvantageous situation of the environment and of various populations, caused by poverty and an irresponsible exploitation of natural resources.

The three perspectives that I have briefly traced, (the anthropological, the political-international and the ecological, in broad terms) allow us to recognise how the Holy See assumes a role on the international scene, that might be considered prophetic, recalling to everyone's attention: the fundamental and overriding dignity of every human being, the necessity of bringing about an international order founded on harmony and peace – thus rejecting violence as a means of resolving conflict – and the necessity of constructing a process of truly sustainable development, both for the good of the earth and for that of the human family, in its entirety. To do this, we cannot simply protect our own interests, disguising them as rights, while ignoring the obligation to respect the rights of others. It needs to be remembered that no nation can guarantee its own security and its own economic and social well-being by isolating itself from the rest of the world and without showing solidarity with other countries. The Holy See's position is also a call to responsibility by everyone, especially by

those who occupy leading roles in civil society and in the direction of economic activity.

During his address to the United Nations General Assembly, Pope Francis made his own the words of Paul VI, spoken fifty years earlier, but still valid today for political activity and for economic and business activity: *“The hour has come when a pause, a moment of recollection, reflection, even of prayer, is absolutely needed so that we may think back over our common origin, our history, our common destiny. The appeal to the moral conscience of man has never been as necessary as it is today... For the danger comes neither from progress nor from science; if these are used well, they can help solve a great number of serious problems besetting mankind”* (PAUL VI, Address to the Representative of the States, 4 October 1965). Pope Francis affirms that *“human genius, well applied, will surely help to meet the grave challenges of ecological deterioration and of exclusion”*.

This applies particularly to you, business leaders and professionals. However, Paul VI cautions us: *“The real danger comes from man, who has at his disposal ever more powerful instruments that are as well fitted to bring about ruin as they are to achieve lofty conquests!”* (*ibid*).

Civil society and the business world can make their own and implement, at the national and international levels, what the Holy See says to Governments, which, in summary, is that *our common home must continue to be built on a right understanding of universal brotherhood and on respect for the sacredness of every human life, of each man and each woman, of the poor, of the aged, of children, of the sick, of the newborn, the unemployed, the abandoned, of those judged expendable because they are considered nothing more than statistics. Our common home must also be built upon the understanding of a certain sacredness in creation.*

Such an understanding and respect demand a higher level of wisdom, which accepts the transcendent element – even in ourselves –, which eschews the creation of an all-powerful elite and understands that the true sense of our individual and collective lives is found in the disinterested service of the other and in the prudent

and respectful use of creation, for the common good. Repeating the words of Pope Paul VI, “the construction of modern civilisation must be based on spiritual principles, capable not only of supporting it, but of illuminating and animating it” (ibid).

ALLIANCES FOR CHANGE IN AN AGE OF GLOBAL THREATS

ADRIAN PABST

1. POPE FRANCIS' CALL FOR MERCY AND COMPASSION FOR THE POOR

In the Jubilee Year of Mercy, Pope Francis sought to move the merciful face of God to the centre of the Church's gift to the world. God is *misericors*, a notion that includes both 'heart' (*cor*) and 'to have compassion for the poor' (*misereri*) – those who suffer and who long. To speak of the merciful God is to emphasise that God has a heart for the poor (*miseri*) – not merely those who are oppressed and exploited but also those 'outcasts' and 'leftovers' who have been excluded from the economy altogether, as the Holy Father warned in his Apostolic Exhortation *Evangelii Gaudium*¹.

To declare God as merciful is also to say that divine mercy forgives the sins of all who recognise the injustice of their thoughts and actions. That is why Pope Francis is asking "the Church [...] to rediscover the richness encompassed by the spiritual and corporal works of mercy. The experience of mercy, indeed, becomes visible in the witness of concrete signs as Jesus himself taught us"². This means that neither

¹POPE FRANCIS, Apostolic Exhortation *Evangelii Gaudium*, 24th November 2013, 53, full text available online at http://www.vatican.va/holy_father/francesco/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-gaudium_en.html

²POPE FRANCIS, Letter to Archbishop Rino Fisichella, President of the Pontifical Council for the Promotion of the New Evangelisation on the Extraordinary Jubilee Year of Mercy, 1st September 2015, available online at https://w2.vatican.va/content/francesco/en/letters/2015/documents/papa-francesco_20150901_lettera-indulgenza-giubileo-misericordia.html

theological nor ecclesial divisions should obstruct the free flow of forgiveness and all the activities aimed at building more ethical and ecologically resilient models.

The purpose of the Jubilee Year was to bring healing to those who suffer in silence, so that they can once again be actors and participants in society, the polity and the economy. For Pope Francis, business plays a vital role in addressing the ills of poverty and exclusion. As he writes in *Evangelii Gaudium*, “Business is a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to *serve the common good by striving to increase the goods of this world and to make them more accessible to all*”³.

2. HOW POPE FRANCIS IS DEVELOPING CATHOLIC SOCIAL THOUGHT

This call for mercy and compassion reflects the Christian humanism and the theology of the dignity of the person that are at the heart of Catholic Social Thought. Building on the writings of his predecessors (in particular Saint John Paul II and Pope Emeritus Benedict XVI), Pope Francis is developing the body of Catholic social teaching with its principles for reflection and guidelines for action. In his encyclical *Laudato Si'*, he accentuates the importance of natural law and a divinely created cosmic order that are not reducible to human will but instead require careful judgement and prudence. We need to be wary of claims about measureless acquisition and endless growth in a finite world in which humankind transgresses all manner of physical and moral boundaries at its own peril.

As the former Archbishop of Canterbury Rowan Williams suggests in his reading of *Laudato Si'*, the materialism that

³ POPE FRANCIS, *Evangelii Gaudium*, 203 (my emphasis).

characterises the dominant modern ideologies is in fact deeply anti-material and destructive of nature: “The plain thereness of the physical world we inhabit tells us from our first emergence into consciousness that our will is not the foundation of everything – and so its proper working is essentially about creative adjustment to an agenda set not by our fantasy but by the qualities and complexities of what we encounter. The material world tells us that to be human is to be in dialogue with what is other: what is physically other, what is humanly other in the solid three-dimensionality of other persons, ultimately what is divinely other”⁴.

According to Pope Francis’ diagnosis of the contemporary world, the fundamental issue is the loss of meaning – the intrinsic worth and purpose of human beings, other animals and the entire biosphere. Connected with this is a new culture of ‘disposability’ in which everyone and everything that does not satisfy our immediate desires can so readily be dispensed with precisely because it has already been turned into a commodity. Ultimately, as the Pope writes, “when the culture itself is corrupt and objective truth and universally valid principles are no longer upheld, then laws can only be seen as arbitrary impositions or obstacles to be avoided”⁵.

For Williams, the ‘bold cultural revolution’ that Pope Francis wants to see “is about restored relationship with the creation we belong with and the creator who made us to share his bliss in communion; it is about the unbreakable links between contemplation, eucharist, justice, and social transformation. It constitutes a major contribution to the ongoing

⁴ ROWAN WILLIAMS, ‘Embracing Our Limits: The Lessons of *Laudato Si’*’, *Commonweal*, 23rd September 2015, available online at <https://www.commonwealmagazine.org/embracing-our-limits>

⁵ POPE FRANCIS, Encyclical Letter *Laudato Si’*, 24th May 2015, 123, full text available online http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html

unfolding of a body of coherent social teaching, and a worthy expansion and application of the deeply impressive doctrinal syntheses of Pope Benedict's major encyclicals"⁶.

3. VIRTUE AND THE COMMON GOOD

Central to Pope Francis' contribution to Catholic social teaching is the focus on holistic development. Against the extremes of statist collectivisation and capitalist commodification, Catholic Social Thought charts an alternative economics that emphasises the common good. From this perspective, legislation and regulation are pointless unless we can move politics and the economy beyond the sole pursuit of private profit or public utility towards a plural search for goods in common that are open to all. In the tradition of Catholic humanism, the common good combines personal fulfilment with mutual flourishing. It neither imposes a single conception of goodness on all, nor does it represent the 'greatest good of the greatest number', for both concepts would exclude certain persons or even whole groups.

In his social encyclical *Caritas in veritate*, Pope Benedict XVI defines the common good as "the good of 'all of us', made up of individuals, families and intermediate groups who together constitute society. It is a good that is sought not for its own sake, but for the people who belong to the social community and who can only really and effectively pursue their good within it"⁷. Therefore the common good is *not* the total mathematically measurable good – the sum total of individual utilitarian happiness in some artificial aggregate average like national output. For national output counts people one by

⁶WILLIAMS, 'Embracing Our Limits: The Lessons of *Laudato Si'*'.

⁷POPE BENEDICT XVI, Encyclical Letter *Caritas in veritate*, 7, The Vatican, 29 June 2009, full text available online http://w2.vatican.va/content/benedict-xvi/en/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate.html

one, not in their real relationships. By contrast, the common good is concerned with the truest goods that we share together as human beings and members of society⁸.

Likewise, against the extremes of egoism and abstract altruism, Catholic Social Thought charts an alternative conception of ethics that focuses on human virtue. To speak of virtue does not mean a pious new demand for more morality in public life, as if morality were something alien to the economy or politics, and in tension with their more pragmatic and realistic exigencies. Instead, the crucial point is that there can be no human practice, which is always shared and communal, unless we are aiming for the good in some sense, and have some idea how to recognise and successfully pursue it. Thus for the tradition of Catholic social teaching, morality is not a kind of optional extra for either the economic or the political process. Instead, ethics is in continuity with all human activities, including finance and business. Pope Francis puts this succinctly: “Ethics – a non-ideological ethics – would make it possible to bring about balance [in the marketplace] and a more humane social order”⁹.

The conception of economics and ethics that emerges from the body of Catholic social teaching provides principles for reflection and guidelines for action on the key contemporary challenges of poverty and the refugee crisis. Pope Francis links the preferential option for the poor to reciprocal obligations and the value of work. Reciprocal obligations means that that the rich have a duty to “help, respect, and promote the poor”¹⁰

⁸STEFANO ZAMAGNI, ‘Catholic Social Teaching, Civil Economy, and the Spirit of Capitalism’, in DANIEL K. FINN (ed.), *The True Wealth of Nations. Catholic Social Thought and Economic Life* (Oxford: Oxford University Press, 2010), pp. 63-93. Stefano Zamagni, an Italian economist, is perhaps best known for his work on the tradition of ‘civil economy’, which is a key notion in *Caritas in veritate*.

⁹POPE FRANCIS, *Evangelii Gaudium*, 57.

¹⁰POPE FRANCIS, *Evangelii Gaudium*, 58.

and that this “is an ethical imperative essential for effectively attaining the common good”¹¹. At the same time, Catholic Social Thought rejects a passive state of dependency and a mentality of individual entitlements and state hand-outs, which characterise the modern welfare state. Instead, the aim is to uphold the dignity of the human person by emphasising contribution to society and the importance of work. That is why, in the words of the Holy Father, financial help for the poor “must always be a provisional solution in the face of pressing needs. The broader objective should always be to allow them a *dignified life through work*”¹².

All of this means that entrepreneurship is vital for the reduction of poverty, inequality and exclusion. Indeed, as he writes in *Laudato Si'*, “business is a noble vocation, directed to producing wealth and improving our world. It can be a fruitful source of prosperity for the areas in which it operates, especially if it sees the *creation of jobs as an essential part of its service to the common good*”¹³.

Likewise, on the refugee emergency, the Catholic Church calls on states not only to welcome refugees who face persecution or extreme economic hardship but also to provide assistance to countries where migration originates in order to allow people to stay at home: “The Church stands at the side of all who work to defend each person’s right to live with dignity, first and foremost by exercising the right not to emigrate and to contribute to the development of one’s country of origin”¹⁴. Beyond the choice between an open- and a closed-door policy, Catholic Social Thought reminds us that

¹¹ POPE FRANCIS, *Laudato Si'*, 158.

¹² POPE FRANCIS, *Laudato Si'*, 128 (my emphasis).

¹³ POPE FRANCIS, *Laudato Si'*, 129 (my emphasis).

¹⁴ POPE FRANCIS, Message for the World Day of Migrants and Refugees 2016, The Vatican, 17 January 2016, at http://w2.vatican.va/content/francesco/en/messages/migration/documents/papa-francesco_20150912_world-migrants-day-2016.html

mercy and compassion have to be combined with assistance for people in their own countries and programmes of integration that take into account the rights and duties of all. In this manner, Catholic social teaching seeks a balance of interests, linking solidarity with refugees to their respect for the laws and traditions of host countries.

Exclusion and the refugee emergency show that Catholic Social Thought provides not just principles for reflection but also guidelines for action. The challenge is to translate the language of Catholic social teaching into political and business terms and to work out policies and strategies that are faithful to the tradition. The *Fondazione Centesimus Annus Pro Pontifice* and all its members are uniquely positioned to develop new ideas for transforming politics and the economy in line with virtue and the common good. One specific question that arises in the current context is how the *FCAPP* can help in the building of alliances for change that are able to apply the principles of Catholic social teaching to the global problems of economic exclusion and the refugee crisis.

4. ALLIANCES FOR CHANGE

In the face of global threats, the task is how to organise people of all faiths and none around a shared programme for more moral and environmentally viable forms of growth and development. Arguably, some of the most effective ways of organisation tend to come from locally-based citizens initiatives that are able to link up all the different dimensions – ecological, economic and political – in a movement that seeks to resist the drift towards turning everything and everyone into a commodity. Not accidentally these movements – as supremely in the case of ‘community-organising’¹⁵ – tend to

¹⁵ ARNIE GRAF, ‘Community Organising and Blue Labour’, in IAN GEARY - ADRIAN PABST (eds.), *Blue Labour: Forging a New Politics*, 2nd edition (London: I.B. Tauris, 2015), pp. 71-78.

have a pan-religious dimension and in this respect to transcend the modern instrumentalisation of faith as a vehicle for power or wealth (or both at once). ‘Community-organising’ was pioneered in the USA, and it involves educating and training members to become leaders. The leaders become the co-creators of powerful, broad-based and culturally, economically as well as religiously diverse organisations in the community and in the workplace. These organisations are autonomous and democratically self-governing. By contrast with single-issue movements (such as numerous new social movements that emerged in the 1990s), community- and workplace-based organisations are multi-issue, action-oriented and run by a broad leadership team. The main task of leaders is to recruit, educate and develop new leaders by building relationships that can sustain and grow organisations around common concerns which bring quality to people’s lives.

So why does religion tend to be central to new forms of civic participation such as ‘community-organising’?¹⁶ It is religions that tend to propose some overall account of humanity and as teleologically directed by nature in an ethical direction, without which ethics must sink to the level of sentimental moralism – often linked to double standards (as in the case of those people in public life who demand from others the respect of rules which they themselves do not obey).

However, local initiatives often fail to gain traction with the mainstream political parties, and they are sometimes co-opted by extreme right or extreme left parties. There is therefore a continued need to try to link this local level with a wider national and international attempt to make the principles of Catholic Social Thought the new basis on which to

¹⁶See AUSTIN IVEREIGH, *Faithful Citizens. A Practical Guide to Catholic Social Teaching and Community Organising* (London: Darton, Longman & Todd, 2010).

rethink practices in business, politics and beyond. Above all, there remains a clear need for a broad movement in shaping an economics and a politics of the common good – a movement that can overcome the binaries that divide many countries around the world: young *versus* old, owners *versus* workers, natives *versus* immigrants, city *versus* countryside, faithful *versus* secular. New alliances are needed that can bring together individuals and groups with seemingly opposite values and interests, including trade unions, business associations and faith communities. If they can together build organisations with new members and activists beyond single-issue protest and sectional interest, then they can help renew political debate and even public policy. Thus the body of Catholic social teaching has the potential to inspire a broader cultural movement promoted by the churches, other faith traditions and civic groups.

From the perspective of Catholic Social Thought, not only is an economics and politics of the common good a better alternative to existing ideologies and vested interests, which are often either moralistic or amoral. But it is also the case that only an ethical alliance of disparate forces which is likely to be able to put this alternative into place. Given the general drift towards greater inequality and cultural insecurity, it is important to stress that a potential for transformation, not by any one particular group or class, but by ‘everyone’ already exists. But just because it concerns everyone, it can only be authentically articulated and organised in more ‘organic’, overarching terms. That is to say, in the name of human flourishing as such, and in a way that links together all the dimensions of political, economic and social life. This will require a new ‘irruption’ of a communicable ethical vision (religiously inspired for many), genuinely able to move people.

Perhaps the realisation of such a vision requires above all the pursuit of Christian ecumenism under a new sense of practical exigency and public responsibility and not just inward-looking idealism. Allied to this should be a new sense,

already present in the Catholic Church in many countries, that Christian churches need now to organise and act directly in the economic and even the political field, not through existing political parties but by engaging people where they live, work and worship. One can see the relevance of such an ecumenism to new global threats such as economic volatility, climate change, terrorism and indeed migration, as the joint declaration on common threats to Christianity by Pope Francis and Patriarch Kirill on 12 February 2015 underscores.

And allied to the ecumenical exigency in turn should be a new recognition that, for all the inevitably enormous area of acceptable disagreement and uncertainty, there is a much greater consensus implied by Christian belief than has recently been taken to be the case. The broad appeal of Catholic Social Thought can help build a new common ground that can be shared for the most part by people of other faiths and for non-religious people who recognise the limits of the dominant models. There are many non-religious people who fully recognise the existence and irreducibility of humanity and who respect the wider mystery and value of the natural world.

But even if the emergence of a (religiously inspired) movement seems unlikely, it is far more effective than other scenarios such as the impossible return to the stability of the post-1945 settlement or the mobilisation of people by the far left or the far right (or the populist fusion of both that we are seeing around the globe). That is so because both the mainstream and the new populists across the political spectrum are today hampered by certain structures that neutralise systemic change but also by the inadequacy of their own analysis – that the economy is fully divorced from ethics and politics from religion. Alliances for real change need to be based on a substantive vision of true human happiness or *eudamonia* – personal fulfilment and mutual flourishing in accordance with the common good. At the heart of this vision lies a distinct anthropology, the sense that human beings – as integral

‘social’ and ‘political’ animals – are all cultural labourers who work because they are guided by a sense of the further realisation of the Good. “Man” being, as Thomas Carlyle put it, “the missionary of Order”¹⁷.

5. CONCLUDING REFLECTIONS AND QUESTIONS FOR DISCUSSION

Catholic Social Thought fuses the universal principles of Christian humanism with particular practices of economic and social transformation in line with virtue and the common good. More specifically, the tradition of Catholic social teaching reminds us of the connection between a relational understanding of the person and the institutional arrangements required for the reciprocal development of individuals and associations at different levels of society. In economic terms, Catholic Social Thought helps us to imagine a politics of the common good that is pro-business and pro-worker precisely because it views capital and labour in more relational, personal terms. It sees them as estranged interests that can be brought together in a negotiated settlement through new civic institutions. Thus Catholic social teaching seeks to broker cooperation based on the shared self-interest of legislators, regulators and all the stakeholders involved in the economy: owners/investors, managers, workers, consumers, suppliers, creditors and local communities. A society shaped by the common good requires a commitment to virtue, which is about ‘good doing’ rather than ‘do gooding’. In this sense, virtue – not rights, utility or profit – can help us envision a more ethical economy and even a more noble politics¹⁸.

¹⁷THOMAS CARLYLE, *Past and Present* (Berkeley: California University Press, 2005), p. 95.

¹⁸JOHN MILBANK - ADRIAN PABST, *The Politics of Virtue: Post-liberalism and the Human Future* (London: Rowman & Littlefield International, 2016), on which this essay draws.

In light of these remarks, it may be worth reflecting on the following questions:

1. Why do so many groups in society tend to become self-serving over time, and how can we instil in them a sense of virtue and a commitment to the common good?
2. Why are people with shared interest estranged from one another (e.g. different stakeholders in the economy or decision-makers in politics), and how can actors identify shared interests and pursue them together?
3. Why are many organisations centralised and unaccountable to their members, and how can they foster virtuous leadership and greater participation within and between organisations?
4. Why do businesses, trade unions, the churches and other faith communities operate in separate spaces, and how can they join force on issues of common concern such as promoting ethical enterprise and virtuous banking?
5. Why are moral markets often small-scale and how can we 'up-scale' ethically and ecologically viable organisations and practices?
6. Why do so many laws and regulations incentivise human vice such as greed, and how can we put in place incentives and rewards for virtuous action?
7. Why are different societies seemingly incapable of systemic change, and what can be the role of 'creative minorities' (Pope Emeritus Benedict XVI) in bringing about transformation through leadership by example?
8. How can the Church together with FCAPP and kindred organisations involve entrepreneurs in new alliances to help reduce poverty and exclusion, by creating jobs, providing apprenticeships and building resilient local economies?
9. How can the Church together with FCAPP and kindred organisations make a tangible contribution to alleviating

the refugee crisis, by working with people on the ground to improve the conditions in refugee camps and defend the interests of persecuted minorities such as Oriental Christians and the Yazidi (who have no places of worship in the camps)?

10. How can the Church together with FCAPP and kindred organisations support and take forward the idea of Voluntary Solidarity Funds in order to provide alternative investment opportunities and encourage other economic actors to adopt models of ethical enterprise?

SECTION 2

THE CHALLENGES OF INCLUSIVE GROWTH

AN ECONOMY TOWARDS INCLUSIVE GROWTH

LUIS ANTONIO G. TAGLE

One of the “signs of the times” or the actions of the Holy Spirit in the world and in the Church these past decades has been the concern to achieve genuine integral development of human beings, of societies and of the whole human family. The body of teaching that constitutes the Social Doctrine of the Church, especially these past six decades attests to this concern.

In 1967 Blessed Pope Paul VI published his encyclical letter *Populorum Progressio* (PP) on integral human development. The twentieth anniversary of its publication was marked by Saint Pope John Paul II with the encyclical *Sollicitudo Rei Socialis* (SRS) that tried to apply to contemporary conditions the teaching of PP. A further twenty years later, in 2009 Pope Emeritus Benedict XVI devoted encyclical *Caritas in Veritate* (CV) to a continuing reflection on PP which he calls the *Rerum Novarum* of the present age. Pope Benedict reminded us that the economic development envisioned by Paul VI was meant to produce real growth, of benefit to everyone and genuinely sustainable. For Paul VI economic growth must not be pursued in itself. Rather it must be integrated into a fuller development of the human being. He said in PP 20, “If further development calls for the work of more and more technicians, even more necessary is the deep thought and reflection of wise people in search of a new humanism which will enable modern people to find themselves anew by embracing the higher values of love and friendship, of prayer and contemplation. This is what will permit the fullness of authentic development, a development which is for each and all the transition from less human conditions to those that are more

human". These words need to be heard in our time when due to the swift exchange of information, we are compelled to provide quick answers and opinions without much thought, study and prayer. But true human development needs to cultivate the truly human capacities to think, reflect and pray.

John Paul II was quite disturbed by what he saw twenty years after PP as evidenced in his remark contained in SRS 14: "Looking at all the various sectors – the production and distribution of foodstuff, hygiene, health and housing, availability of drinking water, working conditions especially for women, life expectancy, and other economic and social indicators – the general picture is a disappointing one, both considered in itself and in relation to the corresponding data of the more developed countries. The word 'gap' returns spontaneously to mind".

Benedict XVI added in CV 21: "It is true that growth has taken place, and it continues to be a positive factor that has lifted billions of people out of misery – recently it has given many countries the possibility of becoming effective players in international politics. Yet it must be acknowledged that this same economic growth has been and continues to be weighed down by malfunctions and dramatic problems, highlighted even further by the current crisis".

More recently, Pope Francis devoted a section to what he called an economy of exclusion in his apostolic exhortation *Evangelii Gaudium* (EG) published in 2013. In number 53 he says, "Just as the commandment 'thou shalt not kill' sets a clear limit in order to safeguard the value of human life, today we also have to say 'thou shalt not' to an economy of exclusion and inequality. Such an economy kills. How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points? This is a case of exclusion. Can we continue to stand by when food is thrown away while people are starving? This is a case of inequality. Today everything comes under the laws of competition and the survival of the fittest, where the

powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape. Human beings are themselves considered consumer goods to be used and then discarded. We have created a 'throw away' culture which is now spreading. It is no longer simply about exploitation and oppression but something new. Exclusion ultimately has to do with what it means to be a part of the society in which we live; those excluded are no longer society's underside or its fringes or its disenfranchised – they are no longer even a part of it. The excluded are not the 'exploited' but the outcast, the 'leftovers'.

Pope Francis' observation is disturbing. Those who used to be on the margins or fringes of society have been pushed out. They are the persons excluded from the growth or development that the some countries and businesses have achieved. But if the majority of peoples are excluded from growth, we have to ask if the so-called growth is real. What type of growth would exclude the greater part of the human family and include a tiny fraction of it?

I would not pretend to offer solutions to these concerns that are now acquiring a particular face called the refugee emergency. If we allow a broader approach to the issue, avoiding the distinctions between a refugee and a forced migrant, we could very well include in the emergency situation the people displaced from their homelands not only by conflicts and terrorist activities but also by poverty and natural calamities. Unfortunately such forced movements of peoples have led to trafficking in human persons, new forms of slavery, human smuggling, etc. – in other words, a multi-billion dollar or euro business. It is a shame that business thrives on the misery of other people. Indeed the children of this world are wiser in dealing with their own kind (see *Lk 16:8*). But we have to ask, "What is the response of the children of light?". Let us trace some paths towards a response.

1. A RENEWED VISION OF THE HUMAN PERSON, SOCIETY, THE ECONOMY AND DEVELOPMENT

A. – A return to a view of life as gift, grace (with the primacy of gratuitousness) which is ignored in a consumerist, pragmatic, and utilitarian view of life. A exclusively functional vision of life convinces us wrongly that we are the source and author of ourselves, of human life, and of all aspects of society. Everything is about my achievement. Nothing is received, only achieved and better if attained single-handedly. Such a worldview eliminates gratitude, trust and genuine sharing (see *Mt 6:32* where Jesus says, “All these things the pagans seek. Your heavenly Father knows that you need them all. But seek first the kingdom of God and his righteousness and all these things will be given you besides”). Even in family life, we have to ask whether spouses consider each other as gifts or as problems, or their children as burdens.

Gratuitousness and fraternity/sorority come together. Pope Benedict observes that present-day economic standards emphasize the value of commutative justice and rightly so. But he warns us that where giving and receiving is reduced to a transaction based on strict equivalence, it could lead to a forgetfulness of distributive and social justice rooted in solidarity. Contracts governing exchange between goods of equivalent value are necessary, but also just laws and forms of distribution of “gifts”. Genuine sharing and giving come only from brothers and sisters. We must also say that not all exterior acts of giving are altruistic. When done in view of controlling other people or holding them hostage to the giver, these acts are manipulative and violate the recipients.

One of my most harrowing experiences as a bishop was when I presided at a funeral liturgy of two children, aged six and five. They were siblings. They died after eating food picked up by their father from a garbage can near a restaurant. As a routine, the father went scavenging for food dis-

carded by clients of restaurants whenever he failed to earn enough to buy food for his family. He boiled the “trash food”, spiced it up again and served to his family. That fateful evening, his two children got poisoned and died. What could you say to the family? How do you proclaim the Good News? In my mind a nagging question came, “Why does food have to become trash first before it is given to children? Why could it not be given as a gift and not as trash?”.

B. – A return to faith in the Creator and our role as stewards. A steward respects the will of the true owner. A steward does not pretend to be the owner. A steward does not misuse or abuse the gift of creation. In *Laudato Si'*, Pope Francis calls for a conversion to integral ecology that links to environmental ecology and human ecology. He also invites us to exercise ecological justice as inter-generational justice. What type of world would we leave behind to the next generations? As good and faithful stewards of creation which is God’s gift to all, we would be responsible in the way we use and develop the earth.

C. – A pursuit of the common good. Economic activity as an engine for wealth generation must be coupled with distributive justice in order to achieve the common good. From one perspective, the common good is the social environment within which individual persons and families can grow and develop to their full potentials. Thus the social environment is a common wealth or common treasure or common good. As we all need a healthy social environment to grow in, we all need to contribute to its development. Related to the pursuit of the common good is the Church’s vision of the universal destination of the earth’s goods. “See I give you every seed-bearing plant all over the earth and every tree that has seed-bearing fruit on it to be your food” (*Gen 1:29*). When God sees the hunger, the inequality and the waste of resources in our world, will God be able to say, “Everything is good”?

Caritas in Veritate rightly reminds us that if profit is the ultimate end or goal of economic activity and not the common good, we would eventually destroy the wealth that we want to produce. Instead we would create and spread poverty.

2. THE INCLUSION OF THE PEOPLE PRESENTLY EXCLUDED

A. – The pursuit of inclusive growth, when taken seriously, must be acted on in specific concrete ways. Who are the excluded? The outcast, the poor. For us the “poor” is not just a sociological or economic or political term, but also theological. In Deuteronomy 15:9 we are told, “The poor person might cry to the Lord against you and you would incur guilt”.

B. – I propose that we all engage in an examination of consciousness as individuals and also as bodies or groups. Here are a few questions for our common examination of consciousness:

- i. Are the poor included in our vision-mission statements? If a vision is supposed to lead an institution, then it must include the poor if the institution would want to end an economy of exclusion.
- ii. Are the poor included in our goals and planning? How are they present? As commodities, consumers or partners?
- iii. Is the development of the poor a factor in deciding what items to produce or services to offer?
- iv. Are the poor consulted in the type of development that they desire? It is possible that in the zeal of experts and technocrats, they might impose their model of development on people who have their own needs and wisdom to respond to those needs. I remember how a business group wanted to purchase vast tracts of agricultural land from farmers in order to convert it to a resort with a golf course. The representative of the

business group asked my help to convince the farmers that it would be advantageous to them and their families if started training themselves to become restaurant waiters and golf caddies. One wonders whose idea it is that being a restaurant waiter and golf caddy makes one a more developed human being than being a farmer.

- v. Is our corporate social responsibility an appendix to our corporate life or is it integrated in the way we do business so that business is itself an act of social responsibility? For example, corporations contribute to humanitarian relief efforts, but do they also contribute to the ecological and economic disasters that necessitate humanitarian action?
- vi. In our offices and establishments, are personnel and even administration people trained to deal with the poor? Are our labor practices fair to the poor among us, i.e. the low ranking workers? Do they enjoy security and stability?

3. THE NEED FOR PERSONAL ENCOUNTER WITH THE EXCLUDED PEOPLE

A. – Pope Francis said that reality is greater than ideas. In *Laudato si'* 49 he says, "It needs to be said that, generally speaking, there is little in the way of clear awareness of problems which especially affect the excluded. Yet they are the majority of the planet's population, billions of people. These days, they are mentioned in international political and economic discussions, but one often has the impression that their problems are brought up as an after-thought, a question which gets added almost out of duty or in a tangential way, if not treated merely as collateral damage. Indeed when all is said and done, they frequently remain at the bottom of the pile. This is due partly to the fact that many professionals,

opinion makers, communications media and centers of power, being located in affluent urban areas, are far removed from the poor, with little contact with their problems. They live and reason from the comfortable position of a high level of development and a quality of life well beyond the reach of the majority of the world's population. This lack of physical contact and encounter, encouraged at times by the disintegration of our cities, can lead to a numbing of conscience and to tendentious analyses which neglect parts of society".

B. – The exclude are not categories or numbers but persons, like us, with feelings, dreams, hurts and thresholds. We come to the poor not in a condescending manner, from a position of superiority but from that of solidarity, even a posture of humble learning from their wisdom.

A few weeks ago I joined a commemoration of the first anniversary of the earthquake in Nepal. We visited villages that saw the horror of landslides, destruction of property and loss of lives. But the village people carried themselves with unbelievable grace and beauty. I noticed that it was already three o'clock in the afternoon but no lunch had been served yet. Then I realized that the community had very little food and scant drinking water. It was liberating for me to experience a bit of the hunger that these people bore every day with dignity. But although they could not spread a feast of food for us, they fed us with original poems and songs composed for the occasion, all recalling the nightmare of the earthquake and the love that Christians and Caritas organizations lavished on them. We are transformed by the poor.

Last October 2015 I visited the refugee camp in Idomeni, Greece along the border with the Former Yugoslav Republic of Macedonia. It was an earth-shaking experience for me, an earthquake of sorts. During a pause in the distribution of relief goods, I talked with the lady vice-mayor of the town who also supervised the operations. I learned that the oversight of the camp was not part of her task as vice-mayor but volunteer

work on her part. Surprised that a busy lady should take on additional work, I asked the reason for her decision to work in the camp. She responded, "My ancestors were refugees too. I have refugee DNA in my body. They are my brothers and sisters. I will not abandon them".

C. – The pursuit of inclusive growth by business and the corporate world should begin with the "entry" of poor persons in our consciousness to disturb us, to teach us and to move us to action.

* * *

I end my sharing with a beautiful quotation from Blessed Pope Paul VI, PP 80: "We are all united in this progress toward God. We have desired to remind everyone how crucial is the present moment, how urgent the work to be done. The hour for action has now sounded. At stake are the survival of so many innocent children and, for so many families overcome by misery, the access to conditions fits for human beings; at stake are the peace of the world and the future of civilization. It is time for all peoples to face up to their responsibilities".

Paul VI's words written in 1967 retain their freshness and significance in 2016!

SMES, INNOVATION, AND THE FIGHT AGAINST COUNTERFEITING TRADE

GIOVANNI MARSEGUERRA

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are all over the world key factors to ensure both economic growth through innovation and social integration through job creation. According to the European Commission's home site, SMEs *"represent 99% of all businesses in the EU. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU"*. Thus, they are truly the backbone of Europe's economy. Their innovative capacity, moreover, is crucial in the knowledge economy both as a long run objective to stimulate growth and as a crucial response in a period of crisis.

A key threat to SMES' innovation capacity, however, is today represented by counterfeiting, which is a substantial share of the illegal and criminal part of the so called informal economy. Over the last few decades, counterfeiting has become a phenomenon severely afflicting manufacturers around the world. The European Commission has recently highlighted that since 2000 the number of cases of detentions by customs of counterfeit products has increased seven fold. In addition, as repeatedly pointed out by the OECD, counterfeiting has perverse effects on social and economic trends in many different countries.

According to a recent report carried out by the Directorate General for Anti-counterfeiting – Italian Patent and Trademark Office (part of the Ministry of Economic Develop-

ment)¹, the range of counterfeit goods has today expanded to the point that there is no good that cannot be imitated and sold: everything from clothing accessories, jewelry, shoes, design objects, toys, cosmetics, and even medicines is copied. The research estimates that in 2015 Italians spent € 6.9 billion on counterfeit goods, an increase of 4.4% compared to 2012. The false market must be considered a parallel economic sector, a real competitor with which firms must confront in order to protect their market share. Counterfeiting is a highly illicit business in which today criminal networks flourish. Items produced and distributed by counterfeiters are often largely below standards and can be dangerous (and, indeed, sometimes they are so), posing health and safety risks that range from mild to life-threatening.

The perverse effect of counterfeiting on firms' innovation capacity is particularly true for the Italian economy which, as it is well known, is driven in large part by the manufacture of high-quality consumer goods produced by exporting abroad SMEs. In this respect it appears today mandatory for the EU to develop a proper and effective anti-counterfeiting policy to foster growth through innovation.

This short essay is organized as follows. After the Introduction, Section 2 is devoted to analyze the so called "spirit of entrepreneurship" and its concrete expression, i.e. the SME based productive sector. Section 3 highlights the risks deriving to the economy (and to society in large) from counterfeiting activities. It is in particular shown how counterfeiting can severely undermine SMEs' innovation processes. Section 4 concludes.

¹*"Counterfeiting as an activity managed by transnational organized crime and the possible re-use of seized assets for the promotion of intellectual property and economic growth"*, Ministry of Economic Development, Directorate-General for the Fight Against Counterfeiting – Italian Patent and Trademark, 2014.

2. SMEs AND THE SPIRIT OF ENTREPRENEURSHIP

According to the Annual Report on European SMEs 2015/2016, *“SMEs form the backbone of the EU28 economy. In 2015, just under 23 million SMEs generated € 3.9 trillion in value added and employed 90 million people. They accounted in 2015 for two thirds of EU28 employment and slightly less than three fifths of EU28 value added in the non-financial business sector. The vast majority of SMEs are micro enterprises with less than 10 employees – such very small firms account for almost 93% of all enterprises in the non-financial business sector”*. In the year 2015 in the EU28, SMEs and micro enterprises together have experienced growth in value added, employment and the number of enterprises. Moreover, in 2015 EU28 SME value added was well above its 2008 level while SME employment still remained below.

In more general terms, micro firms and SMEs account for the majority of firms in most countries (95 per cent on average), and for the large majority of jobs. These peculiar enterprises figure prominently in governments’ social and economic policies all around the world. They also feature prominently in the new UN Sustainable Development Goals, which intend encourage the growth of SMEs in order to promote inclusive and sustainable growth, full and productive employment and decent work for all (World Trade organization, World Trade Report 2016).

Thus, micro and small-medium enterprises have a tremendous economic value all over the world. They have, furthermore, an extraordinary cultural value since these small economic activities give concrete form to the principles and values of the so called *“spirit of entrepreneurship”*, the latter being intended as a corporate culture characterized by a responsible risk taking capacity, i.e. the talent of accepting the risks intrinsic to entrepreneurial activities while bearing at the same time full responsibility towards all firm’s participants. In sum, when considering this peculiar corporate talent, en-

entrepreneurship, freedom and responsibility are three indivisible concepts that should always go hand in hand. Entrepreneurship needs freedom but true entrepreneurship cannot exist without responsibility.

Small economic activities have also another important element which makes them particularly suited to grow as a community of persons. According to the Compendium of the Social Doctrine of the Church: *“Work in small and medium-sized businesses, the work of artisans and independent work can represent an occasion to make the actual work experience more human, both in terms of the possibility of establishing positive personal relationships in smaller-sized communities and in terms of the opportunities for greater initiative and industriousness. In these sectors, however, there are more than just a few cases of unjust treatment, of poorly paid and, above all, uncertain work”* (Compendium of the SDC, n. 315).

In other terms, with respect to big firm or great conglomerates small enterprises are more favorably placed to become close to what should be a firm: *“In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society”* (Centesimus Annus, n. 35)

3. COUNTERFEITING: A THREAT TO SMEs’ INNOVATION CAPACITY

In recent years the importance of intellectual property rights (IPRs) to society and the economy, in Europe and elsewhere, has become increasingly evident. IPRs are crucial both to reward creative and inventive efforts and to encourage investments in new and more efficient products.

A study jointly carried out by the European Patent Office (EPO) and the Office for Harmonization in the Internal Mar-

kets (OHIM)² has shown that in Europe industries investing in IPR make a major contribution to society, to economic performance and to employment. In particular, approximately 89% of the EU's total external trade and 39% of total economic activity in the EU (EUR 4.7 trillion annually) is generated by IPR-intensive industries. Moreover, approximately 26% of all employment in the EU (56 million jobs) is provided directly by these industries, while a further 9% of jobs in the EU stem indirectly from IPR-intensive industries³. A more recent analysis of OHIM⁴ confirms *“that companies that own IPRs perform better than those that do not. This is a particularly significant finding for the 1.8 million SMEs that have registered IPRs, since they represent such an important part of the EU economy”*.

The quick and huge amount of profits to be secured through IP infringement may easily explain the worldwide spread of counterfeiting. Trafficking in counterfeits has become extremely profitable and thus counterfeiters started to consistently exploit the potential of free-riding on others' creativity and originality.

Over the last few decades, counterfeiting has become a phenomenon afflicting manufacturers around the world. The European Commission recently highlighted that since 2000 the number of cases of detention by customs of counterfeit products has increased sevenfold. More specifically, according to the official facts and figures reported by the European Commission's home site, in 2011 over 114 million articles suspected of infringing intellectual property rights were stopped by customs at the EU external border (and the esti-

²*“Intellectual Property Rights Intensive Industries: contribution to economic performance and employment in Europe”*, EPO and OHIM, September 2013.

³The same study reveals in addition that average salaries in IPR-intensive industries are more than 40% higher than in other industries.

⁴*“Intellectual property rights and firm performance in Europe: An economic analysis”*, OHIM, 2015.

mated value of the equivalent genuine products is over 1,2 billion euro), whilst from 2009 to 2011, the number of cases involving IPR infringements more than doubled to over 91,000. The increase mainly concerned clothing, shoes, personal accessories, electrical goods and medicines.

The OECD too has repeatedly pointed out that counterfeiting has a perverse effect on social and economic trends in many different countries. In particular, in 2009 the OECD has measured the economic impact of counterfeiting and roughly estimated that in 2007, international trade in counterfeit and pirated goods could have accounted for up to USD 250 billion, a total amount greater than the national GDPs of 150 economies⁵.

IPRs are crucial to ensure that creative and inventive efforts are correctly rewarded. They are, moreover, essential to encourage investments in new and more efficient products. On the other hand, IPR infringements are harmful to the economy as they tend to frustrate innovation. This, in turn, implies investment reductions (or even investment cuts) and eventually job losses and reduced wealth creation. Counterfeit products may also damage the reputation of the trademarks concerned as products may be defective or even harmful. For this reason, consumers too are affected by counterfeiting, as the quality of a fake product may be inferior or even harmful because, of course, health and safety standards tend to be lower than requested by international regulations. For all these reasons not only companies but society at large is negatively affected by counterfeiting.

In sum, the analysis of this Section has shown that counterfeiting has a number of negative effects. It has a strong and negative impact on innovation and on growth, it generates huge loss of tax revenues, it produces loss of employment in

⁵"*Magnitude of counterfeiting and piracy of tangible products*", OECD, November 2009.

countries where originals are produced, it induces high cost on governments and on industry to fight against it. These negative impacts tend to be far greater for SMEs, as they surely cannot afford to make use of an in-house legal team and they are frequently not even able to employ lawyers to represent them in the courts. In addition, often SMEs don't realize that it is essential to register their intellectual property (or simply it is too costly for them to do that).

4. CONCLUSION

Counterfeiting represents today a very serious threat to SMEs' innovation capacity. Innovation originates from the mutual interaction of human capital and social capital and generates development, which in turn feeds back to human and social capital. In the language of the catholic social doctrine, human and social capital translate in the concept of person and of community, the true resources in our knowledge economy. The promotion of consistent and effective innovation processes is central in "Europe 2020", the ten-year jobs and growth strategy launched in 2010 by the European Union to create the condition for smart, sustainable and inclusive growth. In today's world of increasingly globalised markets it is crucial to foster the virtuous circle leading from human and social capital to development via innovation.

Human capital and social capital are, of course, strictly linked to each other, the education system being the conjunction. In particular, effective education systems tend to increase social capital, and at the same time social capital tends to increase educational performance. Social capital is essential to foster innovation through the exchange of information and knowledge. In turn, the sharing of knowledge within organisations allows for the promotion of creativity and for the diffusion of new ideas. The point is that, without profound human relations, the ability of workers is not sufficient.

Development is a multi-dimensional concept. One dimension refers to economic development, promoted by firms and by the mutual cooperation of workers and entrepreneurs. As far as economic development a crucial role is played by SMEs, which are key factors all around the world. A second dimension of development refers to social development which promotes community cohesion, and a third dimension refers to intergenerational development, which is based on sustainable social security systems that boost the value of the family. In the light of the analysis here presented, fighting counterfeiting is mandatory to promote innovation and entrepreneurship and thus development in its various dimensions. Since intellectual property represents the foundation and fuel for innovation, it should be defended and promoted: *“Whenever the rule of law is not respected, and even more, wherever the economy lacks an essential ethical reference, it is always the poorer parts of the population who pay the highest price”* (2015 Centesimus Annus Pro Pontifice Foundation Statement).

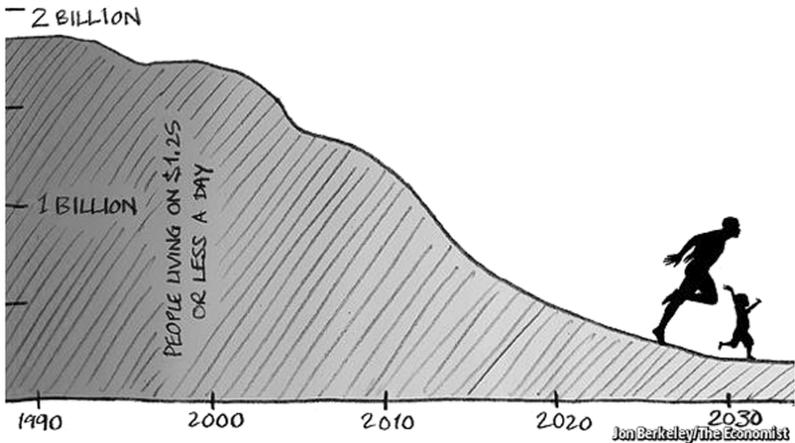
ECONOMIC FREEDOM, SOCIAL ENTREPRENEURSHIP AND POVERTY

ANDREAS WIDMER

A false dichotomy: Bureaucracy vs. Technocracy - They are both wrong:

- Bureaucracy: CRS example – representing profit as evil. Solution is to tax, redistribute and socially engineer. Fair trade coffee and mission stores.
- Technocracy: Infrastructure, Privatization, Multi National rent-seeking and natural resource exploitation.

These are actually very similar in their basic assumptions – they’re both materialistic utilitarian approaches. The actual alternative is to become more humanistic – more person centered. The goal of the economy is human flourishing and human excellence. To do that we need to build person centered companies- what I call CEntrepreneurship.



Give credit to the market system – poverty has never been so low and eradicated at this speed.

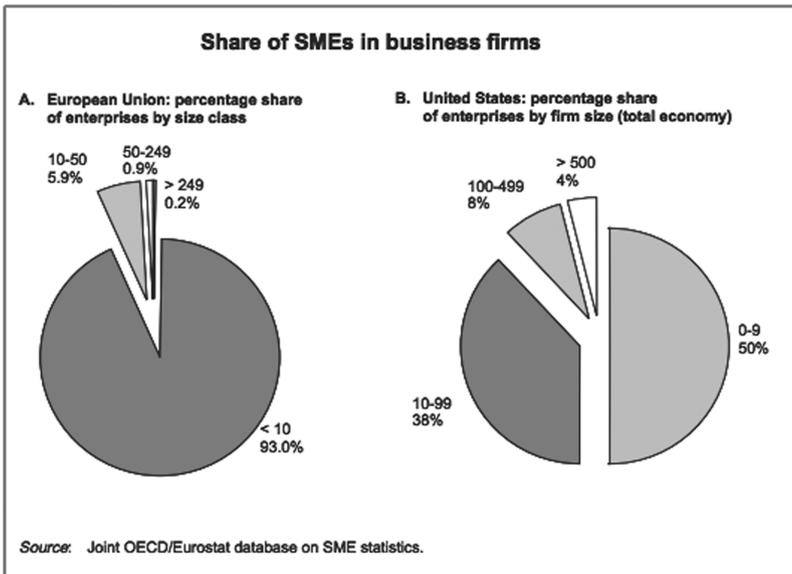
But what’s missing? Living on \$ 1.25 a day can hardly be called “well-off” ... We fight abject poverty, but lack a sustainable middle class.

The real issue is the missing middle.

We have a lack of SMEs in emerging markets and fewer and fewer of them in developed market – yet they are the engines of our prosperity.

A middle class is required for society to develop and for Churches to become financially independent.

Small-medium enterprise (SME) entrepreneurs are the key building block.

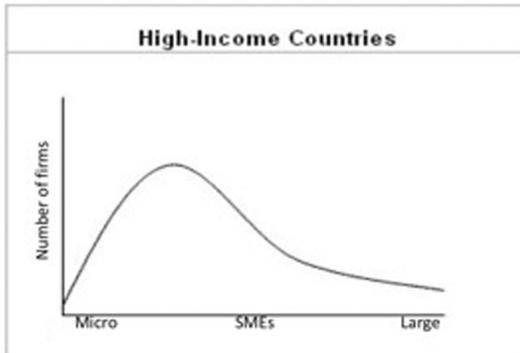


- In the EU, it is estimated that more than 20 million SMEs (with up to 250 employees) accounted for over 86 million jobs (66.5% of all jobs) and representing around 99% of all enterprises.

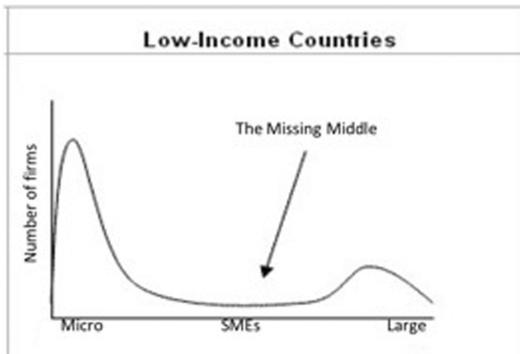
- In the USA (where small firms are defined as those having fewer than 500 employees), 99.7% of all firms fall into the “small business” category, accounting for half the nation’s jobs, 54% of all sales, and contributing to more than 50% of nonfarm GDP (66% of all net new jobs since the 1970s).

The detailed information may vary slightly, but we can see that the SME sector is most certainly the engine of prosperity in developed economies.

In developing countries, this SME sector is almost entirely missing, comprising only 16% of GDP and 18% of employment, which is a major contributor to the cycle of poverty.



Source: Center for International Development at Harvard University.



Why this lack? I perceive two reasons:

1. The poor are not dominated by the market, they're actually excluded from it (JPII exclusion from networks of productivity and exchange): Financial market, Exports, laws/property rights...
2. We see the poor as a problem to be solved rather than as people with unfulfilled potential, that is, people who want to flourish. (JPII when we work we don't just make more, we become more): population control, social engineering, separate markets...

This results in our current approach to poverty: because of our mental model, we only "manage" poverty rather than "solving" it.

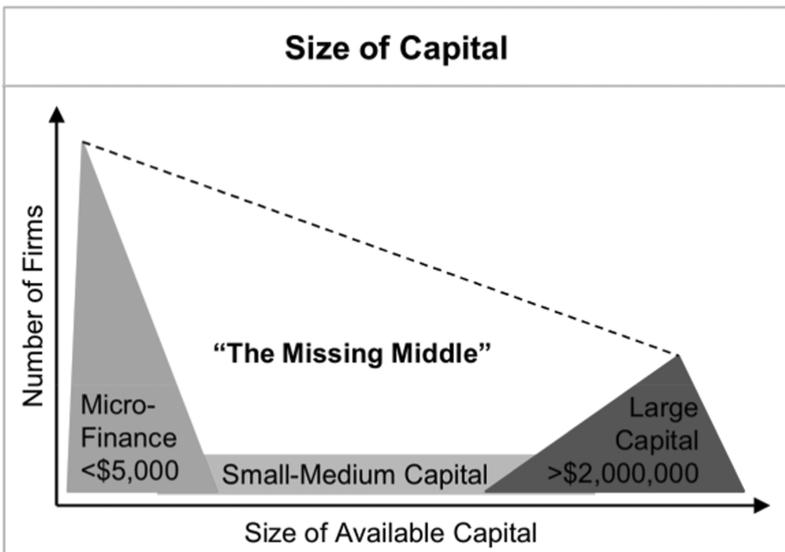
My experience in emerging market business strategy consulting & enterprise solutions to poverty philanthropy:

- Story of AAA Growers in Kenya – could not get a 2m loan from bank (lack of collateral) or from AID agencies because "he might become wealthy and that would not be fair to the others".
- Salvadorian entrepreneur could get a loan for a house, but not for his business.
- Haitian insurance company entrepreneur could not get commercial loans to keep his company alive after the earthquake – aid was available for the general public, but no loans to their businesses.
- Micro credit as the darling of AID agencies because it "keeps" people poor. No evidence that micro enterprises mature into SMEs.

In my 20 years of working in developing countries, I have seen a Crony Capitalism version of the AID industry whose business is poverty, and thus more poverty means more business. This system has not incentive to actually solve any issues.

The same people who do humanitarian help are not at all well suited to do/promote economic development.

The financial market players do not have the incentives nor the know-how to offer effective products. Loans at competitive rates for the banks can be made to local governments with very low risk. In the absence of good credit rating devices and bankruptcy laws, the risk adjusted SME loans have to average 30% interest rates. They are not ill-willed, but ill positioned.



Africa makes up 12% of humanity, receiving about 30% of all charity spending yet only 4% foreign direct investment. Africa does not need more charity, it needs more business.

My philanthropic company The SEVEN Fund ran a competition called Pioneers of Prosperity where we set out to find the best entrepreneurs in emerging markets – not based on business plans, but functioning businesses that were in the midst of scaling-up.

After doing this four or five times, I noticed a pattern: The successful emerging market entrepreneurs I found were mostly from strong faith communities. But it was not the faith per-se that was their competitive advantage – though that helped: delayed gratification, personal accountability, pursuit of virtue, long-term thinking, person-centered thinking, etc.

What I found was their competitive advantage was that their faith communities served as a kind of incubation market where they could rely on a “parallel legal framework” and a kind of peer pressure on all to be forthright and fair in their dealings with each other since they did not want to be ostracized in that community. This relatively safe environment protected them to grow their companies to critical mass before entering the larger market where these same guarantees do not exist for SMEs.

I found such companies in industries such as coffee, wood, cleaning materials, tea, graphic design, commercial real estate, education, transportation, health and more.

SO WHAT IS NEEDED?... I DON'T HAVE ALL THE ANSWERS – BUT I HAVE A FEW IDEAS AND SUGGESTIONS:

In coming up with solutions and projects, let's make sure we think of the poor as people with unfulfilled potential and not as a problem. A part of that is not to paternalize them, but treat them as equal partners. Entrepreneurship

Can we find ways to encourage and help community-building among the (Catholic) faith communities in emerging markets? In my work, I have noticed that the best examples of these successful communities are predominately evangelical denominations. I remember asking myself, “where are the Catholic entrepreneurs?”.

Providing business training is a key issue in fighting poverty: What I find over and over again is that there are quite a few entrepreneurs but almost no qualified mid- level managers. A great project would be to train people in management.

Let's find proactive ways to integrate the poor into our very own networks of productivity and exchange. Buying fair trade coffee and giving some money to CRS while investing your retirement exclusively in the S&P 500 is not solidarity and does nothing to alleviate systemic poverty.

Providing competitive loans to SMEs is one of the key ways to encourage growth. Banks are too comfortable to provide loans to governments in these markets and so can afford to make loans for SMEs almost unattainable with average interest rates well above 30%. Michael Novak once said that lending is the mothers-milk of prosperity... well, this mothers milk is priced out of the market of the vast majority of people in emerging markets.

Let's work in our own countries to stop the exclusions of emerging market products from our local markets. The tariffs, import restrictions and taxes on the one hand and the subsidies and export-dumping on the other side do more damage to emerging markets than our aid does to help them.

Let's not forget the growing urban poverty in our own countries. Think of cities like Detroit where almost 50% of citizens live in poverty. Instead of traveling half way around the world to help, we can start by alleviating poverty at home.

CAN GROWTH CONTINUE WITHOUT
COMPULSIVE CONSUMPTION? CLASSICAL VIRTUE
AND COGNITIVE BEHAVIOR THERAPY
FOR ATTENUATING EXCESSIVE CONSUMPTION

ROBERT A. GAHL

Before entering the body of my presentation, allow me to quickly respond to the question posed to our panel. Yes, growth can continue without compulsive consumption. However, paradoxically, with compulsive consumption, continued growth is unattainable. Economic growth and sustainable, integral development requires the creativity of free human persons who aspire to the highest values. Consumerism, in contrast, leads to materialism, reciprocal instrumentalization, personal failure, and unsustainability. Today's crisis, in the aftermath of the great recession, requires a rebirth of freedom in accord with the highest aspirations of the human person towards those goods that offer sustained and sustainable human flourishing. Working with contemporary (third generation) positive psychology, enlightened, post-materialist economists have developed new advanced statistical measurements for societal well-being along with policy strategies that, instead of promoting consumerism at all costs, promote authentic human wellbeing (see, for example, MARTIN SELIGMAN, *Flourish: A Visionary New Understanding of Happiness and Well-being*, Atria, 2012; ROBERT COSTANZA et al., "A comprehensive picture of sustainable societal well-being should integrate subjective and objective indicators", *Ecological Economics* 61 [2007], 267-276; and, as mentioned in our panel discussion by Enrico Giovanniniiii, the important work regarding Gross National Happiness and the OECD's Regional Well-Being Index or Better Life Index, for example

JOHN HALL - ENRICO GIOVANNINI - ADOLFO MORRONE - GIULIA RANUZZI's, "A Framework to Measure the Progress of Societies", *OECD Statistics Working Papers*, 2010 and www.oecdbetterlifeindex.org/).

Early on in *Evangelii Gaudium*, Pope Francis straightforwardly explains that: "The great danger in today's world, pervaded as it is by consumerism, is the desolation and anguish born of a complacent yet covetous heart, the feverish pursuit of frivolous pleasures, and a blunted conscience" (EG 2). Later on in *Evangelii Gaudium*, Pope Francis describes the destructive effects of consumerism on both the individual and on society while quoting from St. John Paul II's *Centesimus Annus*. Francis writes: "Sometimes we prove hard of heart and mind; we are forgetful, distracted and carried away by the limitless possibilities for consumption and distraction offered by contemporary society. This leads to a kind of alienation at every level, for 'a society becomes alienated when its forms of social organization, production and consumption make it more difficult to offer the gift of self and to establish solidarity between people' (CA 41)" (EG 196). Consumption can become a moral disorder when sought for selfish and materialistic utility. What is more, when consumption begins to impinge upon one's psychological health, when it becomes impulsive, compulsive, or addictive, such that one consumes without self-control, purpose, or personal freedom, then it has also become pathological.

The rejection of materialism by recent social doctrine of the Church, whether in *Centesimus Annus*, *Caritas in Veritate*, or *Evangelii Gaudium*, affirms genuine human freedom, social economic freedom, and the intrinsic freedom of the market economy. In contrast with the superficial interpretations of some libertarian authors critical of papal magisterium, the Church defends a deeper understanding of human freedom and therefore an even deeper appreciation for the market economy than many suppose. Men and women are responsible agents of choice. Our freedom is not just from constraint

but principally for the good. Personal self-determination drives the economy on both the demand and the supply side. Given that we are created in the image of God, our inherent creative potential capacitates us to make use of the goods of the earth and of human artifice in creative ways and to develop new products and new designs to offer an ever more abundant supply of goods, whether natural or artificial. Both sides of the macro economy, demand and supply, are driven by human freedom, and both sides allow for the expansive inventiveness of creativity. In contrast, wherever mechanistic behavior dominates, the market is degraded into a brutish activity of commercial exchange based exclusively on unidirectional utility, that constitutes much less than a truly human market economy. The buyer and seller, the consumer and producer, enter into a dialectical relationship of utility according to the rules of a zero sum game rather than the relationship of benevolent friendship according to the creative rules of intrinsic growth proper to spiritual beings. According to the elevated vision of Catholic social doctrine, only with such a relationship founded on mutual gain do both consumers and producers act freely, only then do they live up to their vocation as the ultimate resource and as children of the Creator.

Consequently, the methods and tools of recent developments in contemporary psychology, and even neuroscience can be used along with moral and spiritual analysis to protect the market and the full freedom of all participants. Indeed, the power of recent developments in psychology and in neuroscience is further confirmation of the Christian moral and ascetical tradition and also, although sometimes insidiously, a tool for marketing. Like many of the advances in technology and medicine, these discoveries may be used for good or for evil. Indeed, not just in illicit drug traffic but also in licit gambling, especially online gambling, the discoveries of psychology are used to maximize profits in the short term by short circuiting the freedom of consumers. By selling them a short

term and often destructive experience, billfolds are emptied and families are destroyed because personal freedom is manipulated and therefore impeded from reaching its true aspirations.

Recent developments in the area of positive psychology called mindfulness and cognitive behavioral therapy coincide with discoveries in neuroscience regarding decision making and brain region activation. These developments and discoveries can be a great help in living virtuously and freely, that is, in accord with one's own personal commitments. Indeed, one of the most promising currents in recent positive psychology is called ACT (Acceptance Commitment Therapy). Before describing the new psychological therapy, it may help to have a ready example in mind of a test case for excessive or compulsive consumption. Imagine a married man and father of a family starting up his computer on a rainy Saturday afternoon and noticing a pop-up advertisement for his favorite gambling site. The advertisement has been personally tailored to maximize the seductive effect of the trigger mechanism, and, he falls for the temptation, with almost automatic behavior. Despite the fact that, in a sense, he doesn't really want to, he still does it, and drives his family deeper into debt. With new data derived from functional magnetic resonance technology (fMRI), neuroscientists today know what region of the man's brain is activated by the pop-up advertisement. Online gambling marketeers also know what happens in the man's brain, how to maximize profits today, next week, next month, and for as long as they can. The online gambling profiteers use advances in neuroscience to manipulate and distort freedom of choice. They use vice and addiction to maximize their short term profits.

In marked contrast, cognitive behavioral therapy practitioners also know what's going on inside the man's brain. They too understand the shift from free to automatic behavior that leads to compulsive gambling and many other morally defective and pathological forms of behavior, whether drug

or sex addiction, compulsive shopping, or convincing oneself of the need to update to the latest version of some new technology product, while knowing that one doesn't really need it at all. ACT is scientifically proven to help in ameliorating more than 10 kinds of pathologies, including conditions like type 2 diabetes that mostly manifest mostly with physiological symptoms. ACT challenges the patient, client, or, actually, anyone interested in growing in self-control and acquiring virtue, to first accept the experience of some unpleasant sensation or emotion, for instance, a non-desired desire, and then, after a few moments of acceptance that includes the proven ability to withstand the sensation or emotion without giving in to some automatic behavior, such as a trigger response, to then renew one's commitment for some good of importance in one's life. The man at the computer struggling with his gambling addiction merely needs to confront his own desire to click through the pop-up, recognize that he can put up, at least for a few seconds, with the feeling of the non-desired desire to experience the exciting rush of gambling. Now, neuroscientists offer a fascinating and encouraging consideration. Once the man accepts the feeling associated with the trigger and activates a thought pattern for some other activity, diverse from giving in to the trigger, a distinct area of the brain is activated, an area associated with higher, executive decision making in the prefrontal neocortex. Consequently, rather than giving in to the trigger response that we have in common with the most primitive reptiles, he engages the highest component of his brain.

Things get even better. Given that the brain tends to conserve energy by not intensively activating all at once multiple regions of the brain, the activation of the prefrontal neocortex leads to a dissipation in the activity of the amygdala and the hypothalamus, thereby attenuating the force of the trigger. By accepting the non-desired desire for excessive consumption and turning to a higher, executive thought process, the man succeeds in bringing himself back into control. Now he

is more capable of freedom, perhaps to continue responding to the emails that brought him to the computer in the first place. And yet, things get even better. Every time any of us practice ACT, the non-desired desires associated with any trigger mechanism are attenuated. The hold that emotions have upon our decision making is dissipated and we become more and more capable of self-control, and delayed gratification. In sum, we grow in virtue. We grow in freedom and the ability to enjoy possession of the goods that shape our deepest life-long commitments, all while growing in the ability to nurture the best forms of benevolent friendship...

Marc Lewis, a neuroscientist famous for his work on drug addiction and mindfulness that includes direct reference to his own personal experience with opiate addiction, explains that his recovery occurred as he hit bottom and decided that he did not want to destroy his life and family. He stopped and repeated "NO" some 50 times and then repeated this process every time the withdrawal symptoms returned or he encountered a trigger. Although his personal experience is unique, scientific findings demonstrate that by staring at a clock for, say five minutes, most people succeed in attenuating non-desired desires and in achieving greater self-control. For those who believe in a transcendent good, especially for Christians who believe in an ecstatic, transcendent good, the potency of ACT can be raised to a supernatural level. Even better than staring at a clock, they can gaze upon an inspiring religious image while reciting a prayer, perhaps even a repetitive and contemplate prayer like a mystery of the Holy Rosary. Such a practice of faithful mindfulness engages the highest part of the brain to practice the acquisition of virtue while relying upon transcendent intercession, with the certain promise of an omnipotent aid for growth, even the possibility of sharing in divine life.

Twenty-first century CBT and cutting edge neuroscience offers practical wisdom in clear continuity with that of authors like Aristotle, Evagrius Ponticus, or St. Thomas Aquinas.

nas. Evagrius wrote with great detail on how to overcome the capital sins and their manifestations. He didn't realize what was happening inside his brain but he did know that self-restrained self-awareness with the renewal of one's deepest commitments contributes to self-mastery in the exercise of all the virtues. Likewise, scientific advances offer us an opportunity to overcome materialism and to consume the goods of the earth and the products of human ingenuity with responsibility and self-mastery. Economic crises are moral crises and we can apply these recent discoveries in psychotherapy to grow in moral virtue, especially regarding consumption, not for the passing moment to be later repented but for the sake of commitments that will really contribute to human excellence. Only by fostering freedom can sustainable development be achieved.

A MORAL RESPONSE TO INCREASING
INCOME INEQUALITY:
SETTING UP A VOLUNTARY SOLIDARITY FUND

JOSEF BONNICI

INTRODUCTION

“One needs not be altruistic to support policies that will improve the income of poor and middle classes. Everyone will win because these policies are essential to make possible a more vigorous, supportive and sustainable economic growth” (Lagarde, 2015).

This is how Christine Lagarde, Managing Director of the International Monetary Fund, addressed the issue of rising income inequality in her speech on 17 June 2015 during *les Grandes Conférences Catholiques* in Brussels. Increasing income inequality has become a phenomenon of widespread concern as it has worsened within most advanced, emerging and developing countries. It has recently received considerable attention from academics, politicians and economists. It is no mere accident that various international organisations such as the IMF and OECD have been increasingly vociferous about the negative effects of increasing income inequality during a period of subdued economic growth. President Obama called widening inequality the “defining challenge of our time”. World Economic Forum members identified worsening income inequality as being the top issue that will have the largest impact on the world in the next year.

As the world’s wealthiest continue to accumulate wealth at record rates, the middle class is struggling. Over the last 25 years, the average income of the top 0.1% in the U.S. has

grown 20 times compared to that of the average citizen (World Economic Forum, 2015). Latest data suggest that the top 10% of the population in OECD countries have an average income of around 9.5 times that of the bottom 10%. In the 1980s, this ratio was 7 to 1 which implies a worsening by more than 30% in the income gap between these two groups. The Gini coefficient, as will be discussed below, is the most widely accepted measure of developments in a country's income distribution. It takes into account the whole spectrum of income groups, and the coefficient ranges from a minimum of 0 to a maximum of 1¹. The closer the coefficient is to 1, the more unequal is the income distribution of a population in a particular country. A recent study among the OECD group of 34 mostly advanced countries shows that in the mid-1980s, the Gini coefficient was at 0.29, on average. However, by 2011-2012, it had risen by 3 points to 0.32 or 10% (Cingano, 2014). This reflects a significant worsening in how income is distributed, on average, within the membership of OECD countries – a group of countries that in general have reached a more advanced economic capacity to produce goods and services.

While in advanced economies, the gap between the rich and poor is at its highest level in decades, inequality trends

¹The Gini coefficient is derived from the Lorenz Curve that plots the cumulative percentage of total disposable income against the cumulative percentage of the corresponding population, ranked in increasing size of share. It thus provides information how income after tax and social security benefits or contributions is distributed across the population ranked by income size. Typically, the lower income groups have a lower share of national income, while the higher income groups have a higher share. This makes the Lorenz curve sag below the 45-degree line that represents equal shares of income for equal percentages of households. The degree of sag is measured by the Gini coefficient that ranges from 0 to 1. The bigger the Gini coefficient and hence the higher the sag of the curve becomes, the bigger the share that is going to higher income groups and the lower the share that is going to lower income groups. The distribution of disposable income is then said to become more unequal.

have been more mixed in emerging markets and developing countries. Although a few countries in this category experienced declining inequality, most of this group have pervasive inequities in access to education, health care, and finance. Indeed, the Gini coefficients of a number of developing and emerging economies, such as India and China, have a coefficient that is around the 0.5 level – much higher than the average of the OECD (See Chart 6 in Annex 1). Not surprisingly then, the extent of developments in income inequality, its drivers, and the possible measures to reduce it have become some of the most debated issues by policymakers and researchers alike.

It is fair to note that until not so long ago, the prevalent opinion in the economics profession was that rising economic development would benefit everybody. “Growth is a rising tide that lifts all boats” (Kuznets, 1955). Such optimism seemed for a while to be supported by the significant economic growth that took place in the post-World War II period until the mid-1970s and early 1980s and the apparent improvement in the distribution of income and reduction in income inequality. However, various developments, both political and economic in nature, and improved data measurement capacity in recent years, have increasingly indicated that the previous paradigm suffered from a false optimism given actual developments in income distribution in many countries. In fact, the overwhelming evidence points to a worsening situation since the early 1980s, with income inequality increasing and threatening the well-being of society.

Growing income inequality is negatively affecting growth by depriving the ability of middle and lower income families to accumulate physical and human capital. Inequality of opportunity is at the core of social injustice that has dragged an increasing number of families towards the brink of poverty. The orientation of the market towards the common good has been deficient, and the financial crisis has worsened the situation as millions were thrown out of work and out of their

homes, and now we have empty homes and millions of unemployed homeless people. This situation embodies the inefficient allocation of resources and the disutility of increased inequality.

In view of this disconcerting reality of social injustice and unequal opportunity, there is a moral obligation to react. It is not enough to expect somebody else to take care of this worsening inequity, or perhaps hope for some new technological development to somehow lift everybody's standard of living, irrespective of distributional issues. Increased income inequality is currently affecting the quality of human life within the society that we live in and, if ignored, can develop into a degeneration of our very societies. In essence, I will argue that more can be done to tackle and diffuse this increasing malady. Furthermore, our reaction should be based on the conviction that the marginalised can be empowered to improve their skills and to be given the opportunity to participate in the economy and live a fulfilling life with dignity.

Against this background, the objectives of this paper are three-fold. First, I evaluate the recent trends in increasing income inequality, using different sources to demonstrate its extent and progression. The effects of increasing income inequality on growth and productivity are examined, in line with the theoretical literature on the subject.

Second, the question is raised as to what is the responsibility of individuals who are better off. What are the moral and ethical issues that are derived from Catholic Social Teaching? In answering this question, the proposal is made to set up a Voluntary Solidarity Fund (VSF) as a way to address, in a practical way, the impact of increasing income inequality and low productivity growth that is so evident in many countries and regions. It is suggested that there is much that can be done, especially by those in the upper middle and higher income groups, in alleviating the situation of those who are less fortunate and struggling to keep their heads above water. This is a proposal that advocates solidarity in practice.

Drawing from the parable of the talents, the vast amount of money or liquidity that is sitting idle in the current economic environment corresponds to an unused ‘talent’ buried underground – in the present context, in bank accounts or even safety deposit boxes – and which through the VSF initiative could be utilised to empower people and give them the opportunity to develop themselves and ‘become better fishermen’. This could be done through various methods. Contributions can be channelled in a number of ways, leading to the deployment of financial resources that promote both individual and social development. This perspective is also inspired from the parable of the talents as we are expected to make good use of our talents in a way that they can multiply. The VSF can adopt this evangelical message for a social purpose. It would complement the actions and efforts of the Church and other associations such as Caritas that are inspired more by charity than by an economic and financial logic. It would also demonstrate the ethical dimension of the financial sector and that financial tools and resources can be the spring of a noble act.

The VSF is envisaged as a concrete reaction, serving as a vehicle to mobilise financial resources to combat increasing income inequality and low productivity growth so as to provide sustainable economic opportunities. The VSF would fill the gap between the traditional charitable giving and the more recent emergence of foundation-based donations. In terms of target beneficiaries, the VSF would be focused on being a catalyst in the empowerment of vulnerable segments of our society.

The third section deals with the implementation and governance of such a fund and presents a number of proposals on how the VSF can operate over various programmes in the short and medium to long term. Its purpose is to complement existing structures and utilise resources, both human and financial, in a better way.

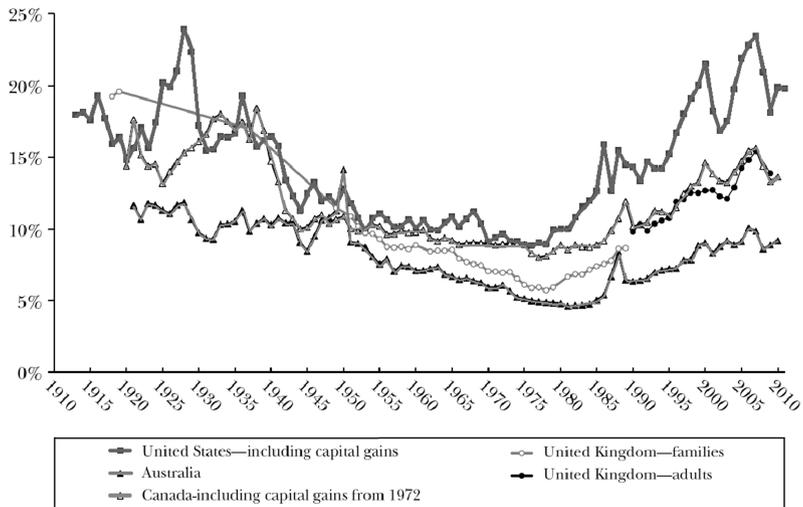
1. EMPIRICAL FINDINGS OF RISING INCOME INEQUALITY

1.1. Trends leading to growing disparities

According to the renowned Kuznets hypothesis, income inequality should acquire an inverse-U shape along with technological progress, first increasing with industrial development and then declining, as employment in the high technological sectors of the economy increases (Kuznets, 1955). This theory formed the basis of a widely accepted paradigm that predicted that economic development would eventually trickle down to all parts of society. The Kuznets curve has been questioned, especially in the United States, where initially inequality decreased during the first half of the twentieth century, but then rose again from the 1970s onwards.

Chart 1 measures the share of national income of the top 1% income group on the vertical axis, during the twentieth

Chart 1:
Top 1 percent income shares in English-speaking countries (U Shape)



Source: Facundo, Atkinson, Piketty and Saez (2013)

and early-twenty-first centuries. The red line depicts the Kuznets curve for the US, where the share of the top 1% increased from around 15% in 1915 to almost 25% in 1930 and then fell to around 10% by 1970 – giving a kind of inverse U curve. However, from around 1980 onwards, the share of the top 1% has been on an upward path once more, reaching levels of 25% as in 1930 – indicating a worsening income distribution. Other countries shown in the chart also depict similar behaviour – if perhaps to lower levels than the US.

This finding of a trend to increased income inequality is also corroborated by one of the latest empirical studies of the OECD on increasing income inequality confirming that in three fourths of OECD countries, the top 10% household incomes grew faster than those of the poorest 10% over the 20 to 25 years preceding the global financial crisis, causing a broadening of income inequality (Cingano, 2014). This does not necessarily invalidate the Kuznets' hypothesis. It is relevant to question whether since the 1970s a new industrial revolution has occurred, and the latter represents a new hypothesised inverse-U curve with first, increasing inequality, and then, eventually inequality decreasing again at some point, as more workers join the high productivity economic sectors (Piketty and Saez, 2003).

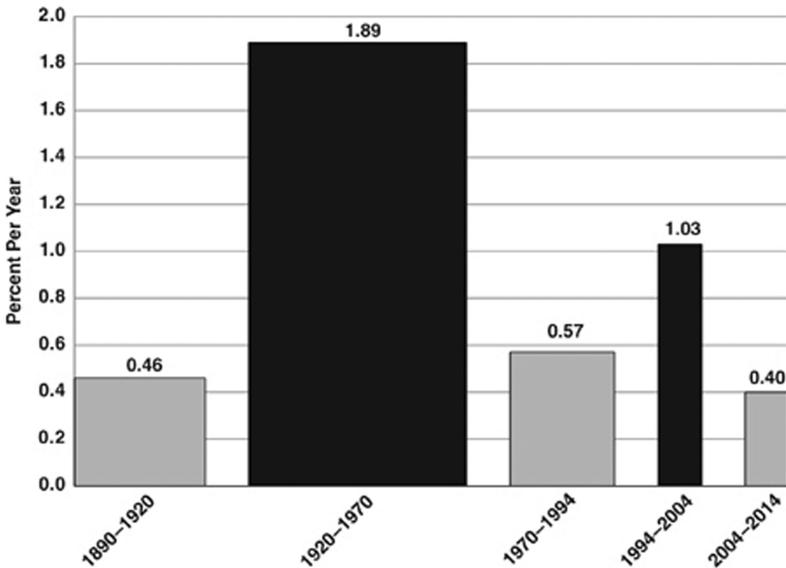
However, such an explanation would rely on the premise that there is currently a new industrial or economic revolution taking place that will eventually lift the incomes of those currently falling behind. The evidence of such an occurrence is, unfortunately, lacking.

Robert J. Gordon examines this aspect in a historical framework and provides a thorough assessment of current and likely future developments. In his wide-ranging study of US productivity developments published in 2016, he identifies three industrial revolutions that shaped the modern world (Gordon, 2015, 2016). In each case Total Factor Productivity growth (or TFP which is a measure of how quickly output is growing relative to the growth of labour and capital

inputs) reflects the gains achieved due to technological progress. For example, the first light grey bar in Chart 2 reflects the gains in TFP during the 1890-1920 period from the industrial revolution of the mid 1800s, resulting from the introduction of steam engines, railroads, steamships and the transition from wood to metal.

The second industrial revolution relates to the invention of electricity and the combustion engine. The rapid TFP growth during 1920-1970 (depicted by the wide dark bar in the chart) reflects the dynamics of the industrial revolution that created the modern economy. These gains in productivity have also resulted in lower inequality as reflected in the downward trend of the red Kuznets curve (Chart 1) up until 1970.

Chart 2:
Annualised growth rates of Total Factor Productivity, 1890-2014



Source: Gordon (2016)

At about the same time that the second industrial revolution began to encounter diminishing returns after 1970, along came the digital electronic third industrial revolution, the gains of which are clearly reflected in the productivity upsurge of 1996-2004. This surge in TFP is depicted by the narrow dark bar, indicating that the benefits of this third revolution were short lived when compared to the benefits gained from the second revolution. In Gordon's words, this was "followed by mediocre productivity growth in the decade after 2004". Gordon shows that the benefits from the Internet and web revolution have been largely absorbed by 2004 and the methods of production have been little changed over the past decade. He argues that the many accomplishments of the third industrial revolution are largely completed. It should also be noted that the benefits of the digital revolution often cannot be easily adopted across the whole income spectrum as they require an element of advanced human capital that the lower income groups often lack.

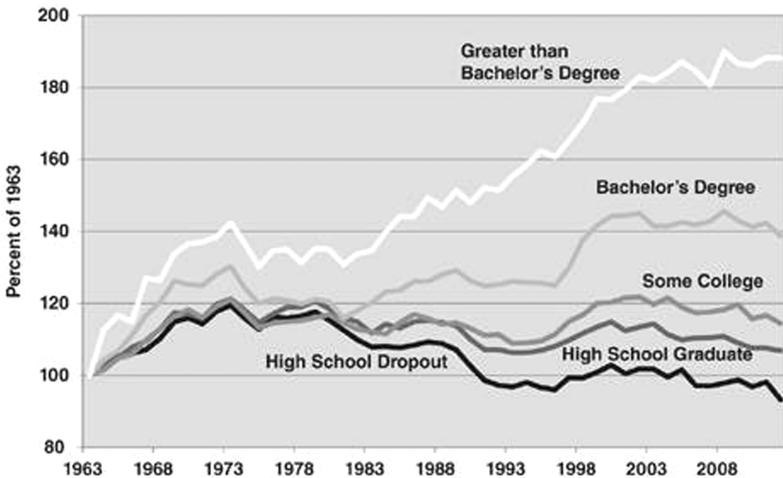
In terms of the Kuznets curve, the above argument suggests that we are now stuck at the high end of the curve with high income inequality and with productivity as measured by TFP increasing at the paltry rate of 0.4 over the latest decade – the lowest rate since the period 1890-1920 as shown in Chart 2. Unless a new technological revolution materialises, or unless the middle to lower income groups upgrade the quality of their human capital that would allow them to reap the benefits of the third industrial revolution, TFP growth is expected to remain restrained.

Going forward, TFP growth seems to be stagnating on two fronts. First, as already noted, there are the diminishing returns from the third industrial revolution; and secondly; to the extent that educational attainment is rising less rapidly than in the past, the future growth rate of productivity will tend to be slower. If we take the US as an example, TFP after 1970 grew at barely a third the rate achieved between 1920 and 1970. A number of headwinds to economic progress can

be identified. Chief amongst these headwinds is the “rise in inequality that since 1970 has steadily directed an even larger share of the fruits of growth to the top of the income distribution” (Gordon 2016).

In commenting on the US, Gordon notes, “the cost of a university education has risen since 1972 at more than triple the overall rate of inflation”. Moreover, “the increased number of children growing up in single-parent households is likely to cause further erosion in educational achievement”. Gordon refers to the impact of this changing family structure as ‘socioeconomic decay’, which implies that “for the first time, America’s children will almost certainly not be as well educated, healthy or wealthy as their parents”. This argument is supported by the evidence he gathers on the development of real income – that is after adjusting for inflation – and educational attainment, as shown in Chart 3.

Chart 3:
US Real Weekly Earnings by Educational Attainment,
1963 = 100, 1963-2012



Source: Gordon (2016)

The various lines in Chart 3 track the developments of real weekly earnings over a long period since 1963, and sets the starting real wage equal to 100 at the beginning of the period for all educational levels. The diagram clearly shows that in the US, those at the lower end of educational attainment have seen their real earnings going down since the late 90s while for those with a Bachelor's Degree real earnings stagnated during the same period. Only those with an educational attainment greater than a Bachelor's Degree experienced steady growth in real earnings. This finding is highly significant, especially in the context of higher costs of university education. It means that education attainment has not only become less accessible, but also that the consequences of the inability to fund a high level of education are aggravating, leading to lower real earnings for a significant portion of the population from the middle to the more vulnerable parts of society. This observation embodies the worsening repercussions that come from increasing inequality of opportunity.

In a study on the effects of increasing inequality, Pickett and Wilkinson (2011) develop an index of health and social problems based on a number of measures, including life expectancy, teenage births, obesity, mental illness, homicides, imprisonment rates, mistrust, social mobility, education and the infant mortality rate. This index is plotted on the vertical axis of Chart 4. The horizontal axis plots an indicator of income inequality measuring how much richer the richest 20 per cent of the population is compared to the poorest 20 per cent.

This impressive chart – which also featured in an article in *The Economist, The World in 2016 (April 2016)* – demonstrates that health and social problems are more common in countries with higher income inequalities and the correlation between the two variables is strong². “Inequality seems to make

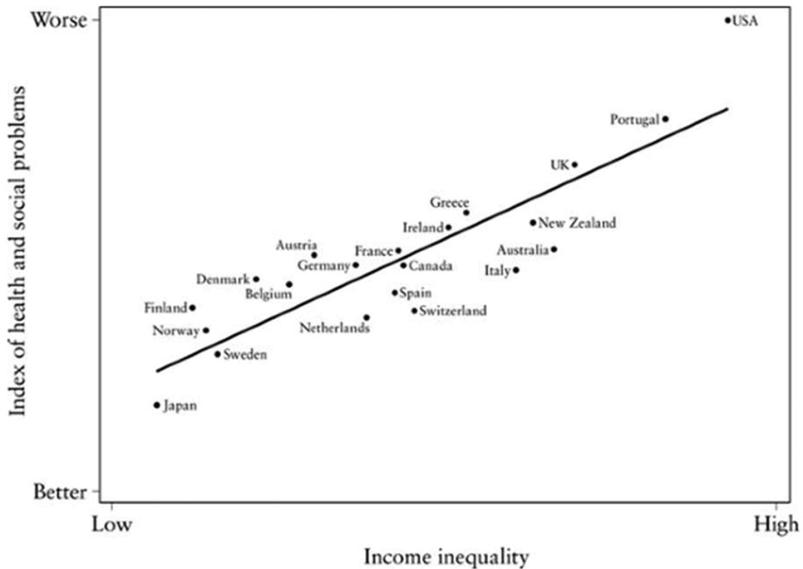
²As a robustness check, Pickett and Wilkinson replicate the exercise on the fifty states of the USA. The evidence from the United States confirms the international picture.

countries socially dysfunctional across a wide range of outcomes” (Pickett and Wilkinson, 2011). This finding also supports Gordon’s argument on the impact of increasing income inequality on socio-economic decay.

1.2. *Empirical findings of rising income inequality*

The previous section provided a broad ranging long-term analysis of various economic trends relevant to the issue of rising income inequality. This section will focus more directly on numerous studies that have appeared in recent years on the incidence of rising income inequality. As has already been noted, there is strong empirical evidence that indicates a long-term trend towards higher income inequality (See for exam-

Chart 4:
The relationship between the occurrence of health and social problems and income inequality among rich countries



Source: Pickett, Kate; Wilkinson, Richard (2010)

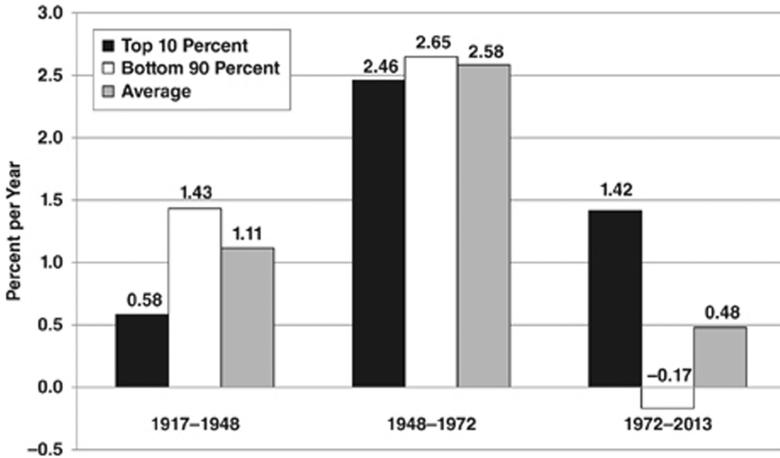
ple, Cingano, 2014). During the last financial crisis, most OECD countries registered historical highs of income inequality. As already noted in the first section, latest data suggest that the richest 10% of the population in OECD countries have an average income of around 9.5 times that of the lowest 10%. In the 1980s, this ratio was 7:1. However, results diverge amongst OECD countries. Inequality is less pronounced in the Nordic and many Continental European countries, but is relatively high in Italy, Japan, Korea, Portugal and the United Kingdom, and reaches its highest levels in Mexico and Chile.

For the US, Gordon analyses the period between 1917 and 2013 split into three time intervals (Chart 5) and looks at the growth rate of income (before tax and including capital gains) for the bottom 90 percent, the top 10 percent and the average in the US. During the period 1948-1972 (which corresponds to the downward trend of decreasing inequality in the Kuznets curve in Chart 1 and the upsurge in TFP in Chart 2 referred to earlier), real incomes grew more rapidly than in the other periods and was evenly spread between the three income groups considered. The period that followed (1948 - 1972) saw the emergence of a significant gap between the top 10% and the bottom 90%, to the extent that the growth rate in the average real income in the bottom 90 percent was actually negative over the period 1972 to 2013.

In other words, for the US, in the case of the lower 90% income group, the level of real income was lower in 2013 than it was in 1972. This is consistent with developments in real weekly earnings of the groups not having a higher level of education than a Bachelor's degree, as was shown in Chart 2.

Focusing on the European context, there is clear evidence that growth in total disposable income in the period 1980 – 2012 was slower than in the rest of OECD countries (OECD 2012). Over the past 25 years, household disposable income per capita rose on average by 3.1% annually in the OECD while the average annual growth in Europe was 2.5%. In both cases, smaller annual growth was registered over the past 15 years.

Chart 5:
Growth rate of real income in the US:
top 10 percent, bottom 90 percent and average; 1917-2013



Source: Gordon (2016)

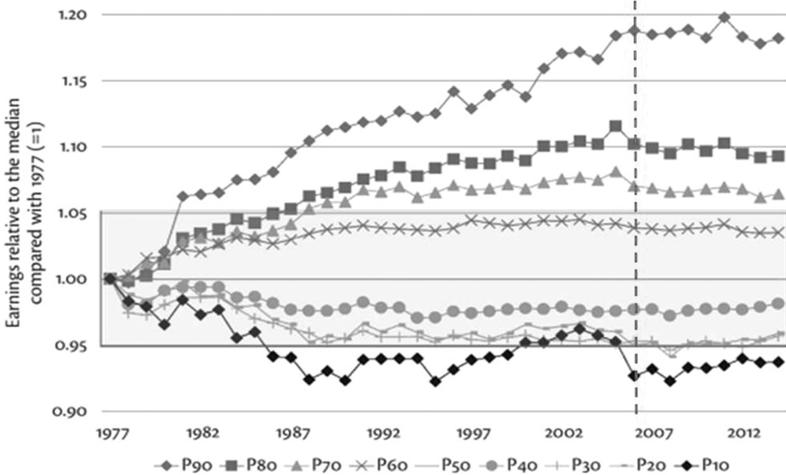
Moreover, the benefits gained from aggregate disposable income growth depend on how its distribution evolves. Income growth can be highly concentrated in a few hands, and there is evidence that this is increasingly the case for advanced economies. In general, the 10% highest income recipients have seen their incomes grow much more rapidly than the rest of the population over the past 25 years. In contrast, the 10% poorest of the population are losing out in terms of average annual income growth between 1980 and 2008, indicating that the gap has widened further.

A very relevant result on income developments in the UK is provided by Atkinson (2015) and reproduced in chart 6. Data points in the chart represent comparisons of different earnings groups with the median earnings indexed at 1977 = 1.0. The graph shows that the relative earnings of people in the top half of the earnings distribution (P90, P80, P70, P60) have grown between 1977 and 2014, while the relative earn-

ings of people in the bottom half (P40, P30, P20, P10) have fallen. Furthermore, during the last decade shown in the chart, relative earnings in the UK stagnated for all income groups except for the top 10%.

Looking at the Gini coefficients for individual European countries, from the mid- 1990s to 2008 – just before the crisis – the Gini coefficient decreased (meaning more equality) in Greece, Hungary and Italy, while it increased in all other European countries for which data for the two periods are available (European Commission). It is worth noting that both Italy and Greece, and to a lesser extent Hungary, have experienced a significant increase in unemployment following the financial crisis, so that it is likely that the situation with regard to income distribution deteriorated after the financial crisis, probably very rapidly in the case of Greece. More evidence on the income distribution of various countries using the Gini coefficient is presented in Annex I.

Chart 6:
Change in earnings in the UK since 1977



Source: Atkinson (2015)

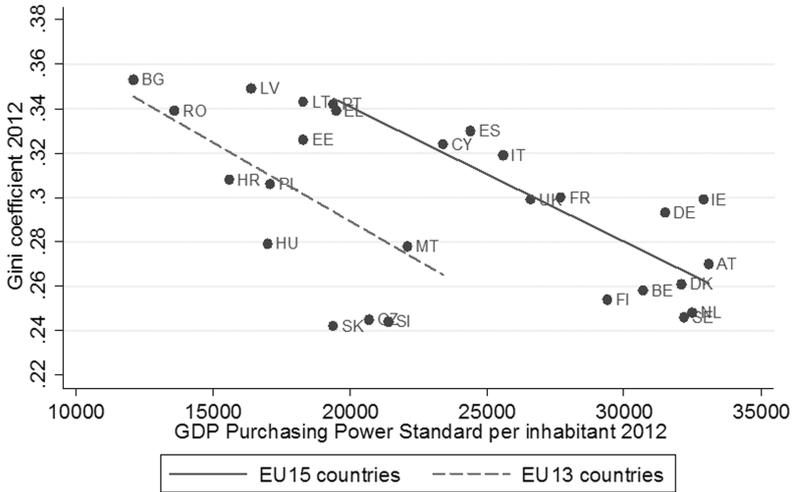
1.3. *Empirical evidence showing the negative effect of inequality on economic growth*

There are various studies that find a clear negative correlation between the level of income inequality and growth. The OECD study mentioned earlier presents an econometric analysis using harmonised data for the OECD countries over the past 30 years, and finds evidence that income disparity has a “negative and statistically significant impact on subsequent growth” (Cingano, 2014). In particular, the income inequality difference between the poor households and the rest of the population seems important. The OECD study “also evaluates the human capital accumulation theory finding that human capital is a channel through which inequality may affect growth. Analysis based on micro data from the Adult Skills Survey (PIAAC) points out that rising inequality weakens skills development for individuals with poorer parental education background, both in terms of the quantity of education attained (e.g. years of schooling), and in terms of its quality (i.e. skill proficiency)” (Cingano, 2014). This finding concurs with that of Gordon mentioned earlier.

Chart 7 below depicts the relationship between the Gini coefficient and GDP per capita of European countries as at 2012. The analysis is broadly divided into two groups of countries – those that entered the EU after 2004 (the EU 13) and those that were members before 2010 (the EU 15). Clearly, for both fitted lines, a higher Gini coefficient and therefore higher income inequality tends to be associated with a lower GDP per capita, indicating a lower level of economic development in a country.

A number of IMF studies have also found that income inequality (as measured by the Gini coefficient) has a negative effect on growth and its sustainability (Ostry, Berg and Tsangarides, 2014; Berg and Ostry, 2011). A recent IMF study develops this analysis further. (Dabla-Norris et al., 2015). It evaluates the impact of individuals’ income shares on growth

Chart 7:
Correlation between GDP per capita and the Gini Coefficient



Note: Luxembourg is omitted from the graph.
 Source: European Commission, Eurostat, cross-sectional EU-SILC 2012, UDB August 2015
European Commission, Social Situation Monitor

by using an exhaustive sample of advanced economies and EMDCs. A higher net Gini coefficient is concomitant with lower output growth over the medium term. So higher income inequality damages economic growth in the medium term. This is consistent with previous findings noted earlier. Furthermore, the study finds an inverse relationship between the income share attributed to the rich (top 20 percent) and economic growth. If the incomes share of this better off group increases by 1 percentage point, GDP growth is affected negatively, and decreases by 0.08 percentage points in the following five years. A similar rise in the income share of the poor (the bottom 20 percent) results in a 0.38 percentage point increase in economic growth. This positive correlation between greater equality in disposable income shares and higher economic growth is valid also for the second and third quintiles (the middle class). This result is also consistent with

recent research results for a smaller sample of advanced economies (OECD, 2014).

Widening income disparities affect growth because they weigh on its drivers. For example, higher inequality dampens growth by reducing the ability of lower-income households to access medical care and accumulate physical and human capital (Galor and Moav, 2004), (Aghion, Caroli, and Garcia-Penalosa 1999). Moreover, high income inequality has a negative impact on the social mobility across generations, since the poor parental background would tend to be transmitted to the generations that follow (Corak, 2013). This result is in line with Gordon's concept of socioeconomic decay (Gordon, 2015).

In addition, increasing income inequality discourages investment, and consequently growth, by creating economic, financial, and political instability (Dabla-Norris et al., 2015). More importantly, economic analysis finds that a global financial crisis could be triggered by a prolonged period of higher income inequality in advanced economies by augmenting leverage and by altering credit dynamics (overextension of credit, and a relaxation in mortgage-underwriting standards) (Rajan, 2010).

2. COMBATTING INCOME INEQUALITY THROUGH A VOLUNTARY SOLIDARITY FUND AT THE NATIONAL OR REGIONAL LEVEL

The preceding sections lead to the conclusion that income distribution is worsening in most countries. This increasing income inequality is in turn negatively affecting economic growth and leading to an increasing number of marginalised households. In addition economic growth has slowed down, which in itself seems to be worsening income inequality. Productivity growth has entered a much more subdued phase, with smaller contributions by technological development to overall economic productivity.

2.1. *Motivation*

In a period of vibrant economic and productivity growth, the impact of increasing income inequality may be subsumed by a rising standard of living, albeit at different speeds. However, in today's context of slower growth, the economic and social impact of increasing income inequality becomes an issue of significant importance, possibly also a danger to the cohesiveness of societies and fundamental economic relationships.

While this economic and social dimension is important and very relevant, the fundamental driving force that would address income inequality has to originate from the individual's value of solidarity which is defined by Pope Emeritus Benedict XVI in his *Caritas in Veritate* (2009) as "first and foremost a sense of responsibility on the part of everyone with regard to everyone". Solidarity requires therefore that we work towards the common good; in other words, towards the creation of communities in which all people are able to flourish and achieve fulfilment. This is probably best described by Pope Saint John Paul II in *Sollicitudo Rei Socialis* (1987): "When interdependence becomes recognized in this way, the correlative response as a moral and social attitude, as a 'virtue', is solidarity... not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far... [but] a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all".

Therefore, the starting point of any measure aimed at reducing income inequality is the individual. In line with Catholic Social Teaching, the VSF would provide solidarity in practice, with the aim of reducing the negative impacts of increasing income inequality and "enhance human fullness" (Pope Francis, *Evangelii Gaudium*). It will be well placed to propel the line of thinking expressed by Pope Emeritus Ben-

edict XVI and Saint John Paul II on solidarity and responsibility for each other. The VSF would also respond to Pope Francis' appeal in *Evangelii Gaudium* (182): "...there is a need to draw practical conclusions (from the Church's teaching) so that they will have greater impact on the complexities of current situations". The VSF is not intended to compete with other voluntary contributions at the institutional or charitable level but would complement the work of other organisations. The VSF would be built around the principles of Catholic Social Teaching, would focus on the idea of self-realisation and 'voluntary willingness' that need to be mobilised as the starting point to address increasing income inequality.

In other words a solidarity fund on a voluntary basis and motivated by the moral standards of the individual's conscience – with the central objective of combatting the effects of increasing income inequality – would enable individuals to better their capacity to participate in the economy and earn a dignified living through their work. Consistent with the principle of subsidiarity that asserts that problems should be dealt with at the most immediate or local level, the solidarity fund would be more effective to organise at the national or regional level, but with the guiding principles established by a central board. As will be discussed below, the initial phase would involve a number of pilot schemes, so that the central direction may be more important initially until the process of the VSF is set fully in motion.

The principle of the VSF being eventually administered at the local or regional level is important to add to the individual's incentive to contribute, and at the logistical level, it would be more practical to implement. An additional motivating factor would be to structure the fund in a way that gives the donor the faculty to determine how the contribution would be invested to address the ultimate objective of combatting increasing income inequality. This is not to overemphasise conditionality, but rather to encourage participation in a viable and effective project.

This perspective is not Utopian. For instance, in the US, the Bill & Melinda Gates Foundation is the largest private foundation in the world. The primary objective of the foundation is, globally, to enhance healthcare and reduce extreme poverty, and in America, to expand educational opportunities and to broaden access to information technology. Another example is the Susan Thompson Buffett Foundation, which is a charitable organization, formed by US investor Warren Buffett as a vehicle to manage his charitable giving. In June 2006 Buffett announced that he would give 85% of his wealth to the Bill and Melinda Gates Foundation.

It is also worth noting that the concept of giving a share of one's income is practised in a number of other religious faiths. In Judaism, for example, a mandatory system of dues, in which members are asked to pay between 1 and 2.5 percent of their incomes, is common in many synagogues and is similar to the Christian *tithes* as practised in some countries. In recent years, a number of synagogues in the US have introduced, instead, a voluntary scheme. As another example, in Islam one finds the *zakat* (that which purifies), which is a form of contribution, recently more voluntary and is customarily 2.5% of total savings and wealth above a minimum amount known as *nisab*.

The successful establishment of a Voluntary Solidarity Fund may be viewed from two perspectives, namely the sources of funds, or the process of raising the contributions to the VSF, and the uses of funds or the manner in which the funds raised are allocated to specific programmes. These aspects are interconnected: the sources or raising of funds is influenced by the way the funds are used.

2.2. *Funding sources*

The first aspect that will be considered relates to the motivation and organisation of the sources of funds. One way to implement this Voluntary Solidarity Fund (VSF) is to bring

together a number of middle to high net worth individuals, including prominent individuals that embrace the concept of solidarity that would be encouraged by the VSF. Besides monetary contribution, this private non-profit entity would propagate the notion that more income equality is beneficial both from an economic as well as from an ethical dimension. To this end, the act of contributing part of the wealth or income (in the form of a grant) is deemed as a noble act in itself and part of taking responsibility for the well-being of others.

In terms of motivation, the key here is that those who are better off feel the moral conviction to contribute to the betterment of others. Better off can be interpreted in various ways, but I would suggest that we focus on those who are at a stage in their career where they have succeeded in achieving a standard of living which allows them to go beyond the threshold where one is just surviving, merely meeting the requirements of a basic and dignified standard of living for themselves and their families. This concept is, as already noted, relative and may imply different things to different people depending on the cities or countries that they live in. The important point here is that the VSF needs to stimulate the desire to help others on the part of those who can do something about it, even in a limited way.

As a concrete proposal, I would suggest that the broad parameters would have the following guidelines. Starting with individuals earning the equivalent of EUR 100,000, these would contribute 1% of their income annually, while those earning above EUR 200,000 would contribute 2% of their income annually. These percentages are not mandatory but a guide. It is after all a voluntary fund. Individuals earning less than EUR 100,000 may decide to contribute at the same or a lower rate. Similarly, individuals earning a higher income than EUR 200,000 may contribute at a higher rate. The ideal scenario would be for the individual to know that she or he are meeting their moral obligation to be responsible for others who are less fortunate than themselves and who may be

caught in a low-income or even a poverty trap. Turning to corporate participants, the shareholders of a company could also decide to contribute from the company's earnings. Corporations could be invited to present their shareholders with a proposal to contribute 1 or 2% of the company's profits, and this would be subject to shareholders' approval.

Besides the stimulation of the wish to donate, it is also important to provide an attractive and effective programme for the use of the funds so generated. This will be further discussed below under the section relating to the uses of the funds collected in the VSF. In terms of the organisational aspect from the donor's perspective, it would require the establishment of an appropriate website which makes it easy to enrol and commit contributions utilising a user-friendly approach.

However, such a mechanism, although necessary, will not be sufficient by itself to lead to success. The VSF needs promoters, and it would be relevant to consider approaching high net worth and prominent individuals that embrace the concept of solidarity being encouraged by this proposal and who would also support the setting up of the Fund. I believe it is necessary to have human contact with an ability to explain and persuade in a world that is probably somewhat sceptical to start with. This is a challenge that should not be underestimated. However, challenges are there to be overcome, and the scope of this project and the good it is intended to achieve merit every effort to meet the challenges involved.

Once the relevant structure is in place, the launching of the project can be designed in a way that would provide the necessary level of encouragement and follow-up so that a certain momentum can be built up. Initially, the VSF could be composed of a Central Fund located in an appropriate jurisdiction that offers operational efficiency. It would be wise to start with a pilot project covering only a few regions initially. The considerations in choosing the regions would include the available support network that will increase the likelihood of

success in meeting the objective of solidarity. The funds could also be mobilised in such regions on the basis of a formula that takes into consideration not only need but also sources of the funds – so as to build a link or identification between the donors and the projects receiving support. This structure would also enable the development of the programme to the next level by opening more funding possibilities through success stories and by further strengthening the governance framework and transparency of the whole structure.

2.3. *Use of funds*

Moving on to the uses of the funds, there are both short term and medium to long term perspectives. Since the VSF is envisaged as an enabler, then the projects should focus on providing the appropriate ingredients to make the use of the funds effective. VSF funds could be mobilised to support and empower beneficiaries in two main areas of marginalisation; first where individuals may lack the appropriate finance to launch a small enterprise or business, and second, where individuals lack the necessary human capital that could see them improve their capacity to contribute to society and earn a dignified living.

Under the first area of marginalisation, the fund could be used to promote entrepreneurship. There is scope for potential partnerships with financial institutions such as NGO's, cooperative banks, promotional or development banks or even private banks that with the backing of the VSF, could provide assessment, management and mentoring expertise that would support and fund self-initiative, especially for those that have been excluded from financial markets. In addition, such financial institutions could also be donors by allocating a small proportion of their profits to be transferred to the Fund, as proposed in the previous section.

On a more global scale, the World Bank could also become a potential partner as its philosophy and initiatives are con-

ductive to those envisaged by the VSF. In fact, the World Bank works together with a large number of other institutions towards responsible financial inclusion. It has an active lending portfolio for financial inclusion of \$ 4.3 billion and 117 lending projects in more than 70 countries. World Bank support includes policy advice, data and diagnostics, technical assistance for legal and regulatory reforms, institutional development, risk sharing, and financing. With their expertise, such financial institutions could play an important role by providing functions such as assessment, management and mentoring while on its part, the VSF could use a proportion of its funds to carry part of the risk for the financing of such projects. In Malta, for example, APS Bank is a bank with a social dimension and in which the Catholic Church owns the equity. The VSF may therefore provide a significant part of the funding necessary for microfinance, while the partnering institution would identify the projects, and vet them for their soundness and the genuineness of the proposal, and to ensure that they meet the criteria of the VSF. This would help empower those who are constrained financially, to break out and be able to earn their way through their effort. An annex to this paper deals at greater length about various elements of microfinance in Europe.

The second aspect of marginalisation is a prime objective for the VSF in that it is a major cause for increased income inequality. This concerns the so called human capital, or put simply the ability of an individual to be sufficiently trained and educated to enable that person to rise to a more dignified and fulfilling level of involvement in society. Support from the fund can be in the form of providing favourable and affordable funding for scholarships and training courses and in general increasing the capacity of persons who can benefit from the educational upgrading necessary in today's more demanding society.

As a concrete example, the VSF could be set up as a revolving fund providing interest-free loans that would then be

repaid gradually once the beneficiary starts earning income from employment. Identifying meritorious cases would require focusing on target groups say, single-parent households where individuals are forced to abandon education and start working at a tender age in order to provide financial support to their struggling families.

The identification of meritorious cases could be supported by the networks at the parish level. These networks can contribute by choosing the people with the right credentials (perhaps retired people) to take up role as mentors, providing opportunity to contribute in a direct way while earning an income that would see them improve their own standard of living.

This aspect helps reinforce the work that can be done at the level of the parish, and at the same time serves the purpose of not only opening a new dimension of support but also strengthens the capacity of parishes to cater for those marginalised. The VSF would be seen not as competitor but as a complement to the activities currently undertaken, based on the overall objective of the VSF, namely to empower individuals to break out from the trap of a low level of education and poor living standards.

Since the objective of the VSF is to be truly effective and not simply to pay for courses and training, it would be necessary to establish a number of mentors to ensure that the assistance given is meeting the objectives established at the beginning of each programme. One way of dealing with this aspect is to open or set up a scheme for appropriately chosen retired people with the right credentials to take up this role of mentors and therefore to ensure that the moral and perhaps professional support is available. It is suggested that such retired people involved in the programme would also be able to benefit from a small remuneration for the contact hours they perform. This would help the many pensioners who may be living in marginal conditions but at the same time have great experience and time available that they could utilise to

contribute to the strengthening of their neighbourhoods. The details of such a scheme, the guidelines, objectives and other practicalities will be further elaborated, following consultation with a number of persons who can contribute sound advice on how such a scheme would be organised.

2.4. *Governance*

An eventual establishment of a VSF would need to be built around a strong governance framework supported by adequate technical and managerial competence, organisational capacity, accountability and transparency. The VSF would inevitably include an internal audit process as a catalyst for ensuring its governance, risk management and management controls. Moreover, the VSF would be audited externally to ensure full transparency. These are fundamental pre-requisites for the Fund's success in bringing together a network of individuals or groups of individuals that share this philosophy and are ready to take initiative.

In view of achieving a heightened level of transparency and accountability, the outcomes of the VSF projects and initiatives need to be measurable. This would enable accurate assessment of the VSF's efficiency and effectiveness and in so doing the Fund would be fully accountable to its donors. In addition, this would facilitate the prioritisation of efforts to focus on those projects that will have a material impact.

With a strong governance framework and supported by a network of important and trustworthy people, the VSF could earn an important role within the civil society, eventually placing itself at the negotiating table with other members of the civil society and the public administration where it could voice its philosophy and actively stir the public discussion towards its target of combating increasing income inequality. The VSF would be in a strong negotiating position, as it would have the capacity to actively contribute even financially. There is also scope for the VSF to raise awareness about

the existing incentives and programmes and also to coordinate and enable individuals to benefit from such programmes. This would avoid duplicating what is already in place and instead focus on new initiatives or ways to improve the existing ones. The status of the Fund would enable it to fulfil its role in civil society without prejudice. Based on the fundamental principle of solidarity, it has the potential to have a universal appeal to all segments of society, whatever the religion, race, colour, or political belief. The Foundation would not only give voice to the weakest members of society but it would also influence policy makers to take political decisions that would favour the well-being of those most in need or those in danger of being marginalised.

2.5. *Medium to longer-term considerations*

Eventually, the VSF may develop a role similar to that of the European Investment Bank (EIB) or other well-established development banks such those found in Germany, France, and in many other countries. The EIB acts as a catalyst for investment, providing finance and expertise for sound and sustainable investment projects that contribute to furthering EU policy objectives. It fulfils its role in a three-way manner by lending, blending and advising with its ultimate priority being the contribution to growth and employment in Europe. Consistent with the philosophy of the EIB, the VSF could utilise its funds to contribute to reducing income inequality by addressing fundamental issues such as access to education, access to the labour market for young people, access to adequate healthcare, supporting the elderly and so forth.

It could do this by directly funding projects or else by acting as a strategic partner with the government where the VSF could act as a catalyst for addressing long-standing issues that would improve income equality and enable an environment where all members of society can achieve fulfilment. In

this way the VSF could leverage on its funds to extend its reach and scope.

At a future date, it may also issue its own bonds rather than rely purely on contributions from individuals. Though this is a medium term consideration, since it requires an organisational structure appropriately developed to cater for such an activity. However, in a low interest rate and high liquidity environment, one should not exclude the attraction of people loaning their funds for a social purpose even at little or no pecuniary return, while still owning such funds. This would be the concept of a VSF bond. Society would be benefiting from the use of such funds, rather than leaving them idle in some bank account or worse stashed in a safety deposit box.

For the medium to the longer-term perspective I envisage an ambitious attempt to discuss this proposal with other Christian denominations and even go beyond that and cooperate with non-Christian religious organisations. The underlying principles of the Foundation are universal and highly agreeable. They can bring together different denominations and religions in a historic cooperation among people of different beliefs towards a common goal – a more dignified and fulfilling life. This dimension would further enable the Foundation to carry out its mission without prejudice.

A VSF of this nature is envisaged to be offering an opportunity for those who are willing to contribute but are usually uneasy on the methods and uses of funds. The VSF ensures an efficient use of resources by introducing a business-oriented dimension to the Fund. It would focus on the common and shared values of most religions and on solidarity as a universal value. With this structure, the VSF could target segments of the society we live in that would provide the contributor with an immediate and visible result.

CONCLUSION

Increasing income inequality is a top concern at the global level. There is general consensus that inequality is on a rising trend and that it is having a negative effect on growth and on the well-being of society. At the personal level there is conviction that increasing income inequality is everyone's responsibility that goes beyond giving charity to the poor. It involves the transformation of society into a more capable and caring one that would ultimately result in the enhanced well-being of everyone and a contribution to the common good.

Unfortunately, those individuals that embrace this commitment towards the common good may not be currently presented with the appropriate channels to contribute for this purpose. The VSF aims to bring together those individuals that have a vision of a better society and are ready to contribute for that purpose. Recent economic studies suggest that human capital is one of the main channels through which inequality has risen. In view of that, the VSF is envisaged to focus on access to education, healthcare, labour market access and other enhancements to the capacity of individuals to live a more dignified and fulfilling life, as God intended. This is a distinctive dimension of solidarity in the sense that it promotes a longer-term investment that would empower in a lasting manner the parts of our society that have been falling behind.

For reasons of practicality and logistical efficiency, the VSF would initially be set up at the national or regional level. On the funding side, the VSF would start with irrevocable donations – not loans – and based both on 'high worth' families or individuals, and small contributions from a larger number of catholic homes. At the operational level, the VSF could adopt a similar philosophy to that of the EIB whereby it could use the funds to lend, blend and advise. Moreover, the priorities of the VSF may at times coincide with those of the EIB and in that case, the VSF could use its funds as col-

lateral to borrow from the EIB and implement projects that fulfil the aims of both the EIB and the VSF.

At the management level, the VSF would be supported by a very strong governance framework that would be needed to lift the VSF to prominence, empowering it to actively participate in the civil society and to stir the public debate towards its genuine objectives. In partnership with the government, and with the monetary support of its funds, the VSF could embark on important projects that improve income equality.

With this structure the VSF is envisaged to fulfil its objectives efficiently, effectively and economically, enabling it to extend its scope and reach, with its primary role being to enhance the capacity of individuals to earn a decent income and live a fulfilling life. It will also provide a major avenue for individuals who are in the medium-to-higher income groups to contribute to the betterment of others, to enable them to provide solidarity in an effective and practical way.

ANNEX I

FURTHER EVIDENCE ABOUT INCREASING INCOME INEQUALITY

The Gini coefficient measures income distribution by taking into account the whole income distribution of a country, including the social welfare benefits that a country provides. The Gini coefficient ranges from zero to 1, with higher values within this range indicating worsening income inequality.

In the mid-1980s, the Gini coefficient stood at 0.29, on average, among OECD countries. However, by 2011-12, it had risen by 10 percent or 3 points to 0.32 (Cingano, 2014). Atkinson (2015) refers to this 3 percentage point increase in the Gini coefficient of OECD countries as the 'salience criterion' or benchmark and compares the developments in particular countries to this criterion (Chart 8). For most of the countries for which long time series are available, the Gini coefficient followed an upward path, increasing by more than 5 points in Finland, Israel, New Zealand and Sweden and by

more than 7 points and 10 points in the United States and the United Kingdom respectively. Only Greece and Turkey registered a marginal decrease.

Chart 8:
Change in inequality since 1980³

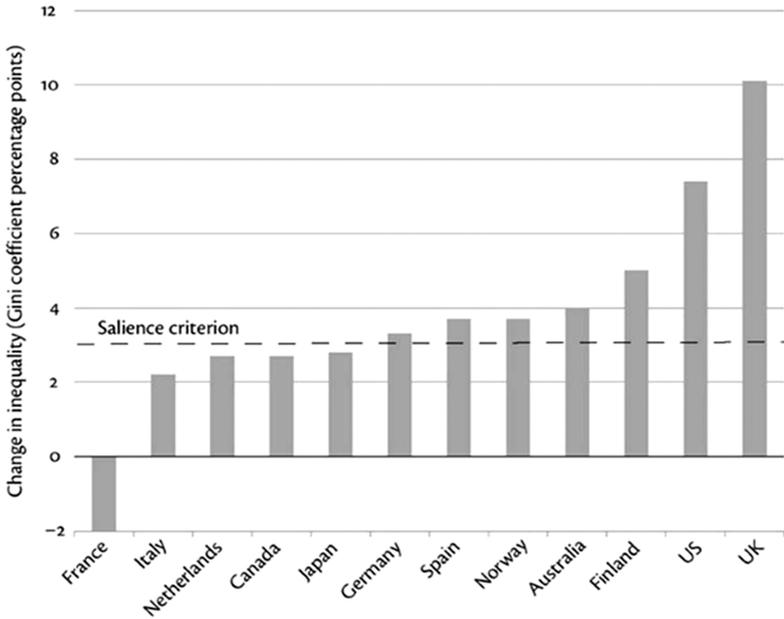


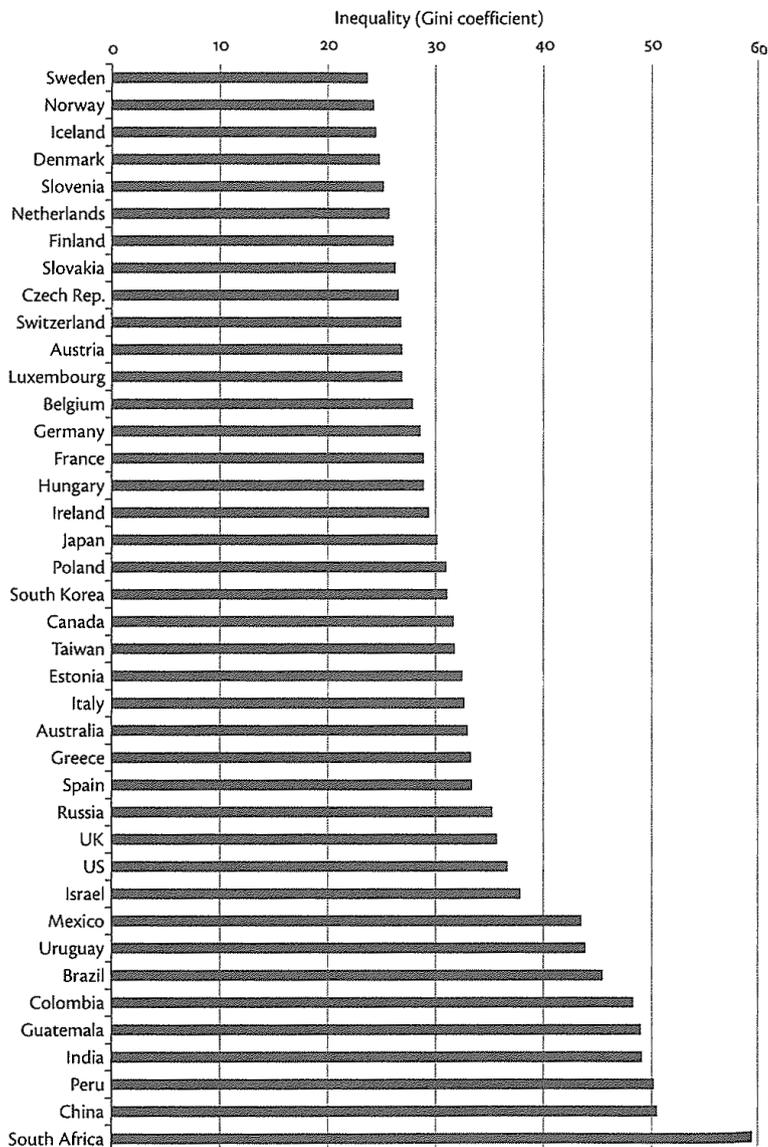
FIGURE 2.7: Change in overall income inequality since 1980 in selected world countries
The graph shows the change in percentage points in the Gini coefficient of overall inequality between 1980 and the end of the 2000s. The Gini coefficient in the UK was higher at the end of the period by just over 10 percentage points.

Source: Atkinson (2015)

Looking at a wider spectrum of countries, Chart 9 shows the Gini coefficient of various countries as at 2010. A number of countries are very close to the salience criterion – identified by Atkinson at the 0.32 mark – while other countries exceed this benchmark by a wide margin. It can also be observed that a number of advanced

³In France, the Gini coefficient increased from 28.9% in 2004 to 30.6% in 2011, but this still leaves it 2 percentage points below its 1979 value and hence its negative change in Chart 6.

Chart 9:
Gini coefficients of selected countries, 2010



Source: Atkinson (2015)

economies have a relatively high Gini coefficient, including European countries such as Italy, Greece, Spain and the UK. As noted earlier, the Gini coefficient for the US is one of the highest among the advanced economies.

Income inequality among advanced economies and emerging and developing countries (EMDCs) can also be studied through an analysis that is based on the poor and the middle class. A recent study by the IMF (Dabla-Norris et al., 2015) builds on a larger sample of countries while considering the income shares of the poor and the middle class, the main growth drivers. A panel econometric approach is used to put together different interrelated parameters that matter for inequality with year and country fixed effects. A sample of almost 100 advanced economies and EMDCs over the period 1980-2012 is assembled to determine the causes of country variations of income inequality. This research uses a large group of countries and examines if the determinants of inequality change across advanced, emerging markets and developing economies, and across different measures of inequality. In addition to the Gini coefficients, it develops the argument that income distribution itself is a precondition for growth by analysing “the determinants of the disposable income shares of the poor (bottom 10 percent), the middle-class (fifth decile), and the rich (top 10 percent)” (Dabla-Norris et al., 2015). A greater emphasis is then attributed to the determinants of income concentration in recent years, especially as regards to the poor and middle class income shares.

This analysis suggests that:

- The rise of inequality in both advanced economies and EMDCs is, in part, due to technological progress and the consequential rise in the skill rewards. Globalization has provided contribution to growing inequality.
- Social policies focused on the low and the middle class can reduce inequality. Health care and eased access to education, as well as optimal social policies can be inclusive and thus, reduce inequality for the poor and the middle class.
- There are various approaches to combat inequality. In advanced economies, measures against inequality should aim at developing human capital and skills, while implementing a more progressive taxation system. In EMDCs, since the re-

sults of the IMF study suggest that financial complexity results in higher income inequality, improved financial inclusion and “incentives for lowering informality would be important”... More generally, complementarities between growth and income equality objectives suggest that policies aimed at raising average living standards can have an impact on the distribution of income by ensuring a more inclusive prosperity (Dabla-Norris and al., 2015).

ANNEX II

MICROFINANCE IN EUROPE

INTRODUCTION

Microfinance may present different characteristics and may have targets that vary according to the different contexts in which it is applied. Microfinance extends beyond lending and may consist in a broad range of banking services such as credit services, savings products, current accounts, payment services and funds transfer. Microfinance within the EU banking industry normally refers to small loans (“microcredit” or “micro-loans”) and to small commercial customers (“micro-entities”). It is typically associated with other financial services such as advisory or providing guarantees.

The lack of a consistent and commonly-used definition of microfinance in particular for banks’ internal reporting implies that reliable figures for the volume of microfinance for the EU are not available. They are more often than not referred to as consumer loans or SME finance. The loan element of microfinance is in many cases indistinguishable from a corporate loan, although loan sizes are at the lower end of the scale. The average size of microcredits appears to be around € 10,000-15,000, sometimes even lower. The European Commission in its Communication on a European initiative for the development of micro-credit in support of growth and employment (COM[2007] 708 final) of 13 November 2007 (the “European Commission Communication”) considers microcredit in the EU to be loans under € 25,000 for business initiatives, and has observed that, typically, the average is € 10,000 for the older (15) Member States and € 3,800 for the newer Member States.

THE ROLE OF BANKS IN MICROFINANCE

Private banks are among the main providers of microfinance within the EU. They supply microfinance both on their own and in partnership with other providers, such as public bodies, international institutions such as the European Investment Bank and specialised Microfinance Institutions (MFIs). Private banks typically provide microfinance lending to “bankable” borrowers, who are deemed to have a viable business with a relatively high probability of being able to repay debt. Other MFIs and public bodies are more likely to provide microfinance to “non-bankable” borrowers, being individuals or very small companies that do not have a credit history or the ability to provide adequate collateral.

The lending of money to non-bankable entities is normally undertaken to support the development of sustainable business and for social or financial inclusion. An innovative method for the financial inclusion of projects is the establishment and management of partnerships between banking and non-banking institutions such as bank foundations and service industry organisations. The latter have a role to play in retrieving the data necessary to evaluate each request. They primarily carry out an informal screening of the applicants for financing and then offer them support after credit has been granted. The banks may then provide their services on the basis of the information made available.

Banks in the EU are also channelling finance to small businesses on behalf of EU institutions such as the EIB or with government support e.g. taking the form of subsidisation. In order to mitigate the higher risk facing banks in microfinance (especially in the absence of a borrower track record and the uncertainties connected with start-ups), microfinance is often backed by collateral or guarantees provided by public or non-profit entities. For the lending banks these forms of support are economically important, as successful micro-lending will tend to create new business ventures and clients for the future.

Such an approach builds into the lending relationship a high degree of monitoring and advice. In more developed markets for microfinance, services offered tend to include advisory services (e.g. business support and mentoring). This is an important safeguard to ensure that new start-ups and small enterprises receiving funding can benefit from the experience of others and are more likely to survive.

THE EUROPEAN COMMISSION COMMUNICATION

In terms of the European Commission Communication, whilst microfinance can take many forms, it is often used as a means of encouraging the growth of self-employment and the formation of micro-enterprises. It thus plays an important role in the realisation of the Lisbon strategy for growth and jobs, and the promotion of social inclusion. The Communication invites Member States, *inter alia*, to adapt the appropriate national institutional, legal and commercial frameworks necessary to promote a more favourable environment for the development of micro-credit.

The Communication makes seven proposals for Member States to improve the national legal and institutional environment:

- i. Create an environment allowing the development of micro-finance institutions (MFIs) and covering all segments of the clientele. Banks should be encouraged to develop micro-credit operations by granting access to a wider provision of loan guarantees and, as portfolios develop, by securitisation. Credit unions or similar institutions involved in micro-credit operations should be allowed to keep or receive the authorisation of collecting savings and are entitled to finance income-generating activities.
- ii. Help micro-credit to become sustainable by relaxing interest caps for micro-credit operations. It is deemed advisable to fix interest rate caps at a sufficiently high level to allow lending institutions to cover costs, while evaluating its economic and social impact regularly. Thus, it is understood that given the small size and short duration of loans, the absolute value of the interest, even with a high rate, is small.
- iii. Allow MFIs access to borrower databases and facilitate their evaluation of the risks. Thus, in the UK, community development finance institutions are encouraged to supply data to credit bureaux in order to support the assessment of risk.
- iv. Reduce operating costs by applying favourable tax schemes. More favourable tax regimes are equally important for an emerging industry, whether they consist of tax exemptions for MFIs or reductions in taxes for individuals or enterprises that invest in their activities or intervene by way of grants.

- v. Adapt national regulation and supervision to the specificity of micro-finance. In the EU, MFIs fall under the scope of EU prudential regulation if they receive deposits and other repayable funds from the public. If not, they are not subject to specific harmonised capital requirements. Any further regulation and supervision put in place must be proportionate to its cost and to the risks facing MFIs.
- vi. Ensure single market rules are applied to micro-credit. It is suggested that similar to the banking passport system in the EU, it is examined to what extent and under what conditions similar passport rights could be enjoyed by micro-credit providers that are not banks.
- vii. Incorporate micro-credit into regulation and accounting standards. Whilst over-regulation may have a negative impact on the development of micro-credit, risks may be reduced by making a prior inventory of best practices and by confronting the proposed legislative framework with the reality of national micro-credit operations. A way to increase visibility of micro-credit in the long run would be to categorize it as such in banking industry practice and the new accounting standards (IFRS).

The EU has also provided financial assistance to favour the development of micro-credit. The financial instruments of the EU's Competitiveness and Innovation Framework Programme (CIP), in particular the microcredit guarantee window of the SME Guarantee Facility, offer substantial resources to support microcredit. This was supplemented by the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative, launched jointly by the European Commission and the EIB in 2006, which enables the Member States and regions of the EU to use part of their Structural Fund allocations for financial products designed for SMEs. More recently in 2007 the JASMINE (Joint Action to Support Microfinance Institutions in Europe) initiative is targeted at the institutions serving the non-bankable segment of the market. In 2009, the EU announced a new European Microfinance Facility for Employment and Social Inclusion, amounting to €100 million, with a possible leverage of € 500 million, managed jointly with international financial institutions, in particular the EIB. This facility started to be made available from 2010.

MEMBER STATE LEGISLATIVE FRAMEWORKS

The European Microfinance Network regularly updates the position on country microfinance legislative profiles in its report on an Overview of the Microcredit Sector in the EU. The latest report available on its website is dated September 2014. This report reviews the situation in 17 jurisdictions. The most developed national legal frameworks are the following:

France

Following the establishment of the first MFI in France, ADIE, in 1989, the banking laws were amended in significant ways to take into account this new facility. In 2001 amendments allowed microcredit associations to obtain financing from banks. In 2005 a Social Cohesion Fund was created as a mechanism that guarantees up to 50% of microcredit loans. In 2009 the state created the NACRE operation which permits the development of interest-free loans by banks. In 2010 consumer laws governing consumer credit and specifying the legal framework for microfinance were amended to allow associations to receive interest-free loans from individuals. These may now participate in the financing of projects through crowdfunding platforms such as Babyloan or Xetic. Banks are obliged to provide an annual statement on microloan activity to the Banque de France and INSEE. In France, microloans are normally made available to unemployed persons and more generally to those excluded from the traditional banking system.

Germany

Germany does not have a special microcredit law. Three types of organisations provide microfinance: MFIs, the promotional banks and the local employment agencies (Job Centres). A cooperation model has been developed by MFIs. While the MFIs support clients through direct contact during the whole duration of the credit, a cooperating bank distributes the microloan and the risk of default is secured partly by the MFIs and partly by a guarantee fund. Two guarantee funds have been raised based on this cooperation: from 2006 to 2009 the “Mikrofinanzfonds Deutschland” worth € 2 million and from 2010 the Mikrodreditfonds Deutschland” operated by the Federal Ministry of Labour and Social Affairs with € 100 million. By 31 December 2013 the Government terminated the operation of

this fund with a number of MFIs. Promotional banks have set up microloan schemes below € 25,000 in line with their general business promotion programmes. Local employment agencies are entitled to distribute small loans to those fresh out of long-term unemployment. The job centre decides whether to grant the loan and the size of the loan. Generally speaking, promotional banks reach out to bankable entrepreneurs while MFIs target the non-bankable segment.

Italy

Italy introduced a comprehensive legal framework in 2010 by Legislative Decree n. 141/2010. The law defines the distinctive features of the microcredit activity (entrepreneurial and social), it establishes a register of authorised microlenders and it provides for the role of a supervising authority. Only commercial banks, with a few exceptions, are allowed to grant microcredit and other institutional bodies are mostly restricted to provide non-financial services and guarantee funds as well as the preliminary selection of borrowers. The public sector is involved in the subsidisation of short-lived microcredit projects through local municipalities and regions. Microcredit in Italy mainly targets persons excluded from mainstream financial services.

The Netherlands

MFIs in the Netherlands can operate without any supervision as long as they do not engage in raising money from the general public. They can establish themselves as a foundation, association or cooperative. They may their microfinance operations after registering with the Chamber of Commerce. Registration with the Chamber automatically results in registering with the national fiscal authorities. Government programmes (e.g. offered by the Ministry of Social Affairs and Employment) offer comprehensive training and business advisory services for those wishing to set up microenterprises. The facility targets the larger SMEs and is mainly intended to address unemployment.

Portugal

Although there is no specific microfinance legislation in Portugal, the State has established a credit line with the banking sector for disbursing microloans at low interest rates, giving a grace period of

two years. The State also offers guarantees to these banks. Microfinance target groups include individuals willing to start up or consolidate a business but who are excluded from the formal banking system such as youths, and the unemployed, especially if they seek self-employment as a solution.

Spain

In Spain, there is no regulatory framework for the microfinance sector. The microfinance model has been traditionally based upon the cooperation and joint work between savings banks, public institutions and Social Microcredit Support Organizations (SMSOs). Regarding the provision of microloans, savings banks either implemented microcredit programmes with their own resources or linked the programmes to public sector initiatives. Unfortunately, the credit crunch in Spain led to the closure of most microcredit programmes. However, in 2010, the Working Group on Microfinance Regulation in Spain

was set up to gather a variety of interested stakeholders on microfinance with the aim of facilitating the implementation of a legal framework for the development of the micro-finance sector in Spain. From the work developed in the II National Microfinance Meeting, it was decided to incorporate microfinance into existing law rather than create an independent framework. Consequently, the experts started consulting different political formations to develop a communication and lobbying strategy. By the end of 2012, the Working Group developed a document for lobbying the Spanish government compiling the main points to push forward regulation of the microfinance sector. These points include the ability for Spanish MFIs to be eligible for the aid programmes of the European Social Fund (ESF) and other institutions such as the European Investment Bank (EIB) under the umbrella of the Spanish Microfinance Association.

United Kingdom

MFIs in the UK are typically not-for-profit organisations that have social missions to benefit their local communities. The regulatory framework changed in 2013 and supervision is now centralised in the Financial Conduct Authority which regulates all forms of providing consumer credit. Higher fees have been introduced for

registering MFIs intended to create a more ethical financial services industry in the UK, so in the end MFIs themselves will benefit from these fees. In addition, the smaller MFIs are eligible for concessions from some of the FCA's fees and regulatory requirements. The typical microfinance approach in the UK is to provide loan finance and support, mentoring and advice to customers that cannot access finance from mainstream banks. The government is involved through many mechanisms, including policies such as tax reliefs and guarantee schemes that support great microfinance. Government also provides some sources of funding for MFIs such as grants targeted for specific market failures or public needs. Banks and MFIs have a referral partnership, where banks refer their declined customers to MFIs. Banks are also a source of commercial funding to MFIs to on-lend.

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SECTION 3
FINANCIAL REFORMS AND ETHICAL ISSUES

CATHOLIC SOCIAL TEACHING ON FINANCE AND THE COMMON GOOD

JOSEPH GALEA CURMI

On 5 October 2015, in its annual Power 100 Summit, *Worth* magazine released its list of the most powerful people in global finance. The top spots went primarily to heads of state and central bankers but, surprisingly, the one to feature on the very top of the list was Pope Francis. The Editor-in-Chief of *Worth*, Richard Bradley, said that Pope Francis had “an emotional connection with people around the world, whether Catholic or not, that was extraordinarily powerful” and he was “the most prominent figure addressing issues that have dominated global debates since the financial crisis began”¹.

Not everyone agrees with Pope Francis when he speaks on financial and economic matters. He has a significant number of critics who discuss subjects such as “What is wrong with the Pope’s neo-socialist sermonizing”² or “Pope lays out global Marxist agenda”³. However, he has managed to put forward in a forceful manner certain basic points of Catholic Social Teaching on finance and the common good which are definitely needed for a discussion that leads to action – an action that respects the dignity and rights of the human person.

¹“The Worth Power 100 provides a window into the world of finance and which direction it’s going”, Bradley said. Assembling the Worth Power 100 is a year-long effort, with *Worth* editors scouring the globe to review thousands of suggestions, select an initial list of 1,000 nominees and ultimately putting it down to the final 100 names.

²See comments by Patrick J. Buchanan.

³See comments by Cliff Kincaid.

In the Apostolic Exhortation *Evangelii gaudium* and in his Encyclical *Laudato si'*, Pope Francis has emphasized an important point which places his comments in context. He says in *Evangelii gaudium*: “Business is a vocation, and a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to serve the common good by striving to increase the goods of this world and to make them more accessible to all”⁴. And in *Laudato si'*, he basically mentions the same point: “Business is a noble vocation, directed to producing wealth and improving our world. It can be a fruitful source of prosperity for the areas in which it operates, especially if it sees the creation of jobs as an essential part of its service to the common good”⁵.

Catholic Social Teaching provides principles for reflection, criteria for judgement and guidelines for action⁶ as well as tools for conscience formation. I would like to underline some specific points on finance and the common good that are an integral part of Catholic Social Teaching and that have been emphasized by Pope Francis.

1. PRIMACY SHOULD BE GIVEN TO THE HUMAN PERSON CREATED IN GOD’S IMAGE

The root issue is anthropological. The human person is created in God’s image and this gives rise to his or her inviolable dignity – a sacred being and a social being born into a network of relationships and needing others in order to flourish. Life is not lived in isolation but in the formation of social unity. It is in this context that Pope Francis says “no to an

⁴FRANCIS, Apostolic Exhortation *Evangelii gaudium* (2013), 203.

⁵FRANCIS, Encyclical Letter *Laudato si'* (2015), 129. Francis quoted specifically this part again in his address to the Joint Session of the United States Congress on 24 September 2015.

⁶See PAUL VI, Apostolic Letter *Octogesima adveniens* (1971), 4.

economy of exclusion and inequality". In his Apostolic Exhortation *Evangelii gaudium*, he says: "How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points? This is a case of exclusion. Can we continue to stand by when food is thrown away while people are starving? This is a case of inequality"⁷.

The human person cannot be considered a means to an end, as consumer goods to be used and then discarded. Pope Francis refers to the creation of a 'disposable' culture which is spreading. He says that exclusion ultimately has to do with what it means to be a part of the society; those excluded are no longer society's underside or its fringes. They are the outcast, the 'leftovers'. Benedict XVI made this point in *Caritas in veritate*: "I would like to remind everyone, especially governments engaged in boosting the world's economic and social assets, that the primary capital to be safeguarded and valued is man, the human person in his or her integrity: 'Man is the source, the focus and the aim of all economic and social life'"⁸.

2. MONEY SHOULD NOT BE IDOLIZED

Catholic Social Teaching has never had an issue with money in itself. Indeed profit in business is considered an essential aspect of business affairs. However, the point made constantly by the Social Teaching is that money should serve, not rule.

⁷ *Evangelii gaudium*, 53. The issue of inequality features at the beginning of Leo XIII's Encyclical Letter *Rerum Novarum* (1891). It was forcefully underlined by Pius XI in his Encyclical Letter *Quadragesimo anno* (1931) where he says that every discerning observer would realize that the vast difference between the few who hold excessive wealth and the many who live in destitution constitutes a grave evil in modern society.

⁸ BENEDICT XVI, Encyclical Letter *Caritas in veritate* (2010), 25.

Pope Francis, in *Evangelii gaudium*, speaks about people's relation with money, and what happens when one accepts its dominion over oneself. The Pope says: "We have created new idols. The worship of the ancient golden calf (cf. *Ex* 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human purpose"⁹. The human person is sometimes reduced to one of his needs alone: consumption¹⁰. The Pope speaks against an absolute autonomy of the marketplace and financial speculation: "A new tyranny is thus born, invisible and often virtual, which unilaterally and relentlessly imposes its own laws and rules"¹¹. It is a system which tends to devour everything that stands in the way of increase profits. In such a system, "whatever is fragile, like the environment, is defenseless before the interests of a deified market, which become the only rule"¹². Greed, fraud and corruption are the result of such a value-free system.

⁹*Evangelii gaudium*, 55. See also the Speech of Francis to new ambassadors to the Holy See, on 16 May 2013, where Francis had already expressed the same point: "We have created new idols. The worship of the golden calf of old (cf. *Ex* 32:15-34) has found a new and heartless image in the cult of money and the dictatorship of an economy which is faceless and lacking any truly humane goal".

¹⁰See *Evangelii gaudium*, 60: "Today's economic mechanisms promote inordinate consumption, yet it is evident that unbridled consumerism combined with inequality proves doubly damaging to the social fabric".

¹¹*Evangelii gaudium*, 56. It is interesting to note that the term 'tyranny' was used by Paul VI, in his Encyclical Letter *Populorum progressio* (1967), 26: "This unbridled liberalism paves the way for a particular type of tyranny, rightly condemned by our predecessor Pius XI, for it results in the 'international imperialism of money.' Such improper manipulations of economic forces can never be condemned enough; let it be said once again that economics is supposed to be in the service of man".

¹²*Evangelii gaudium*, 56. See also Francis in *Laudato si'*, 195: "The principle of the maximization of profits, frequently isolated from other considerations, reflects a misunderstanding of the very concept of the economy. As long as production is increased, little concern is given to whether it is at the cost of future resources or the health of the environment; as long as the clearing of a forest

The same term 'idolatry' features in *Centesimus annus*, which says: "There are goods which by their very nature cannot and must not be bought or sold. Certainly the mechanisms of the market offer secure advantages: they help to utilize resources better; they promote the exchange of products; above all they give central place to the person's desires and preferences, which, in a contract, meet the desires and preferences of another person. Nevertheless, these mechanisms carry the risk of an "idolatry" of the market, an idolatry which ignores the existence of goods which by their nature are not and cannot be mere commodities"¹³.

3. AN ETHICAL DIMENSION IS CRUCIAL IN A FINANCIAL SYSTEM

Pope Francis says that the market will not, by itself, succeed in bringing about greater justice and inclusiveness in the world¹⁴. He emphasizes the need of an ethical dimension which is not lost in the categories of the marketplace. "When these (categories) are absolutized, God can only be seen as uncontrollable, unmanageable, even dangerous, since he calls human beings to their full realization and to freedom from all forms of enslavement. Ethics – a non-ideological ethics – would make it possible to bring about balance and a more

increases production, no one calculates the losses entailed in the desertification of the land, the harm done to biodiversity or the increased pollution".

¹³JOHN PAUL II, Encyclical Letter *Centesimus annus* (1991), 40.

¹⁴See *Evangelii gaudium*, 54. The term used by Francis – 'trickle-down theories' – caused an uproar in certain circles that consider it to be a populist term used by critics in a pejorative way. However, one has to put things in perspective. The expression (in the Spanish original "teoría del derrame") was widely and commonly used in Argentina during the 90s, when there was an artificial economic expansion driven by privatizations and heavy indebtedment. The common thinking was that the market forces would manage and it was just a matter of time. Many say that the result was the worst economic catastrophe in Argentinian history and it caused widespread suffering.

humane social order”¹⁵. Pope Francis mentions the need of a return of economics and finance to an ethical approach which favours human beings¹⁶.

Benedict XVI emphasized this point in *Caritas in veritate*, when he said that the economy needs ethics in order to function correctly — not any ethics whatsoever, but an ethics which is people- centred. He mentioned several praiseworthy initiatives concerning ethics in the field of economy, finance and business, and added: “It would be advisable, however, to develop a sound criterion of discernment, since the adjective ‘ethical’ can be abused. When the word is used generically, it can lend itself to any number of interpretations, even to the point where it includes decisions and

choices contrary to justice and authentic human welfare”¹⁷. He explained that efforts are needed not only to create “ethical” sectors or segments of the economy or the world of finance, but to ensure that the whole economy — the whole of finance — would be ethical, not merely by virtue of an external label, but by its respect for requirements intrinsic to its very nature. This is a constant theme in Catholic Social Teaching. John Paul II had explained it this way: “The economy in fact is only one aspect and one dimension of the whole of human activity. If economic life is absolutized, if the production and consumption of goods become the centre of social life and society’s only value, not subject to any other value, the reason is to be found not so much in the economic system itself as in the fact that the entire socio-cultural system, by ignoring the ethical and religious dimension, has been weakened, and ends by limiting itself to the production of goods and services alone”¹⁸.

¹⁵ *Evangelii gaudium*, 57.

¹⁶ See *Evangelii gaudium*, 58.

¹⁷ *Caritas in veritate*, 45.

¹⁸ *Centesimus annus*, 39.

4. FINANCE SHOULD BE RELATED TO THE CORRECT UNDERSTANDING OF 'COMMON GOOD'

The Second Vatican Council defined common good as “the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment”¹⁹. Common good is not utilitarian in nature. It is not ‘the greatest good for the greatest number’, because this can allow for the exclusion of individuals or even segments of society. John Paul II explained that the common good “is not simply the sum total of particular interests; rather it involves an assessment and integration of those interests on the basis of a balanced hierarchy of values; ultimately, it demands a correct understanding of the dignity and the rights of the person”²⁰.

It is a theme on which Benedict XVI dwells in *Caritas in veritate*, where he says that common good is “the good of ‘all of us’, made up of individuals, families and intermediate groups who together constitute society. It is a good that is sought not for its own sake, but for the people who belong to the social community and who can only really and effectively pursue their good within it”²¹. The common good underlines three essential elements: respect for and promotion of the fundamental rights of the person; prosperity, or the development of the spiritual and temporal goods of society; the peace and security of the group and of its members. In an increasingly globalized society, the common good and the effort to obtain it cannot fail to assume the dimensions of the whole human family, that is to say, the community of peoples and nations²². In this context, one understands a core assertion in Catholic social teaching that all creation was created

¹⁹SECOND VATICAN COUNCIL, Pastoral Constitution *Gaudium et spes*, 26.

²⁰*Centesimus annus*, 47.

²¹*Caritas in veritate*, 7.

²²See *Catechism of the Catholic Church*, 1925.

by God and given to humanity, collectively, and that material goods have a universal destination that must not be undermined²³.

5. SOLIDARITY AND SUBSIDIARITY: KEY FACTORS IN THE RELATION OF FINANCE TO THE COMMON GOOD

In the current economic situation the word ‘solidarity’ has sometimes become uncomfortable, even bothersome²⁴. It is essential to restore to ‘solidarity’ the social citizenship that it deserves. “Solidarity is not an additional attitude, it is not a form of social alms-giving but, rather, a social value”²⁵.

John Paul II explained that solidarity is not a feeling of vague compassion or shallow distress at the misfortunes of people. “On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all”²⁶. It is a globalisation in solidarity. Looking after the common good means making use of the new opportunities for the redistribution of wealth among the different areas of the planet, to the benefit of the underprivileged that until now have been excluded or cast to the sidelines of social and economic progress²⁷. It also means a solidarity between generations: “The notion of the common good also extends to future generations. The global economic crises have made painfully obvious the detrimental effects of

²³See *Populorum progressio*, 22. See also *Laudato si'*, 158, where Francis speaks about the importance of “recognizing the implications of the universal destination of goods”.

²⁴See FRANCIS, Address to the *Centesimus Annus Pro Pontifice Foundation*, 10 May 2014.

²⁵FRANCIS, Address to the *Centesimus Annus Pro Pontifice Foundation*, 25 May 2013.

²⁶JOHN PAUL II, *Sollicitudo rei socialis* (1987), 38.

²⁷See JOHN PAUL II, Address to the *Centesimus Annus Pro Pontifice Foundation*, 9 May 1998.

disregarding our common destiny, which cannot exclude those who come after us. We can no longer speak of sustainable development apart from intergenerational solidarity. Once we start to think about the kind of world we are leaving to future generations, we look at things differently..."²⁸.

Linked to this is also the principle of subsidiarity which means that responsibilities are to be exercised and decisions taken as far as possible by local communities and institutions, at the level of individual initiative. John Paul II explained in *Centesimus annus*: "A community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need and help to coordinate its activity with the activities of the rest of society, always with a view to the common good"²⁹. At the same time, the common good demands that there be supervisory agencies to follow up all action starting from the local up to the international level, so as to ensure that the general aims are attained, and any abuse avoided.

6. THE PREFERENTIAL OPTION FOR THE POOR IS ESSENTIAL FOR ATTAINING THE COMMON GOOD

The preferential option for the poor was described by John Paul II "as a special form of primacy in the exercise of Christian charity, to which the whole tradition of the Church bears witness. It affects the life of each Christian inasmuch as he or she seeks to imitate the life of Christ, but it applies equally to our social responsibilities and hence to our manner of living, and to the logical decisions to be made concerning the ownership and use of goods"³⁰.

²⁸ *Laudato si'*, 159.

²⁹ *Centesimus annus*, 48.

³⁰ *Sollicitudo rei socialis*, 42. See also *Centesimus annus*, 11: "The Church's love for the poor, which is essential for her and a part of her constant tradition, impels her to give attention to a world in which poverty is threat-

This option is a special hallmark of the Pontificate of Francis who says that, while loving everyone, rich and poor alike, “he is obliged in the name of Christ to remind all that the rich must help, respect and promote the poor”³¹. Pope Francis says that this option “is an ethical imperative essential for effectively attaining the common good”³². This points to what Benedict XVI himself said in *Caritas in veritate* that “While the poor of the world continue knocking on the doors of the rich, the world of affluence runs the risk of no longer hearing those knocks, on account of a conscience that can no longer distinguish what is human”³³.

Catholic Social Teaching, while emphasizing this integral promotion of the poor, speaks against a culture of dependency and a simple welfare mentality³⁴. Politics that reduce people to a passive state of dependency on welfare do not do justice to the dignity of the human person. In *Laudato si'*, Pope Francis says that helping the poor financially “must always be a provisional solution in the face of pressing needs. The broader objective should always be to allow them a dignified life through work”³⁵.

7. CONCLUSION

It is evident that Catholic Social Teaching has a profound, transformative message on finance and the common good.

In today’s complex situation, not least because of the growth of a globalized economy, this social teaching has become a set of fundamental guidelines offering approaches

ening to assume massive proportions in spite of technological and economic progress”.

³¹ *Evangelii gaudium*, 58.

³² *Laudato si'*, 158.

³³ *Caritas in veritate*, 75.

³⁴ See *Evangelii gaudium*, 204.

³⁵ *Laudato si'*, 128.

that are valid even beyond the confines of the Church: these guidelines need to be addressed in the context of dialogue with all those seriously concerned for humanity and for the world in which we live³⁶.

The pointed criticism of Pope Francis on specific issues, in line with the thrust of Catholic Social Teaching, ultimately helps to underline personal and social responsibility. It is understandable in the light of what *Caritas in veritate* says: “Admittedly, the market can be a negative force, not because it is so by nature, but because a certain ideology can make it so. It must be remembered that the market does not exist in the pure state. It is shaped by the cultural configurations which define it and give it direction. Economy and finance, as instruments, can be used badly when those at the helm are motivated by purely selfish ends. Instruments that are good in themselves can thereby be transformed into harmful ones. But it is man’s darkened reason that produces these consequences, not the instrument *per se*. Therefore it is not the instrument that must be called to account, but individuals, their moral conscience and their personal and social responsibility”³⁷.

Individual generosity, private economic development, entrepreneurial initiatives, structural reforms, practical innovation and sound public policies of a legitimate redistribution of economic benefits all have a role in enhancing economic opportunities, and in alleviating and eliminating poverty. A just economic order relies on both material wealth and on people’s openness to the transformation of their hearts in love and solidarity. That is the path to the greatest kind of prosperity for all³⁸. The role of Christians is to rethink and develop new answers and proposals, inspired by Catholic Social

³⁶See BENEDICT XVI, Encyclical Letter *Deus caritas est* (2005), 27.

³⁷*Caritas in veritate*, 36.

³⁸See Cardinal TIMOTHY DOLAN, in *Wall Street Journal*, 22 May 2014.

Teaching, and translate them into actions which may be effective in the world of today. This is what the *Centesimus Annus Pro Pontifice Foundation* has been focusing on in these past years³⁹. The Malta International Consultation will continue this journey of reflection and action.

³⁹The 2015 Statement *A Reformed Market Economy: Entrepreneurship for Human Development* is an excellent expression of this effort which is inspired by Catholic Social Teaching. See also the 'Dublin Proposals on Finance and the Common Good' included in this Statement.

DOES FINANCIAL REFORM ENTAIL REAL CHANGE? FOR WHOM, BY WHOM AND HOW¹

DOMENICO SINISCALCO

INTRODUCTION

Laudato Si' mi' Signore, the encyclical letter by Pope Francis, primarily deals with global common goods. The message is fundamental and timely for two reasons at least. First, the key messages of the Letter are topics that clearly need to be addressed in the emerging in countries as well as in the developed world, given the current trends in economic development, wealth distribution and social dynamics. All men and women of good will today are looking for guidance in these areas to avoid the decline in the quality of human life and the breakdown of societies, with the emergence of poverty and deprivation. Second, it is obviously true that the modern world is increasingly interconnected by market flows, such as goods, services, capitals, as well as by externalities, i.e. by interdependencies that are not reflected (or fully reflected) in market variables, but still are vital to mankind: climate change and the environment, migrations, diseases, access to common goods, demography itself.

Human institutions which are still fundamentally crafted around national states and inter-governmental policies (with few exceptions, like ECB), are not yet suitable to deal with such externalities. Hence the need of ad hoc international agreements (such as the international agreements on climate change, or on the ozone layer) but also the fundamental need for a new ethics. In a sense, just like Adam Smith's 'Invisible

¹The text and the tables (slides) are closely integrated and must be read together.

Hand' requires Adam Smith's 'Moral Sentiments' to work, in the case of global common goods, international agreements need ethics to work and operate across countries and across generations. No contract or agreement, as a matter of fact may be 'complete' and/or fully enforceable.

Pope Francis' focus on 'our common home' addresses a whole set of public goods and externalities: first climate change, then water, biodiversity, but also addresses sources of externalities, such as inequality, technology and last but not least the financial system. Indeed, 9 years after the beginning of a greatest financial and economic crisis, everybody understands that financial stability is a public good. A pre-condition to operate the human economic system. But banking bailouts with taxpayer money have been deeply controversial.

An audit of the crisis which began in 2007-8 is still to be carried out. But a few milestones have been identified. 1) the financial crisis is related to a set of co-determinants: global unbalances; banking deregulation; interconnectedness between public debts, private debts and banks; lack of long term view. 2) the impact on the real economy, unemployment and inequality has been dramatic; 3) the macroeconomic effects have been severe, but have been contained by a huge policy effort.

The policy response has been different across regions, but fundamentally relied on several pillars. 1) Monetary policy 2) Fiscal Policy 3) An often implicit redesign of central banking 4) A deep reform of the financial system. In this paper I consider the reform of the financial sector and I discuss whether it entailed real change, for whom, by whom, and how.

1. THE FINANCIAL REFORM: THREE STAGES

The main objectives of the financial reform, which occurred after the crisis of 2007-2008, have been evolving over time.

At the beginning of the crisis, soon after the Lehman shock, the *first stage* of the financial re-regulation, extremely

important and very urgent, has been to stabilize the financial and banking system. Given the high degree of interconnect- edness among banks and financial institutions, legislators and regulators find appropriate to contain the financial contagion in the system. This objective has been successfully attained by injecting capital and reducing assets in the banking system, mainly by providing public guarantees and injecting liquidity and taxpayer's money. The recapitalization of banks by Gov- ernments amounts to 6.3% of EU GDP. Guarantees were 29.8% (a big number). In this phase taxpayer's money played a crucial role through a huge Bail out effort, which was aimed to prevent systemic effects. Asset Relief Intervention was 5.1% and other measures reached 2.9pc. On aggregate the EU Government support for banks was 44.1% of EU GDP or Euro 5.7trn (see slide 1). The data for the US economy are still to be exactly estimated as the TARP data are clearly incomplete. Central banking, in the meantime, changed dramatically, aiming at financial stability as well and fundamentally acting through QE, negative Repo rates and other non- conventional instruments.

Having stabilized the system, as a *second stage* legislators and regulators tried to address more fundamental weak- nesses of the financial system: lack of capital (as emerged from the data gathering and the stress testing process of 2014); lack of clear resolution regimes (addressed in the Bail in discipline as opposed to the Bail out regime, primarily aimed at breaking the circuit between Banks and Public Debts), weak prudential rules, fragmented supervision, in- centive to excessive risk taking related to compensation mod- els, too close a link between public debts and banks' balance sheets, via Government bond holdings by the banks and Bail outs by Governments. At the beginning the new regulatory framework was proposed and administered by a huge num- ber of entities. After the dust settled, a few building blocks emerged with very few differences among Europe and the US. The main building blocks of the second stage of reforms

are highlighted in slide 2. In addition to such building blocks, Central banks gradually shifted their mission including the stabilization of financial markets among their targets, towards the more fundamental objective of price stability.

The *third stage* of the re-regulation of the financial and banking system is still to come and is highlighted in slide 3. The So called SREP, the RWA Inflation, the review on the Quality of Capital, the management of Non Performing Loans, a new wave of Stress Tests, the TLAC (which in my opinion is a way to mitigate through liquidity constraints some flaws of Basel

and finally the new augmented capital requirements proposed by the Financial Stability Board in November 2015 are the new even tighter pillars of regulation.

As of today, the Regulatory Requirements that banks face are manifold both on capital and liquidity (see slide 4). Whenever a constraint is relaxed another kicks in. Looking at the set of constraints one can try to answer an important question. As far as the re-regulation are we 80-90% done, and the banking system is now a much safer industry, or is there still a long way to go? I am inclined to believe we are almost done, but the real effectiveness of the new regulation vis a vis systemic shocks and unintended consequences still remains to be tested. In a sense, all the new regulatory developments are important because, without a stable consistent regulatory framework, banks cannot optimize their structure and their balance sheet (see slide 5 and 6).

What should be discussed at this stage, however, is a deeper set of questions.

- 1) Can we ensure stability by regulating banks only, given their crucial role in the financial and economic system, or are there other financial non-banking systemic institutions?

More Importantly:

- 2) Is stability the sufficient feature of a healthy financial system, or should we aim for other objectives, such as access to credit, allocation of capital, selection of investment and support of growth? After all, the history of money shows the crucial role of financial institutions in promoting human development.

2. THE ECONOMIC CONSEQUENCES OF RE-REGULATION

No doubt the new banking regulation, together with the learning process by managers and shareholders, has dramatically changed the structure of the banking industry. RoEs are markedly down for global financial institutions as well as by the smaller banks (slide 7). Valuation levels are down (P/E and P/B, see slide 8). Lower Beta, increased dividends and ultimately increasing earnings per share are trying to help the sector (slide 9).

The real issue, however, is the impact of banking regulation on the real economy (i.e. on non-financial companies and ultimately GDP). After many years of serious constraints to lending, from 2013 we finally observe a clear recovery in loans growth (slide 10). Banks are stronger, but liquidity in the market has significantly dried down (slide 11). As a result data show that the reliance of Europe on EU wholesale banking is clearly down, but we cannot easily say whether EU corporates are more reliant on non EU (i.e. US banks see slide 12) or market and non banking sources of credit (slide 13) or other classes of players (slide 14).

The overall risk profile of banks, is improving in developed economies: not so much in Emerging Markets which suffer also from economic weaknesses, unrelated to credit and markets (slide 15). Wealth management and asset managers are now playing the non banking lending game (slide 16) and this phenomenon takes us back to our original questions at the end of section 1.

1) Can we ensure stability by regulating banks only, given their crucial role in the financial and economic system, or are there other systemic sources of instability? 2) Is stability the sufficient feature of a healthy and efficient financial system, or stability is simply a necessary condition and should we aim for other objectives?

In front of this qualified audience I leave answers to the two questions above to our discussion, even if I have in my mind a NO answer to both questions.

Just like in Climate Change, policy must aim to multiple objectives and to overcome the trade offs. From Albert Hirschman, we all know that regulation and deregulation, as well as many government policies, are very rarely “optimal”. Policies are historically given, and inevitably follow a pendulum from too strict to too lax and back. The regulation of banks in the 1930s, the Deregulation in the 1990s, and the current re-regulation are all examples of such a pendulum. Against this background I believe we are now approaching a pause and need to rethink regulation holistically in view of the aims of a stable but efficient banking system: in the secret hope that Hegel rather than Hirschman is right paradigm to understand policy and that we will finally achieve a balanced outcome. We all need a synthesis after all.

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Does Financial Reform Entail Real Change? For Whom, by Whom and How

Domenico Siniscalco

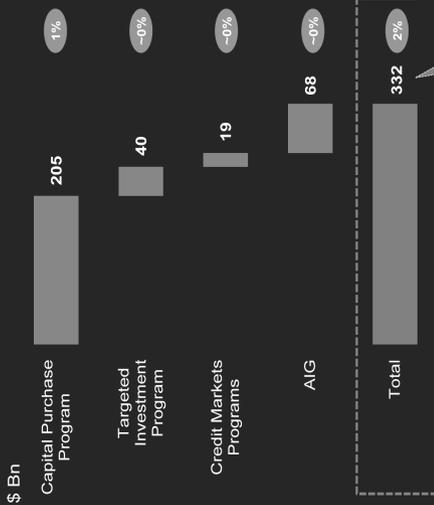
*Vice Chairman, Morgan Stanley
Former Minister of Economy and Finance, Rome*

January 29-30, 2016

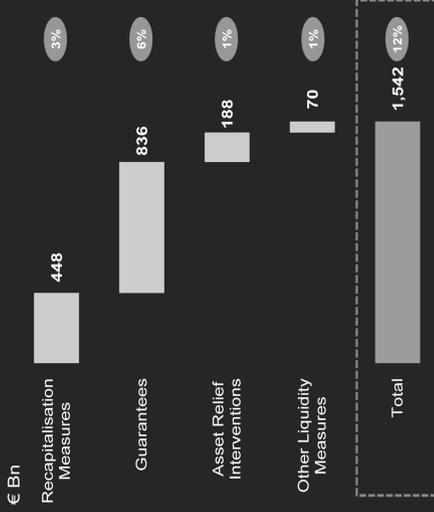
Government Support for Banks: Larger Scale than Usually Perceived?

Speed vs. Size?

US – TARP⁽¹⁾ Used Amounts



EU – Used Amounts 2008-2014



Source: DG Competition, Daily TARP Update

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(1) Troubled Assets Relief Program, only including financial system aids

A Regulatory Reform with Several Building Blocks

Europe

Building Blocks

- Strengthened Regulation
 - CRD IV and CRR (2014)⁽¹⁾; capital strengthening, macro-prudential
 - BRRD (2015)⁽²⁾; harmonised resolution regimes, DGSD (forthcoming)⁽³⁾; harmonised coverage, easier and faster
 - EBA⁽⁴⁾ single rulebook (ongoing); single harmonised prudential rules
- Strengthened Supervision
 - Establishment of Single Supervisory Mechanism
- Strengthened Resolution
 - Agreement on Single Resolution Mechanism (SRM) and annexed Resolution Fund (2014)

Data Gathering

- Overall Risk Assessment
 - Supervisory judgments on key risk factors
- Asset Quality Review (AQR)
 - Assessment of data quality, asset valuations, classification of non-performing exposures, collateral valuation and provisions
- Covers credit and market exposures
 - The AQR is driving more provisions, recaps, NPL sales and balance sheet repair
- Stress Test
 - Forward-looking assessment of banks' resilience under stress

(1) Capital Requirements Directive IV and Capital Requirements Regulation
 (2) Bank Recovery and Resolution Directive

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US

Building Blocks

- Strengthened Regulation
 - Dodd-Frank Act (2010) defined regulatory structure of US financial institutions with the creation of Financial Stability Oversight Council and overhaul of FDIC, OCC and Federal Reserve Bank
 - Volcker Rule (implemented by Dodd-Frank Act) prohibiting certain "banking entities" from engaging in proprietary trading
- Strengthened Supervision
 - Increased centralization and strengthening of role of Fed Reserve Board while lessening the work of examination staff at the 12 Federal Reserve Banks
- Strengthened Resolution
 - Resolution plans periodically submitted to FDIC by banking organizations

Data Gathering

- Stress Test
 - Comprehensive Capital Analysis and Review (CCAR) under supervision of Federal Reserve Board for banks with assets >\$50 Bn
- Resolution Plans
 - Periodical submission of resolution plan to the Fed Reserve Board and FDIC for banks with assets >\$50 Bn

(3) Deposit Guarantee Scheme Directive
 (4) European Banking Authority

... And a Lot Still to Come?

Europe vs. US Europe

	Description and Expected Future Development	Description and Expected Future Development
1 Pillar 2/ Supervisory Review and Evaluation Process ("SREP")	<ul style="list-style-type: none"> Key area of market focus—supplies banks Pillar 2 (and hence Supervisory Review and Evaluation Process) requirements Recent comments from officials appear to indicate Pillar 2 will be binding for Maximum Distributable Amount restrictions 	4 NPLs <ul style="list-style-type: none"> Expected levels of NPLs for a section of banks in Europe⁽¹⁾ <ul style="list-style-type: none"> ECB will be assessing current national accounting regimes and supervisory practices relating to NPLs Aiming for consistent supervisory practice in the area of NPL recognition, coverage and write-offs
2 RWA Inflation	<ul style="list-style-type: none"> Various reviews underway <ul style="list-style-type: none"> IRB RWA floors based on Standardised Approach Standardised risk weights (aims to introduce more risk sensitivity) Fundamental Review of the Trading Book (Market Risk) Sovereign risk weights—concerns around 0% risk weight 	5 Stress tests <ul style="list-style-type: none"> No stress tests in 2015 <ul style="list-style-type: none"> instead, amount of detailed information on balance sheet and portfolios (but no projections)
3 Quality of Capital	<ul style="list-style-type: none"> Focus on harmonisation of items where National Competent Authorities have different views <ul style="list-style-type: none"> e.g. Danish Compromis, deferred tax, AFS reserves etc. Capital messaging by banks is now two dimensional <ul style="list-style-type: none"> How CET1 is calculated as well as numerical targets 	6 TLAC/MREL <ul style="list-style-type: none"> TLAC: indicative minimum levels for G-SIBs phased-in to 20% of RWAs Expected TLAC framework to gradually drift down and apply to local D-SIBs (in addition to converging with MREL) Expected to be replaced by a single element total capital strategy (means more Tier 2 and other bail-inable debt) RTS published in July 2015, giving clarity on MREL
		7 Resolution Strategy/SRB <ul style="list-style-type: none"> Next to SSM on supervision side, now have SRM/SRF on resolution side

United States

	Description and Expected Future Development	Description and Expected Future Development
1 Stress Testing	<ul style="list-style-type: none"> Anticipate relief for less complicated / smaller banks Expect limited relief for non-G-SIB banks ->\$250Bn Process becoming year-round 	4 Net Stable Funding Ratio <ul style="list-style-type: none"> U.S. proposal expected by the end of 2015 Expect superior equivalent elements vs. Basel
2 Standardized Approach Revisions	<ul style="list-style-type: none"> Fed, FDIC and OCC have said that they will consider Basel 3.1 proposals Expect to see more active banking organizations in the U.S. No current U.S. proposals 	5 Total Loss Absorbing Capacity <ul style="list-style-type: none"> Comments on Fed proposal due Feb. 1st, 2016 Street finalized and expected to be published on November 9th
3 Resolution Planning	<ul style="list-style-type: none"> Regulators increasingly focused on simplicity and resolvability Regulatory proposals are being made on a case-by-case basis Unsatisfactory resolution plan could impact CCAR capital actions 	6 M&A <ul style="list-style-type: none"> Clearer line of sight toward M&A approval and more eligible buyers

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(1) Speech by Julie Dickson, Member of the Supervisory Board of the European Central Bank, 1 September 2015

Requirements Emerging Across Broad Spectrum of Metrics

Phase	2013	2014	2015	2016	2017	2018	2019
Leverage Ratio		Parallel run 1-Jan-13-1-Jan-17 Disburse starts 1-Jan-17				Migration to Pillar 1	
Minimum Common Equity Capital Ratio	3.5%	4.0%		4.5%			4.5%
Capital Conservation Buffer				0.625%	1.25%	1.875%	2.5%
Minimum Common Equity Plus Capital Conservation Buffer	3.5%	4.0%	4.5%	5.125%	5.75%	6.375%	7.0%
Phase-in of Deductions from CET1 ⁽¹⁾		20%	40%	60%	80%	100%	100%
Minimum Tier 1 Capital	4.5%	5.5%		6.0%			6.0%
Minimum Total Capital			8.0%				8.0%
Minimum Total Capital Plus Conservation Buffer		8.0%		8.625%	9.25%	9.875%	10.5%
Capital Instrument that No Longer Qualify as Non-core Tier 1 Capital or Tier 2 Capital			Phased out over 10 year horizon beginning 2013				
Liquidity Coverage Ratio—Minimum Requirement			60%	70%	80%	90%	100%
Net Stable Funding Ratio						Introduce minimum standard	

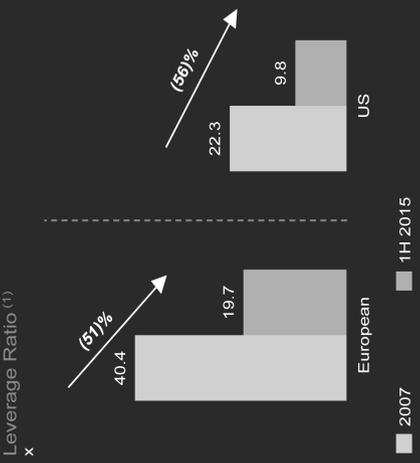
Transition Periods Source: Basel Committee on Banking Supervision (BCBS), Bank for International Settlements

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⁽¹⁾ Including amounts exceeding the limit for deferred tax assets (DTAs), mortgage servicing rights (MSRs) and financials

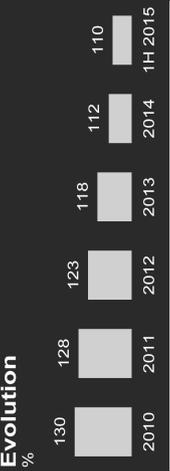
Overall Regulatory Picture Is Clarifying. Are we 80-90% Done? ...

Capital Strengthening



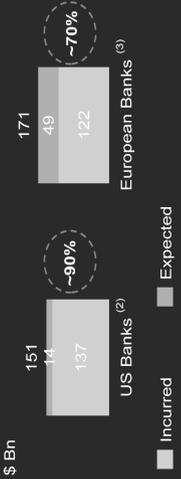
Source: Morgan Stanley Analysis

EU Average Loan to Deposit Ratio Evolution



Source: ECB

Conduct Charges—Past the Worst



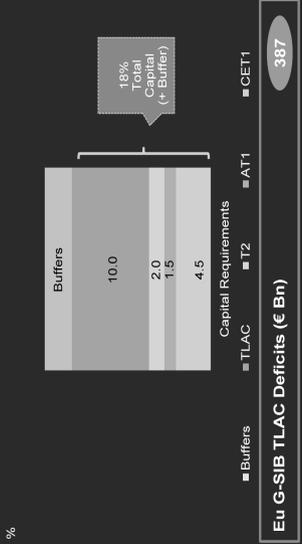
Source: Morgan Stanley Research

(1) Calculated as total assets over total equity. European peers include: Barclays, CS, Deutsche Bank, UBS. US peers include: BAC, JPM, Cit, WFC, GS, BAC, JPM, Cit, WFC, CS, UBS, Barclays, HSBC, Cit, WFC, GS.
 (2) Including Barclays, HSBC, Lloyds, RBS, STAN, Nationwide, Santander UK, GS, UBS, Julius Baer, Commerzbank, Deutsche Bank, BNP, C.A.S.A., Natixis, SocGen, ING, Rabobank, Unicredit.
 (3) Bank, BNP, C.A.S.A., Natixis, SocGen, ING, Rabobank, Unicredit.

...or Is There Still a Long Way to Go?

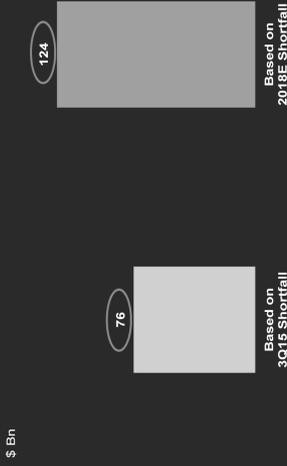
EU vs. US TLAC Deficits

EU Banks Capital Requirements



Source: MS IBD G&M

Top US Banks (1) Required Long Term Debt Issuance Assuming Fully Phased in TLAC Requirements



Source: MS Research

EU Banks Announcing Capital Increases or CEO Changes Over the Last 2 Months



Total Assets (€ Tn)

4.9

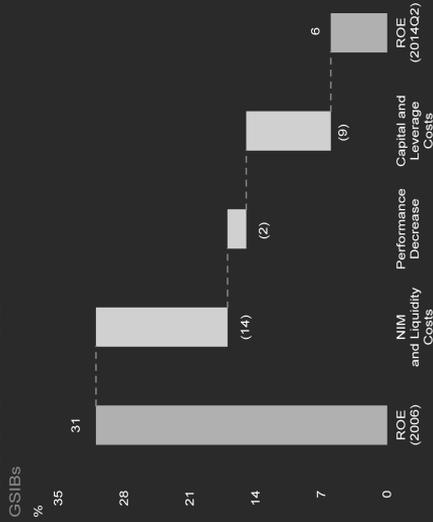
More than 1/3 of EU GDP

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(1) Analysis based on Wells Fargo, Bank of America, JPM, State Street, Citigroup, Bank of New York Mellon

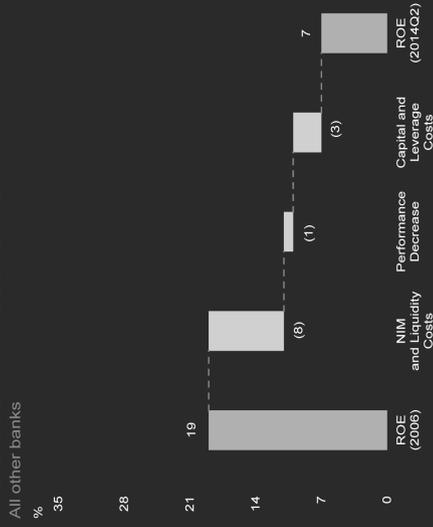
RoEs are Markedly Down...

RoE Evolution - GSIBs



Source: Oliver Wyman Analysis

RoE Evolution - All Other Banks



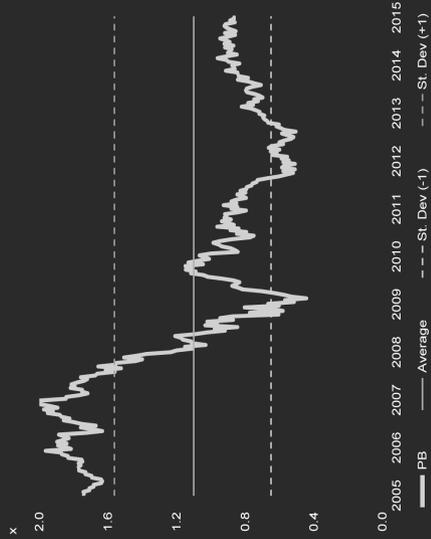
Source: Oliver Wyman Analysis

... as Valuation Levels

Will Customers Pay for This? [Shareholders Seem to Have Paid a Lot...]

European Banks

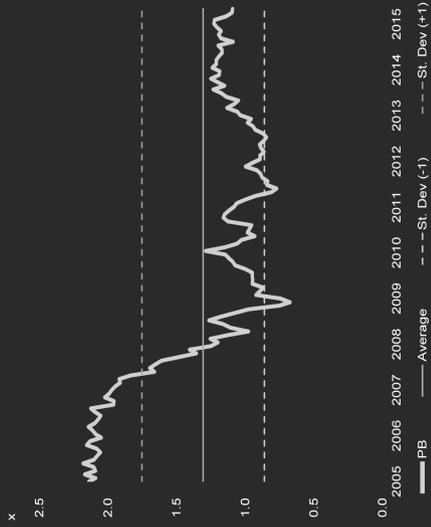
P/B Multiples 2005-2015



Source: Datastream, Morgan Stanley Research

US Banks

P/B Multiples 2005-2015



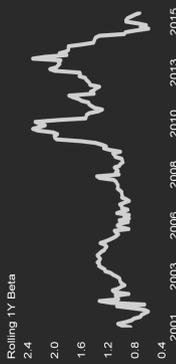
Source: Morgan Stanley Research

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Lower Beta, Increasing Dividends and Improving EPS Prospects Helping to Stabilize the Sector

So What's in for the Real Economy?

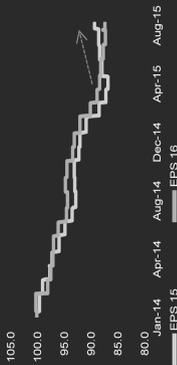
European Banks Rolling Beta



US Banks Rolling Beta



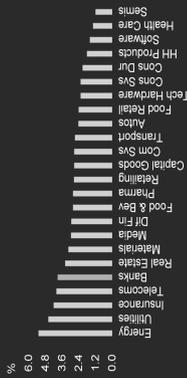
European Banks - Consensus EPS Index



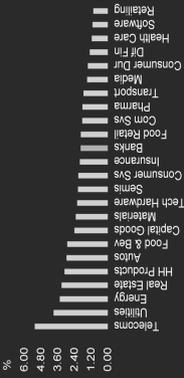
US Banks - Consensus EPS



European Sectors: 2015 Consensus Dividend Yield



US Sectors: 2015 Consensus Dividend Yield

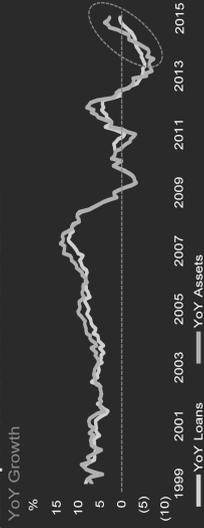


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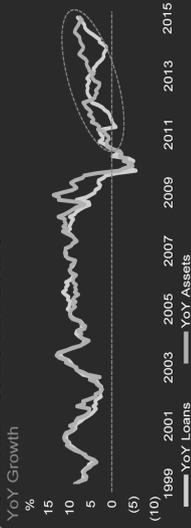
A First Signs that Loans Growth is Picking Up

B ...but Little Correlation between Loan Growth and BS Strength

A Europe - Total Assets and Loans

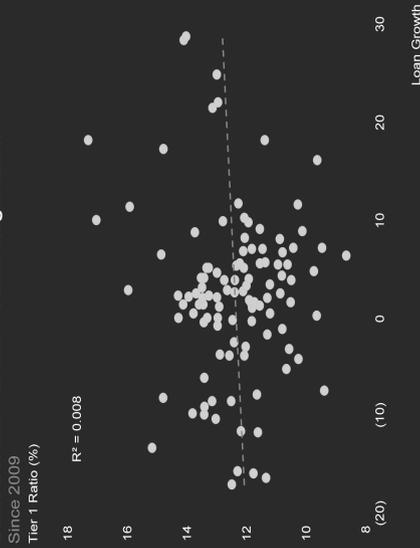


A US - Total Assets and Loans



Source: MS Research, ECB, Datastream

B Loan Growth vs. Tier 1 Ratio Regression



Source: Societe Generale Cross Asset Research

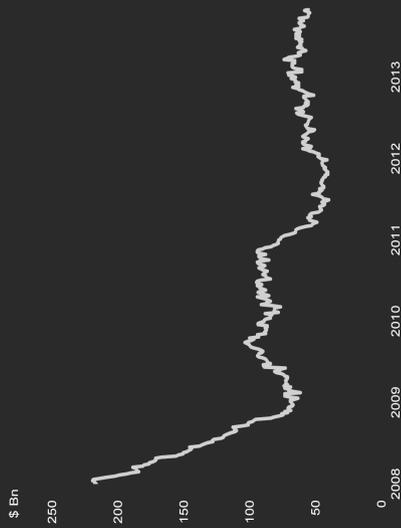
Question: Do We Need a Pause on New Regulation?

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A Banks Balance Sheets are Stronger...

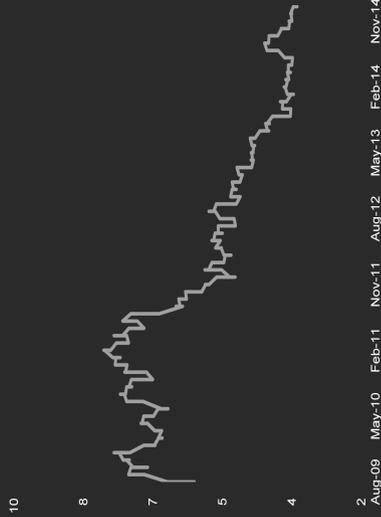
B ...but Liquidity in the Market Has Significantly Dried Down

A Primary Dealer Corporate Bond Inventory



Source: Market Access

B No. of Average Dealer Quotes Per Corporate Bond



Source: MS Research

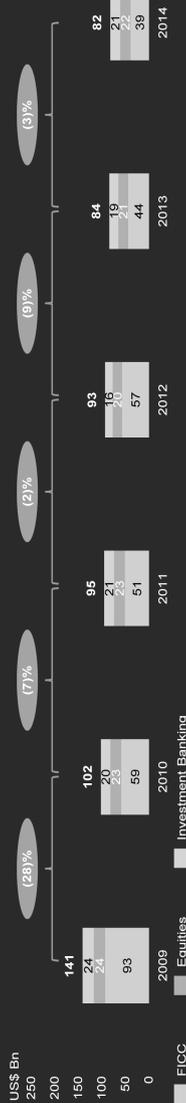
Question: Where is the Right Balance Between Risk and Liquidity?

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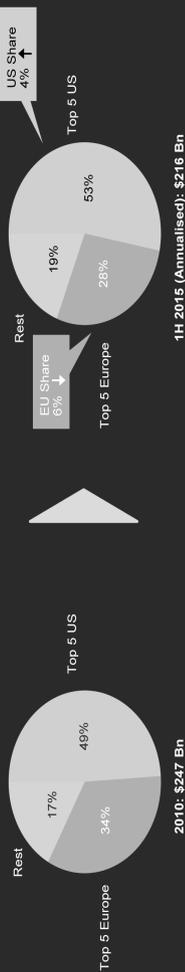
A Reliance of Europe on Wholesale Banking is Decidedly Down...

B ...or Is Europe More Reliant on Non-EU Banks?

A EMEA Revenue Pools for Investment Banking, FICC and Equities



B Global Revenue Pool for Investment Banking, FICC and Equities



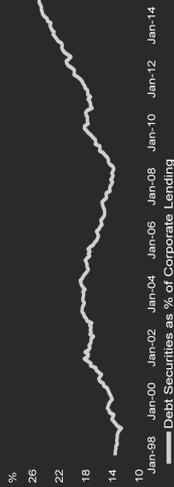
Question: Do We Need Stronger European Wholesale Banks?

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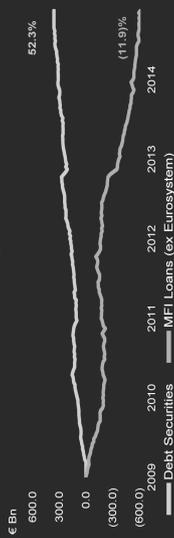
A Debt Issuance Noticeably Up...

B ... Making Up for Reduced Banks Lending?

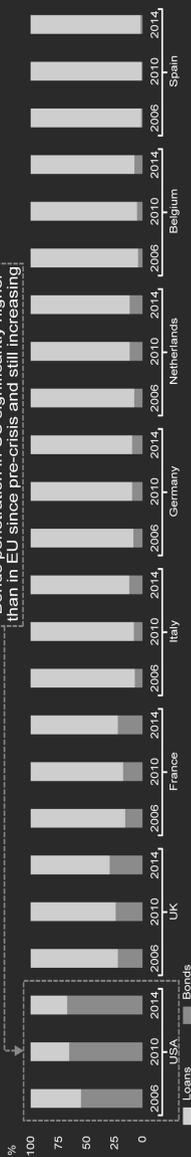
A Outstanding Debt Securities as % of Corporate Lending



B Debt Securities vs. Bank Lending Evolution



A Corporate Funding (%), Selected Countries (2006-2014)



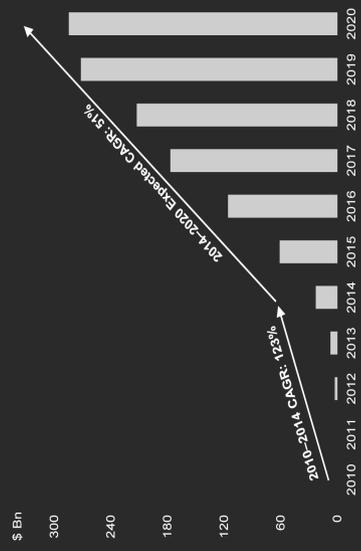
Question: Are Public Markets Better than Banks in Pricing Risk?

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A Reduced Banks' Lending Appetite Opened Opportunities for New Players...

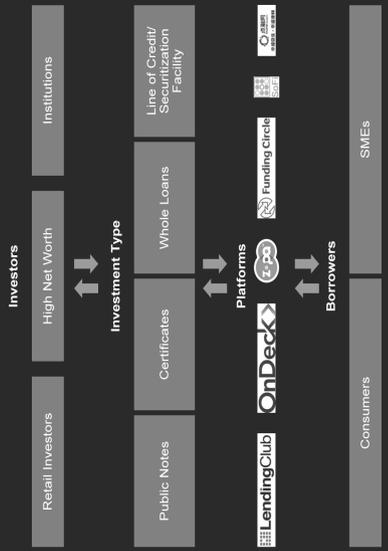
B ... Are These New Players Better at Estimating Risk?

A Global Marketplace Loan Issuance



Source: Morgan Stanley Research estimates

B How Marketplace Lending Works



Source: Morgan Stanley Research

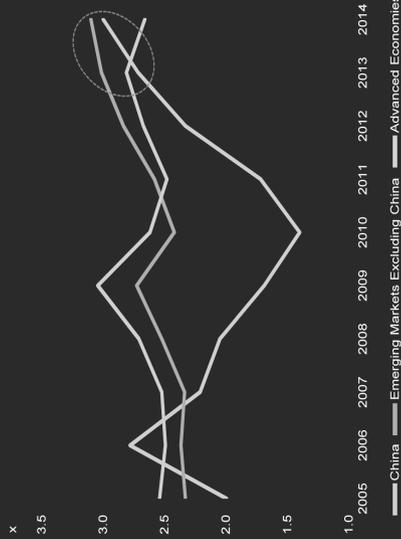
Question(s): Who Are These New Players Lending to? Customers Rejected by Banks? Who Bears the Risk?

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A Risk Profile Is Improving in Advanced Economies...

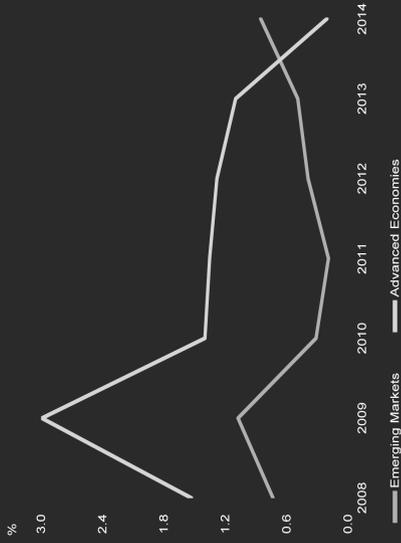
B ... Not so Much in Emerging Markets

A Corporate Debt to EBITDA



Source: S&P's Cap IQ, IMF Staff Calculation

B New Nonperforming Loans to Risk-Weighted Assets⁽¹⁾



Source: Bankscope, IMF staff calculations

Question: Are We Just Moving the Problem Elsewhere?

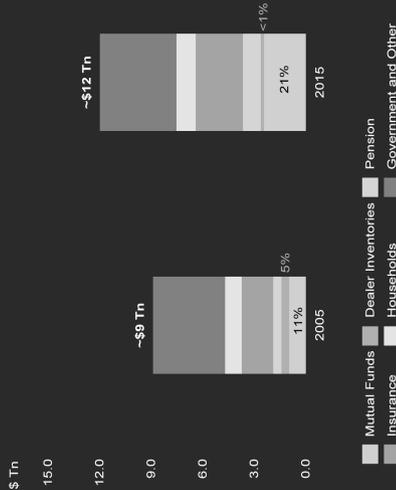
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(1) Loans are net of recoveries

A AMs Playing the Lending Game as Banks Less Willing to Do So...

B ...But Low Rates Also Mean AMs Playing the Leverage Game

A US Corporate Credit Asset Ownership



Source: Federal Reserve, Oliver Wyman

B Assets under Management



Source: IMF

Question: Is Risk in the Wealth Management Sector under Control? ...Financial Crisis Symbolically Started with European Money Market Funds Suspending Redemptions

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(1) Includes government entities and other financial institutions

Regulation vs. Deregulation: Hirschman Dilemma



“There are two tragedies in life. One is not to get your heart’s desire. The other is to get it.” [Albert O. Hirschman 1982]

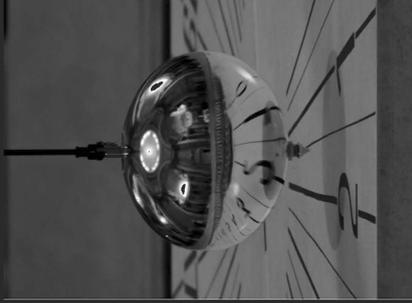
Regulation

▶

Effects

- Concentration
- Rigidity
- Monitored Market
- Public Interest

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Deregulation

▶

Effects

- Enhanced Competition
- Flexibility
- Undisciplined Market
- Individualism Risk

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INTERNALLY-DRIVEN ETHICAL RECONSTRUCTION: IS IT HAPPENING?

ROBERT ANNIBALE

Global corporations – and in particular, those in the financial services sector – face a broadening wave of public scrutiny and a rising level of societal expectations. According to the *2015 Edelman Trust Barometer*, financial services and banking remain among the least trusted industries worldwide in the eyes of the public – placing it below the chemicals, pharmaceuticals and energy industries. In the United States, Occupy Wall Street and other protest movements sought to bring public attention and reform to what they identified as a leading contributor to social and economic inequality.

Banks are still recovering from the loss of trust and faith resulting from the global financial crisis. During a time when the financial services sector continues to recover and works to rebuild its reputation, restoring and strengthening public confidence and trust is essential to the future of the global financial system.

The public understands well that we are all stakeholders of the decisions and actions taken within large, powerful financial institutions; and that these decisions have the ability to affect our lives – for good and for ill – whether we are customers or not. Citi shares the public's awareness along with the desire to live up to the responsibilities of which it derives. Core to Citi's mission and values is a commitment to responsible finance and stewardship, which informs our culture of ethics that drive both how we operate, conduct business, and lead at Citi.

BEGINNING AT THE LEVEL OF THE CORPORATION

For Citi, as for all financial institutions, trust is the necessary foundation of our business. It is our license to operate. Simply put, we cannot effectively do our jobs without the ability to maintain the confidence and trust of the people, communities, and institutions we serve. Citi has a number of internal and external efforts underway that mirror many of the recommendations of Fondazione Centesimus Annus Pro Pontifice's (FCAPP) report entitled, *"The Dublin Proposals on Finance and the Common Good"*.

Citi's Chief Executive Officer, Michael Corbat, has led and increased our corporate-wide campaign to strengthen Citi's culture of ethics and trust in how we serve stakeholders by building a globally-consistent approach to ethics training and setting global standards for suitability and sales practices. At every level of the business, we work with our employees to meet and exceed the highest standards of ethical behavior at all times, operating with integrity, honesty, and transparency. To instill this value and expectation in the workplace, Citi's CEO and senior leadership frequently communicate corporate ethics values to employees. In addition, Citi employees receive training workshops, access to an array of resources, and incentives that enable them to act with integrity. At the same time, we encourage our employees to raise concerns when encountering a task or activity that seems at odds with our values. We have a number of mechanisms that enable Citi employees to report questionable or inappropriate conduct of peers and managers without fear of reprisal.

Our commitment to fostering a culture of ethical decision-making begins with the values outlined in our *Code of Conduct*, we ask our employees and all those who work on Citi's behalf to meet three tests in making decisions: 1) that they be in the clients' interests; 2) create economic value; 3) and are always systemically responsible. First published in 1997, the Board-approved Code functions as an ethical guide for Citi's

global workforce. The Code sets forth the values and principles that direct our conduct when dealing with clients, business colleagues, shareholders, communities and each other. It demonstrates Citi's commitment to a culture of ethics and integrity and applies to all of our corporate directors, officers and employees. The Code is available to the public and published in 26 languages, covering a broad range of topics including: Conflicts of Interest, Fair Employment Practices and Diversity, Safeguarding Personal, Proprietary and Confidential Information, Anti-Money Laundering Compliance, Commitment to Sustainability, Commitment to Human Rights and Responsibility to Raise Ethical Issues. All new employees must acknowledge that they have read, understand, and will comply with the Code of Conduct, and we ask that they reaffirm this commitment periodically through mandated trainings conducted on a regular basis.

In addition, individuals performing services for Citi may be subject to comply with the Code by contract or agreement. In 2014, we revised our Code training courses for all employees and non-employees. The Code training course aims to strengthen understanding of our principles, values and standards of professional behavior across our workforce, helping employees become familiar with and act in accordance with Citi's policies and procedures. It also provides an overview of certain key legal and regulatory requirements.

The Code of Conduct is powerful, indispensable in guiding how we conduct our business. It does more than simply establish rules or dictate the behaviors that we expect of our employees. It is equally important to empower employees, support their courage, and provide mechanisms that enable them to fulfill those expectations. The Code provides a detailed guide to the structures and processes that Citi has put into place to detect, collect, and address incidents that may pose a legal or reputational risk to the bank. As previously mentioned, Citi has procedures and resources available to employees who may encounter potentially unethical situa-

tions at work. The Code also outlines those resources and offers specific guidance about how to raise these concerns in a safe and efficient manner with the designated entities within Citi – such as Compliance Officers – that are able to address or escalate those concerns for resolution.

To underscore the importance of and reinforce ethical standards and behaviors, Citi, with the oversight of our Board’s Ethics and Culture Committee, developed and championed a company-wide ethics and culture campaign. Launched in 2014, the global initiative included:

- In-person trainings for nearly 5,000 of our most senior managers to foster ethical decision-making and underscore the importance of escalating issues. Citi has recently updated and rolled-out this training to some 40,000 additional senior employees, globally.
- Updates to the internal Citi Ethics Office website, providing employees with easier access to resources, including an ethical decision-making tool, the Code of Conduct, and methods to report concerns.
- A new video series focused on ethics featuring insights and illustrative examples from Citi’s senior management team. All employees can access and replay these videos via multiple distribution channels, including internal email and the employee website.
- A Conduct Risk Program to assess and manage the risks associated with inappropriate conduct of employees and agents that can lead to negative outcomes for consumers, clients, and financial markets.

MEETING REGULATORY EXPECTATIONS AND EXTERNAL STAKEHOLDER ENGAGEMENT

We also conduct business in compliance with legal, regulatory and human rights requirements in the countries in which we operate. Upon learning of any investigations re-

garding our business operations, Citi works cooperatively with local authorities. In the United States, Citi works with the Federal Reserve Board, Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau and Federal Deposit Insurance Corporation to ensure that we comply with established laws and regulations, including Fair Lending and the Community Reinvestment Act (CRA).

In alignment with Citi's commitment to ethical standards and fulfill increased regulatory obligations and expectations in communities, our commitment extends deep into how we partner with stakeholders and support inclusion and economic progress broadly. Thoughtful engagement with our many stakeholders, including acting on their needs and feedback, is critical to our success. We engage directly with stakeholder groups, including consumers, governments, advocates, employees, and others, to ensure that we continue to be of service and refine our services and programs to meet the needs of the marginalized communities and support environmental sustainability.

For example, Citi launched its *Sustainable Progress* strategy in 2015, a measurable commitment to lend, invest, and facilitate \$ 100 billion in projects that provide environmental solutions, doubling our 2007 commitment to direct \$ 50 billion toward climate-friendly projects – a goal that Citi met 3 years earlier than expected. Citi continues to engage socially – responsible investors regarding its sustainability performance and approach to carbon risk.

To model its social responsibility and commitment to equitable treatment of all people, Citi promotes its global diversity and inclusion policies. It has taken public actions to communicate its support for the extension of civil rights of its LGBT employees in partnership with the Human Rights Campaign and a host of other organizations working to achieve equity and dignity on behalf of the broader community.

In partnership with internal business units and the Citi Foundation, Citi Community Development and Inclusive Finance aim to restore faith and rebuild Citi's reputation in communities. Together, these departments fortify Citi's on-the-ground, institutional commitment to improve the lives of low-income, often vulnerable communities in cities where we operate, leveraging business contributions and philanthropic grants programs to provide greater economic opportunity and enable access to mainstream financial services.

Citi Community Development is a founding member of the *Asset Building Policy Network* (ABPN), a coalition of the U.S.'s leading civil rights and advocacy organizations committed to improving the economic security, particularly through policy and advocacy to reduce income inequality and racial wealth gap, among racial and ethnic minority households in America. In addition, to promote the integration of eligible immigrants in the US, Citi is the Founding Corporate Partner of *Cities for Citizenship*, a national campaign with the goal of unlocking the economic asset of attaining citizenship for the nearly 9 million legal permanent residents in the United States. Since launching alongside the mayors of New York City, Chicago and Los Angeles, fifteen additional cities and Miami-Dade County have joined the program.

Most demographic forecasts predict that more than 50 percent of the world's inhabitants will reside in major cities by 2030, and the population of young people will increase by 100 million globally. As an example of Citi's aim to promote economic progress among young people, the Citi Foundation in collaboration with the Economist Intelligence Unit (EIU) launched *Accelerating Pathways*, the first-of-its-kind index that compares the efforts of 35 global cities to contribute to young people's economic prospects. The project offers a snapshot of young people's ambitions and perceptions of their opportunity as well as factors that contribute to an enabling economic environment for their success. This effort is an extension of the Foundation's *Pathways to Progress* initiative in the U.S.,

which works to help urban youth build an entrepreneurial mindset, acquire leadership, financial and workplace skills, and begin to participate in the formal economy through a first job. Policymakers as well as business and civic leaders have the opportunity to use the project's data and findings to formulate and strengthen their policies and programs to include more young people as meaningful contributors to society.

As a global institution with a long-standing history in more than 100 countries, Citi's initiatives move beyond internal campaigns to include authentic partnerships with community organizations, municipalities, and nonprofits that influence policies to improve the quality of vulnerable people and better position them with the skills, tools, and resources to achieve their goals and aspirations.

RESPONSIBLE AND INCLUSIVE FINANCE

A culture of ethics for a global financial institution includes more than just a commitment to discourage, prevent and respond to wrongful activity – it also includes the drive to conduct business that engages positively with society and drives tangible, sustainable impact. At Citi, that commitment comes to life in the leadership role we play in tackling entrenched economic, social and environmental challenges facing cities and communities around the world. As a global bank that operates in some of the most complex urban environments in the world, we understand that the strength and vitality of cities depend on core urban ecosystem needs, such as housing, social services, energy, economic empowerment, financial inclusion and infrastructure. Financial institutions play a critical role in addressing all of these needs, and Citi is committed to investing in systemic efforts that enable urban economic progress for people.

Citi Inclusive Finance is a specialist team that works across Citi businesses globally to develop solutions that enable the bank, its clients and partners to expand access to financial

services and advance economic progress in underserved communities. Leading more than 150 commercial partnerships with microfinance institutions in 40 countries, the team represents the broadening of Citi's focus to meet the challenges of affordability, access and resiliency through building a new generation of scalable services, systems and technologies in service of expanding financial access and stimulating economic development. Inclusive Finance goes beyond philanthropy by leveraging cross-sector partnerships and supporting innovative approaches to embed investments that make a social impact into Citi's core businesses to the benefit of clients and communities.

Among many achievements, we arranged the first capital markets transactions for microfinance institutions in a number of countries. We structured the *first investment grade bond* for microfinance in Mexico with a partial guarantee from the IFC (FT 2004 deal of the year). As the industry and our client's needs have expanded, so have the services and products Citi provides. For example, Citi is pioneering *affordable and accessible mobile payments* that connect some of the largest companies with the smallest producers and distributors. In 2014, Citi Inclusive Finance partnered with the IDB to launch a \$ 500 million *Education, Youth and Employment (EYE) bond*. This first-of-its-kind instrument enables investors to finance programs across Latin America that support early childhood care, primary and secondary education, vocational training and job placement.

Working with the U.S. government's Overseas Private Investment Corporation (OPIC), Citi's decade-plus partnership has provided USD \$ 406 million in direct financing to 44 microfinance institutions in 25 countries to date, funding more than 1.2 million microbusinesses; of which *more than a million are owned by women*. In 2014, Citi created a new \$ 220 million *loan framework* that will expand access to financial services for micro- and small businesses in our corporate clients' value chains. Over the life of the partnership, Citi and OPIC

have executed 16 different frameworks totaling \$2.8 billion in guarantee capacity.

In California, Citi joined with the San Francisco Mayor's Office, the Office of the Treasurer, the Department of Children, Youth, & Their Families and the San Francisco Unified School District to launch *Kindergarten to College* – the first publicly-funded, universal children's college savings account program in the United States. To date, families have invested more than \$ 1,000,000 of their own money into nearly 19,000 savings accounts, which are held at Citibank. Some 50% of contributing families qualify for the National School Lunch Program as they earn less than \$ 40,000 annually for a family of four people. In New York, Citi Inclusive Finance partnered with Grameen America in 2014 to help provide over 7,000 women entrepreneurs in Harlem, New York, with small business loans through 2020. Citi offers savings accounts with no service fees to help women participating in the program build their financial identity and save while Grameen America provides microloans to help grow their businesses. To date, Citi has opened 12,162 savings accounts for Grameen members.

CONCLUSION

Every day, Citi strives to meet and exceed our responsibilities to our clients, shareholders, regulators, communities and global partners through strong governance, thoughtful and frequent engagement, and by doing business according to the highest standards of professional and ethical conduct. At Citi we are absolutely convinced that ethics pays. It is exactly what we need to do to provide confidence to the marketplace, to our customers and to our employees, that we are focused on doing the right thing. We strive to act with integrity and to meet and exceed our responsibilities in all that we do. When we don't, we hold ourselves accountable and we expect that our stakeholders will hold us accountable as well. We understand that nurturing a culture that promotes and

lives up to a high ethical standard of doing business and engaging with society both strengthens the long-term sustainability of our financial institution and, ultimately, benefits the communities we serve – because without trust, our company and sector cannot succeed.

“Citi’s mission is to serve as a trusted partner to our clients by responsibly providing financial services that enable growth and economic progress.

Our core activities are safeguarding assets, lending money, making payments and accessing the capital markets on behalf of our clients...

...These capabilities create an obligation to act responsibly, do everything possible to create the best outcomes, and prudently manage risk.

If we fall short, we will take decisive action and learn from our experience.

We strive to earn and maintain the public’s trust by constantly adhering to the highest ethical standards.

We ask our colleagues to ensure that their decisions pass three tests: they are in our clients’ interests, create economic value, and are always systemically responsible.

When we do these things well, we make a positive financial and social impact in the communities we serve and show what a global bank can do”.

Citi’s Mission and Value Proposition

SECTION 4
CONFERENCE AND CONSULTATION SUMMARIES

SUMMARY OF 2015 INTERNATIONAL CONFERENCE

RETHINKING KEY FEATURES OF ECONOMIC AND SOCIAL LIFE

What does the latest Catholic social teachings imply for business and economic practice? How does CST combine with the latest academic research, on the one side, and with real experience on the other? These questions have led CAPPF's work for the last 22 years. For the 2015 international conference (details and list of speakers attached), the Foundation had chosen two issues at the frontier of mainstream economic thinking: *Can Growth Continue without Compulsive Consumption?* and *The Future of Employment and the "informal" Economy*. The conference concluded by trying to answer another, more general question: *Can Catholic Social Teaching be spread even without the Christian Faith?* The following pages present a summary of speeches and panel debates during the Conference.

GROWTH AND CONSUMPTION

The economist s' view

Several groups of members had asked themselves in preparation to the conference whether anything had changed in consumption patterns after the *Great Recession* surprised everyone in 2008 and a more critical attitude developed in rich countries about the market economy, its use of resources and its distributive capacity. But consumption habits don't change quickly: while lower consumption during the recession years was obviously due to the plague of unemployment and to a general fear of the future, as soon as the private and

public debt crises seemed to be left behind, consumption slowly recovered from recession and things appeared to return to the previous situation.

Economist's basic truth is that growth depends on investment and consumption; if growth is based on wasteful consumption behaviour, this can be interpreted as an inefficient use of resources in that it does not necessarily satisfy a real need. But defining wasteful consumption is problematic. Projections of recent trends show that global purchasing power will increase dramatically as the overall share of the middle class continues shifting away from Western countries to other parts of the world: the aspiration towards higher levels of consumption will probably become more, not less diffused. If the aim is to curb wasteful consumption, for example for environmental reasons, what then are the possible ways of action?

Governments have the possibility to influence volume and nature of consumption through taxation. But there are strong industrial and employment interests which often have more social and political weight than environment sustainability concerns. And the price disincentive is not always effective, since consumer goods are not just useful, but are increasingly looked for as signs of identity and status.

An important source of problems, both from an economic and a moral point of view, is the tendency of households – and, *mutatis mutandis*, of governments – to overspend in consumption and run into large debts. Financial education is essential to increase the capacity of household autonomous management. As regards the public debt burden, a correlation can be found between growth in welfare spending and the level of budget deficits; there is therefore an economic and a moral argument for savings in welfare spending by limiting the safety nets to those who really need help.

At present however, the economic future is uncertain; some economists think that the world might be entering a

period of secular stagnation; if this is true, consumption priorities may be forcefully revised as the expectations for future growth recede.

The psychological context

But is consumption “compulsive”? In *Evangelii Gaudium*, Pope Francis explains that “*the great danger in today’s world, pervaded as it is by consumerism, is the desolation and anguish born of a complacent yet covetous heart, the feverish pursuit of frivolous pleasures, and a blunted conscience*” (EG 2). When consumption begins to impinge upon one’s psychological health, when it becomes impulsive or addictive, such that one consumes without self-control or personal freedom, then it has become a pathological limitation of human freedom.

Marketing is an essential part of business activities everywhere; but what are the ethics of marketing? There is a need for self-critical reflection by business about the contents of the messages sent to consumers, and a more general discussion is needed in civil society about the ability of the public to decipher these messages and avoid being manipulated.

Paradoxically, one can argue that compulsive consumption in fact prevents sustainable future growth. In the tradition of Catholic Social Teaching, a deep understanding of human freedom is essential, not just as freedom from constraint, but principally for the good. Both sides of the economy, demand and supply, are driven by human freedom. A market economy is degraded when mechanistic behaviour dominates. The discoveries in neuroscience and psychology can be used for manipulation, but they can also be used, in an authentically ascetic tradition, as practical wisdom and discipline to regain self-mastery and freedom.

Purpose oriented economy

In the best Christian tradition, economic goods are always instrumental. Whether consumption is 'good' or 'bad' depends on whether it contributes to full human life. Economic and sociological scholars are making progress in factual studies on the understanding of authentic human wellbeing; this will generate new criteria which can progressively influence statistics and policies.

The main key to these questions lies in education, in civil society and especially in the Churches, where mature reflection about sustainable consumption and the contents of a 'good life' should occupy more space and time. Growth of income and purchasing power is a valuable thing and free initiative will continue to be its moving force. The ethical approach and the Church's educational efforts should not deal only with distribution and overcoming inequality – whatever importance one attaches to these themes – but also develop new ways of moral progress specifically designed for consumption-seeking, relatively wealthy families and individuals.

EMPLOYMENT AND THE "INFORMAL ECONOMY"

There is a direct link between the previous thoughts on consumption and the following question: what does the "informal economy" mean in terms of work, the state of the economy (its strengths and weaknesses), and the real wellbeing of people?

The "informal" economy raises in the first place a question of definitions – which are never independent from culture – and of measurement. Measuring is important because we tend to measure what we think matters and, if we have the wrong measure, then we may have the wrong policies.

GDP growth is probably not a good measure, because it does not take into account the key elements of an emerging

new economic *paradigm* based on economic capital building and consumption, but also on natural capital, on human capital and on social capital. There is a need for new measures of wellbeing which include environmental impact, health, work/life balance. Significant work on this has been launched by academic research and by international organisations like United Nations and OECD, but the new ideas have still to make their way in politicians' minds and public debate.

The "informal economy" includes substantial unmeasured or insufficiently measured amounts of work, basically unpaid family work, volunteering and irregular work. A radical approach to liberalizing work contracts – the "Zero Hours Contracts" are an extreme example – has brought back forms of casual low wage employment, which workers' organisations denounce as exploitation and abuse, especially in the construction, hotels, agriculture and food industries. This may have disastrous effects by postponing professional training and apprenticeship and destroying career development for young people who find themselves unemployed and seriously unprepared when the economy recedes.

Irregular work often represents a substantial threat, either because it includes criminal trades of different types, or because it undermines the vital network of small enterprise through counterfeiting and unfair competition.

But on the other hand, some sociologists argue that the formal economy can learn from the informal economy, especially from enlarged, intergenerational family groups: family life has a conscience of limits, as opposed to technological "unlimited" growth expectations; it works through the recognition of reciprocal needs and through resilience based on capacities; its economy results from inter-action between all family members, who are full "contributors", far from the producers/consumers separation pattern and the "unlearning" and passive attitude of consumers which seem to prevail in the formal economy... All these actual facts of family life

can be a source of inspiration in the “laboratory” for a new, relational and solidary economic paradigm.

At a time when secular stagnation is seen as a real threat, economic growth may not be strong enough to provide employment to all in the traditional sense. Unemployment in general is a cause of depression and violent exclusion; poverty is often transmitted from one generation to the next. If the hope for an improved income disappears for many, and we still want to avoid leaving people permanently excluded from society, then we need a different approach in social policies, employment policies and even in macro-economic policies. The central argument must be human growth and wellbeing, and not just money-measured short-term action. We have to face questions for which we don't have prepared answers, something politicians never like to do. Civil society and the Churches have an essential role and must speak out. We need to think in terms of family values, schooling, professional education, sharing initiatives and social impact investment. And for that, in the words of Paul S. Kenny, leader of the GMB Union in Britain and the first trade union leader to participate in a Centesimus Annus Conference, “the real argument is not Right versus Left, but Right versus Wrong”.

CAN CATHOLIC SOCIAL TEACHING BE SPREAD WITHOUT THE CHRISTIAN FAITH?

The obvious answer to this question is ‘yes’: all Popes since *Rerum Novarum* have addressed their social message, implicitly or even explicitly after St. John XXIII, “to all people of good will”. In fact, the influence of Catholic Social Teaching was decisive at different points in history, for example for the creation of cooperative finance or industrial companies in the early 20th century or the starting blocks of European institutions after 1945. Today the Holy See on occasions has to face strong arguments at the United Nations, especially on family ethics, but the founding documents of international institu-

tions were inspired in values of both Greek philosophy and the Christian tradition. For example, most of the principles at the root of disarmament negotiations and the search for peace, and most of the International Labour Organisation conventions are aligned with the social teaching of the Church. Economic international institutions are constructed on a universal idea, which is also Christian: at the heart of the market there is the human person, full of dignity, and deserving justice.

The human frame and the efficiency logic frame

But when we turn to business and professional life, many believers – Christians, but also Jews, Muslims and others – perceive a contradiction, in today's economy and in their own life, between the human framework and the efficiency logic of decisions. The question then should be, not so much whether Catholic Social Teaching can be spread in words, but in how far it translates in *practical life* and whether it has any meaning beyond exhortation.

In theory, how do faith and human values intersect with the practice of business? In the best tradition of Adam Smith and his predecessors, the Italian Franciscans and the Spanish School of Salamanca, market relations are a primary activity that distinguishes man from animals. Markets form the very fabric of human society and are a fundamental part of human creation. Markets are *human* in their heart. Still, as every economic institution, markets can be efficient, but they are neither wise, nor are they kind or necessarily fair on their own. Profit-making and human values need not be at odds. But it is people who make markets fair or wise: they are wise only when humans use them in ways that create better goods and value for society. And the wider dimension poses specific problems, because scale and interconnectedness can lead to dehumanisation and to a mechanical logic, far from the human framework.

The distance between the human framework and the efficiency logic has probably widened as a consequence of the greater relevance of finance in the economy: investors universally look for the highest possible return on investment, whereas industrial leaders, by nature have a longer term perspective. Debt leverage and the discipline of stock markets transparency often impose “profit maximization” as the only objective. Whereas management experience shows that the application of Christian inspired principles is compatible with better job satisfaction and can also lead to better returns in time, a more financially oriented view would see a trade-off between profitability and social impact investment, where the more human-based projects do sacrifice some financial return. This is an important debate which is not specific to Christian thinking.

Banks and the financial industry face a double challenge. They have lost trust, especially due to the wrongdoings of some and the heavy public cost of bail-outs. The fines being applied are probably correct in that wrongdoing must incur the burden of a heavy cost. Banks need to recover trust, and this is a long process. But they also have the difficult job of reviewing their business model and principles in a deeply changed regulatory environment. Some are up to that, others not so much. Politics and banking were probably too close in many cases, now they may be too far apart. Here again, the question is to make profit-making responsible and sustainable. The search for new leaders is changing, from a profile seeking pure professional ability to one that combines both professional and ethical capacity. New regulations make it difficult for small institutions to remain in business, this causes concentration and centralisation with big financial institutions becoming bigger and creating difficulties for small business to access funding. In this whole new context, the Church should be ready to understand changing trends and support commitment for remedying action. There is a hunger for a moral force, for ethical wisdom, and this is a reason why

so many people are paying attention to Pope Francis. CST needs to answer such demand and accompany detailed ethical discussion, beyond generic statement.

Social teaching and faith

Social teachings and faith are deeply related when seen from a different perspective: we all need to go back to faith – be it Catholic or other – as a source for the right action. Words as solidarity or common good are often devalued in today's media. The challenge is not so much that of publicizing principles but to give them space to be applied in daily life. Men and women of faith are necessary to revitalize society: faith is a source of deep innovation. Pope Benedict XVI wrote: "Development needs Christians with their arms raised towards God in prayer, Christians moved by the knowledge that truth-filled love, *caritas in veritate*, from which authentic development proceeds, is not produced by us, but given to us" (CV, 79).

The dialogue among different faiths is possible without renouncing any part of one's conviction. Dialogue does not mean neutrality, but it requires a capacity to really listen to what others have to say. The Catholic Church made a Copernican turn at the 2nd Vatican Council, more than fifty years ago, when *Gaudium et Spes* affirmed that Catholics and other Christians can also learn from non-Christians. This does not mean that we have to ignore differences; as mentioned by Pope Francis in *Evangelii Gaudium*, conflict should not be ignored or hidden. But experience shows that inter-religious dialogue can be especially fruitful when dealing with social and ethical matters.

On the international scene, in the words of Archbishop Silvano Tomasi, Holy See Permanent Observer to the UN in Geneva, "if the States were to follow what the Pope says, we would have a world of peace and prosperity". The evidence unfortunately is not moving in that direction. True, the voice

of Pope Francis is listened to very carefully and there is wide acceptance of his moral leadership. For example, on the environment, his pronouncement had raised great expectation on issues of climate change on the human person and nature. *Laudato sí* was published a few weeks after the last CAPPF conference and it had substantial influence on the negotiations and the December 2015 Paris agreement). But Pope Francis's striking expression of *the Third World War in pieces*, his untiring call for respect of minorities, refugees and migrants, his refusal of any abuse of religion as an offensive weapon continues to challenge us all, an unbelieving crowd.

Action is possible

Catholic Social Teaching is more and more recognized, but its effectiveness remains questionable, partly because of a language which needs translation in business terms, but also because one might consider it to be too general: the universal acceptability of Catholic social thinking is perhaps a function of its high level of generality. One cannot expect the Pope to give a precise guide on how to reform the market economy and finance. But organisations like CAPPF are there precisely to do that and have to be prepared to accept the challenge.

As demanded by CST, business and social policies can and should move from the purely efficiency logic to one where human objectives are taken into account in each and every decision. But can't we do something more immediate to promote redistribution and capacity development among the poor? Taxation is not an answer because there is no certainty that additional funds raised by the State will be used for such aims. There is a need for new answers which stem from civil society.

American business corporations and wealthy individuals are more comfortable with philanthropy than with other means of redistribution. Some business initiated actions tend

to create a class of organisations designed for profit-making while also trying to address certain social needs. Corporations are good at managing and their experience can be of great use for social impact investments and organisations. These trends are slowly developing also in Europe. Could the Catholic Church support a decisive effort in that direction, by promoting an effective dialogue between corporate philanthropy and religious led charities, and by launching new solidarity funds financed through money commitments from Church members in different countries? As one speaker put it in the final session: "We know that pools of money spur innovation in places like Silicone Valley. Why wouldn't pools of Catholic money spur innovation on creating for-profit solutions to social problems?"

The *Centesimus Annus pro Pontifice* Foundation has set up an expert group to discuss these ideas in detail and concrete proposals on solidarity funds will be proposed to participants in its 2016 international conference, to be held at the Vatican from May 12th to 14th.

CONFERENCE INFORMATION

The annual international conference organized by the *Centesimus Annus pro Pontifice* Foundation (CAPPF) was held at the Vatican from May 25th to 27th 2015 under the title:

Rethinking Key Features of Economic and Social Life

During the conference, the *Economy and Society* international awards were given to the winning works: *Finance, un regard chrétien. De la banque médiévale à la mondialisation financière* by Pierre de Lauzun, and two doctoral theses by Arturo Bellocq Montano and Alexander Stumvoll.

The conference was prepared by groups of FCAPP members in different countries. Papers were available from groups in Bologna, Milan, Rome and Turin in Italy; and from London, Madrid, Malta and CAPP-USA.

The list of speakers, chairpersons and rapporteurs included:

ANDREA BARDAVID, Bank director, President of Keren Hayesod in Italy

SALLY BLOUNT, Kellogg School of Management

MICHAEL BONELLO, previous Governor of Central Bank, Malta

JOSEPH BORG, industrialist, Malta

Cardinal DOMENICO CALCAGNO, President of APSA

Archbishop CLAUDIO MARIA CELLI, FCAPP international Counsellor

ALFONSO CARCASONA, entrepreneur, Madrid

PAUL H. DEMBINSKI, University of Fribourg

Fr ROBERT A. GAHL, Pontificia Università della Santa Croce, Rome

FRANCO GALLO, Former President of Italian Constitutional Court

ENRICO GIOVANNINI, Italian former Minister of Labour and Social policies

PAUL S. KENNY, United Kingdom GMB Workers' Union

PIERRE DE LAUZUN, Association française des marchés financiers, Paris

MAURO MAGATTI and CHIARA GIACCARDI, Università Cattolica del Sacro Cuore, Milan

Fr WALTER MAGNONI, Diocesi di Milano

GIOVANNI MARSEGUERRA, Secretary of FCAPP Scientific Committee, Milan

Cardinal REINHARD MARX, Archbishop of Munich

Cardinal PIETRO PAROLIN, Secretary of State

ALFREDO PASTOR, IESE, Barcelona

ALBERTO QUADRIO CURZIO, Chairman of CAPPF Scientific Committee

JAMES E. RICE, Brody Wilkinson law firm, New York

FRANCESCO SANSONE, Valore Consulting, Milano Ulrich Schröder, Kreditanstalt für Wiederaufbau

ONDREJ SOCUVKA, Google, Brussels

DOMINGO SUGRANYES BICKEL, Chairman of CAPPF

Archbishop SILVANO MARIA TOMASI, Holy See Permanent Observer at the UN, Geneva

JOSEPH F.X. ZAHRA, MISCO consulting, Malta

SUMMARY OF 2016 INTERNATIONAL CONFERENCE

BUSINESS INITIATIVE IN THE FIGHT AGAINST POVERTY

The Refugee Emergency, our Challenge

The 2016 CAPP annual international conference held at the Vatican on May 12th-14th addressed business in the fight against poverty, a theme previously developed in the Foundation's *2015 Statement*. Special attention was given to two subthemes: the European Refugee Emergency and the possibilities of new voluntary initiatives and alliances to serve the common good, on the lines traced by Pope Francis and following the consistent message of Catholic Social Thought. The conference was attended by 320 professionals and business executives, jointly with university professors, public administrators and religious leaders from 23 countries. The full list of speakers is attached.

The Church celebrates 25 years of the *Centesimus Annus* encyclical, a ground-breaking document for people active in business as it opened a new age in Catholic thinking about the market economy at the service of human development. It looked at the past 100 years since *Rerum Novarum*, but above all it was directed to the future, as Saint John Paul II writes at the end of the document, on the threshold of a new century: "In the third Millennium too, the Church will be faithful in making man's way her own, knowing that she does not walk alone, but with Christ her Lord. It is Christ who made man's way his own, and who guides him, even when he is unaware of it".

In an opening address, *Domingo Sugranyes Bickel* commented: "We are now deeply into the 21st century, many

things have changed since 1991: we have experienced spectacular worldwide growth before falling into a crisis of unexpected consequences. The difficulties of managing globalization, the huge debt mountain – public and private – and the new technologies all mean difficult reforms to be undertaken and uncertainty on the future of work; many young people feel unprotected for their future and large sectors of populations, even in rich countries, are afraid of economic and social decay. It is possible that, being in the middle of what some people call a new industrial revolution, the trees prevent us from seeing the wider picture. But we also have to face the tremendous consequences of war and displaced populations, while many people from poorer countries want to find a better future in Europe and the United States”. After leading the introductory prayer, *Cardinal Calcagno* wished the conference could truly contribute to a world where the poor, far from depending on alms, find a dignified way forward through work.

ECONOMIC FREEDOM, SOCIAL ENTREPRENEURSHIP AND POVERTY INTERVENTION

In *Professor Andreas Widmer's* view, “profit is all too often considered evil in the arena of poverty solution”. What he called ‘the aid industry’ prefers tax, redistribution and social engineering. Technocratic as well as bureaucratic approaches to poverty have a similarly materialistic utilitarian base. The alternative, person-centred path needs to include entrepreneurship, and enterprise needs to consider the poor as people with unfulfilled potential, rather than as ‘a problem’. The modern market system has managed to eradicate abject poverty better than any previous economy, but this is far from enough. While in the US and in Europe small and medium sized enterprise (SMEs) are the proven engines of job creation and income generation, representing around 99% of all enterprises, the SME sector is almost entirely missing in develop-

ing countries. Poor people are poor, not because of what they have or lack, but because they are excluded from networks of productivity and exchange. Aid organizations, though well intentioned, as well as governments and financial institutions seem to have an outright bias against small business owners. On the contrary, the real success stories in development are those of SMEs reaching critical mass, and often their success was incubated in faith communities offering positive peer pressure and a relatively safe environment. Accepting these facts would entail substantial change: financial institutions should offer competitive loans to SMEs rather than to governments (or rather than just providing micro-credit, which helps mitigating poverty but is insufficient to create wealth); universities should foster mid-management education; rich countries' governments should favour imports from developing countries and drop local subsidized export-dumping.

These views may be seen as provocative, but there is abundant evidence from real life to support them. Three case stories were presented at the conference. Some international corporations have already adopted support to local business in developing countries as part of their enlightened self-interest main policies, as explained by *Francesco Vanni d'Archirafi*: 'Junior Achievement' for example, supported by large banks and companies worldwide, contributes to teach financial literacy, work readiness and entrepreneurship and to create real companies as school projects; it reaches 10 million young people each year with the help of 450.000 volunteers. The Citi Foundation has a similar programme called 'Pathways to Progress'. In small credit projects supported by Citi, focus is often on supporting women's endeavour which is more likely to impact families and communities. A second, more limited but highly significant example is that of Fr. *Luis Lezama*, the Spanish founder of a spectacularly successful co-operative chain of restaurants and professional education centres exclusively employing marginal young people. A third example was the international success story of *Young Hee Yu* from

Korea, a good example of wealth creation inspired by faith all through.

This is perhaps not so paradoxical if one remembers, as *Cardinal Pell* explained in his opening speech, that the apostles were probably not poor, but rather successful fishermen and small businessmen. “Jesus knew the power of money to fascinate, corrupt and capture the human heart”, the Cardinal said, but He also understood money and how it works, as shown in the parable of the talents. Jesus had wealthy friends – Mary, Martha and Lazarus, Zacchaeus and Joseph of Arimathea. Had the Good Samaritan not owned any capital, he could not have left the money to care for the man who had been robbed. According to Catholic Social Teaching (CST), the vocation of the entrepreneur is essential to create wealth, work, and improve education and health care.

ARE CHRISTIAN INSPIRED BUSINESS DECISIONS POSSIBLE?

Especially since the *Centesimus Annus* encyclical issued 25 years ago by St John Paul II, there are many expressions in Catholic documents to support the role of enterprise and profit as measurement of success, provided economic decisions are taken within an ethical context and with solidarity in mind. But is this possible in practice for business leaders who have the sustainability of the company as their first moral duty? How exactly can Christianity inspire business decisions?

On these questions, which emerge again and again since the CAPP Foundation started its work in 1993 as an unofficial, Vatican-based place for debate on applying CST, the organizers had asked on this occasion the chairman of a world-class leading business: *Nikolaus von Bomhard*, CEO of Munich Re and himself a committed member of the Lutheran Church. He started by recalling that Christianity was an essential element of Western economic development, for example in the frugality and work ethic of the initial medieval cloisters and

later in the Calvinistic teachings. Christian inspiration was again present in the 19th century, both in the development of unsuccessful Socialist ideas and in the answers provided by Pope Leon XIII in *Rerum Novarum*. CST was essential to the development of the Social Market Economy concept and its institutions after the Second World War. For company leadership, the first essential principle is to comply with regulation in every country. But this is not enough and companies have also to develop their own voluntary ethical standards, or they need to adhere to existing such standards (not without a cautious discernment effort on these standards' true value). And this is not too difficult, in spite of cultural differences among parts of the world: there is a substantial *thesaurus* of universally accepted principles like freedom, equality, justice, security; and there are world-wide recognized business values like fairness, confidence, trust, reliability, predictability, open information and confidentiality. But then, from time to time, you are confronted with a dilemma where decisions have to be taken against a background of conflicting ethical demands, for example on environment protection vs economic development criteria: in those cases business leaders need to dialogue, to consider different stakeholders' opinions or requirements... but in the end there is an inescapable personal individual responsibility. Entrepreneurial interest and social responsibility are not incompatible, and to reach the right decision you need to consider three levels: Where does the decision lead in terms of a sustainable long term economic system? How does it affect the company's sustainable future? And finally, is it right from my own personal moral base? Thus, when asked 'are Christian inspired business decisions possible?'. *Nikolaus von Bomhard* answers: yes. Ethical considerations should and must play a role in management decisions. Explicit religious values are difficult to proclaim in a large company, but this is not a problem, because the principles of Catholic Social Thought – common good, solidarity

and subsidiarity are common thought. They can be shared by virtuous people everywhere.

As put by *Francis X. Rocca* in his presentation: “Business people – like people in every other line of honest work – want deeply to believe that their work is noble and possessed of greater meaning than mere personal gain. They thus make up a highly receptive audience for the encouragement and guidance of the church’s social teaching. At a moment when so many have lost trust in major institutions, public and private, the Catholic vision of business leadership remains powerfully convincing and appealing, with potential to capture the imagination and raise the standards of its practitioners within the church and beyond”.

FACING THE REFUGEE EMERGENCY

Pope Francis has required the world’s attention on many occasions, and especially Europe’s attention to the refugee emergency. For *Dr Jakob Kellenberger*, the first point is to grasp the real dimension of the problem: 38 million internally displaced persons (IDPs) as a consequence of armed conflict or other forms of violence and about 20 million IDPs as a consequence of natural disasters and climate change. In this context, the Mediterranean landings which peaked at just above 1 million in 2014 are small numbers. It is also necessary to make distinctions between the legal frameworks applicable to different people on the move. At present, the largest and more urgent problem is that of IDPs from Syria, Iraq, Sudan and Somalia.

If one wanted to prevent the refugees’ crisis, the first priority should have been to invest more in conflict prevention. In spite of many words, little has been done. If as is the case, armed conflict cannot be avoided, the application of existing international conventions and international humanitarian law would certainly help protect civilians and reduce the number of IDPs and refugees. But these laws are not being

applied because the forces at war have little or no concern for the number of displaced persons. Regarding people on the move for economic reasons, the case is similar: a lot more should have been done to create prospects and jobs locally. Unfortunately, official development assistance is often deviated from job creation and the sovereignty argument prevents control on the local use of financial resources.

When, as we now see in Syria, the refugee emergency cannot be prevented any more, one has to be aware that "IDPs and refugees want to stay close to their places of origin". Thus, *Jakob Kellenberger* argues, agreements like the one made by the European Union with Turkey should have been made much earlier, also for Jordan and Lebanon: "The difficulties of the EU to apply a common asylum system with a minimum degree of solidarity between member States should have been and should be an additional incentive to support Syria's neighbours as strongly as possible". *Mr Kellenberger* has strong words to criticize the EU for loosing time in discussing a theoretical system for refugee distribution while some member States "never cared to translate into national legislation the three directives which form this system... Against the paradise stories spread by human traffickers, why not explain... that there is no functional European asylum system with all the uncertainties linked to this? How to understand that not more could be undertaken and at an earlier stage to prevent these human traffickers doing their deadly job?". A more realistic approach about the EU's capacity could have mitigated the present disaster.

In any case, according to this speaker, refugee emergencies affecting Europe will not stop. Thus it still is an excellent idea to invest more in conflict prevention and peace building in the Near and Middle East and to invest more in the creation of jobs in Africa. And concerning economic migrants, it is of primary importance to promote better understanding of the important economic and social role migrants play in the country where they work and in their home country. Migrants'

remittances are essential for survival in failed or close to failed States. And regarding the European Union, *Mr Kellenberger* concluded, “the EU’s self-understanding is that of a Community of values. If this is taken seriously then it is difficult to understand why EU member States should not be capable of practising a generous approach towards genuine refugees in urgent need of protection”.

On the same subject, *Cardinal Tagle* asked in his closing address: “Such forced movements of peoples have led to trafficking in human persons, new forms of slavery, human smuggling..., in other words, a multi-billion dollar or euro business. It is a shame that business thrives on the misery of other people. Indeed the children of this world are wiser in dealing with their own kind (see *Lk 16:8*). But we have to ask: What is the response of the children of light?”.

There are however also positive aspects in the present situation, and the magnitude of relief and emergency assistance provided, especially by non-governmental organizations, is impressive. Three speakers presented examples of constructive action: health services in neighbouring countries and in receiving countries, thanks to specific voluntary action from GSK, a pharmaceutical company (*Daniele Finocchiaro*); refugee reception in Germany, the European country with by far the largest contingents (*Ralph Heck*); and programs set up the Italian Catholic church (*Mons. Gian Carlo Perego*). Testimony from one of the ‘Big Pharma’ firms shows that company policy can be specifically put to serve health in poor environments in general, for example through specific research and distribution as generic medicines. The GSK example specifically includes support to health programs for refugees in Jordan and Lebanon as well as in Italy, Croatia and Serbia. Germany was largely unprepared and the structural effort to provide more than 1 million refugees with the level of social and health services of German society was huge. After a first generous early embracing, problems are arising now, for example on housing prices and the tendency to build ghettos.

More than “integration”, the challenge is one of cultural pairing, for which Germany in the end will prove capable as it did in the seventies for workers from Southern Europe and Turkey – but it took 15 years! Numbers are relatively smaller in Italy: about 325.000 landings in 2014 and 2015 (in 2015 routes changed and more than 850.000 landed in Greece alone); like Germans, Italians did a lot too for provisional housing, many in religious facilities; more than 11.000 unaccompanied minors arrived, 6.000 of whom disappeared after landing and are now untraceable. Reception policies need to be improved and the Italian church makes recommendations, like exploring urgently the possibility of granting residence permits for humanitarian reasons to migrants who are denied asylum; abandoning pre-selection of asylum seekers and asylum denial according to their supposedly ‘safe’ origin, something which is illegal according to international humanitarian and Italian law; acceleration of relocation procedures respectful of human rights; unification of reception procedures in Italy; family based services for minors. *Monsignor Perego* also believes that Europe is split and risks to disintegrate, failing to appreciate the precious resource of immigrating young people and families to build its future: “The quality of evangelization depends on how effectively and sincerely we put into practice the commandment ‘love thy neighbour’. Migration is the test”.

Fr Ryscavage offered a comparison with the refugee and migrant issues in the US, which are different from the European/Near Middle East/Africa situation. The US has been accepting about 1 million legal immigrants every year for the last 25 years. In general terms, the tradition of social and cultural integration of immigrants has continued, and the Catholic Church continues to play an important role in it, especially since many immigrants are Catholic. The conflicting issues have to do with illegal immigration and the continuing problem of unauthorized children immigrants escaping severe drug and gang violence in Central America. A radical drop in

the Mexican birth rate and the country's development indicates lower demand for migration in coming years, something which may create a labour force problem for American agriculture. As regards refugees, Congress used to admit up to 100.000 cases a year, but this process has been disrupted because of the threat of the 'Islamic State' (ISIS) infiltrating terrorists. The refugee issues are governed by the 1951 UN refugee convention; *Fr Ryscavage* thinks it would be a mistake to revise this agreement as it may open the possibility of various government attempting to weaken refugee protection and undercut the strategic international standard of protection. This international law could however be complemented with regional refugee and migration agreements.

In his address on the thematic priorities of the Holy See's interventions at the international organisations, *Archbishop Paul R. Gallagher* said on this same subject: "Populations and entire regions are being displaced, trying to flee from war, from persecution, from exploitation and poverty. This mass migration has recently moved to the centre of political attention, more, however, because of the additional and unexpected inconveniences placed on the receiving countries, than for the scale of the human tragedy, seen in the price paid by thousands of innocent victims. The response to such mass displacement... especially in the most developed nations, has been a policy of refusal, exemplified, in some cases, by the construction of walls and barriers along national borders... The Holy See will continue to encourage Governments to overcome every form of narrow nationalism and, above all, to recognise the unity of the human race... Migrants are men and women, who enjoy the same universal rights, above all the right to life and to dignity. It is the task of all civil societies, including the commercial sector of those societies, to accompany this action and to engage actively in welcoming and integrating migrants and refugees".

COALITIONS FOR CHANGE

The Holy See thus exercises its role as world-wide moral authority, but what should Christians in general do to try and enlist larger coalitions, capable of changing self-serving and exclusive policy patterns? In his intervention during the first session, *Fr Lezama* presented a strong point, which is central to the teachings of Pope Francis: based on experience, the Church has to change from within if we want to convince. We have to come back to the train of the Vatican II Council, put an end to any Catholic ghettos, correct frequent misunderstandings about the role of priests who should be servants, not masters.

During a panel debate led by *Lawrence Gonzi*, *Adrian Pabst* showed that, in spite of extreme far left and far right movements seeming to be back 'with a vengeance', perhaps as a reaction to generalized moral relativism in society, new consensus can happen and Catholic Social Thought, 'a gift by the Church to the world', is uniquely positioned to deliver such consensus. We need to remember that things are contingent, not fated, and we are all capable of agency, as persons, as groups or as larger alliances, even across nations. CST is unique because it has an overarching vision, although it does not work as an ideology; it touches all aspects of life and 'it tells a whole story'. It reminds us that we are capable of both virtue and vice and that we need to encourage virtue, because that is the way of mitigating vice. The problem of course lies with the difficulties of scaling up this vision against many vested interests, which can exist in business, but also among regulators, politicians and even in culture and education. The answer can only be to encourage centres for virtue, to broadcast lots of good practice which are based on generosity, reciprocity and contribution. The challenge is about taking personal responsibility for ourselves and for others.

Mons. Sánchez Sorondo agrees, but he thinks we need ethics moving from dialogue to action. This is why Pope Francis has

instructed the Pontifical Academies, for example, to work precisely on the new forms of slavery, human trafficking and prostitution, calamities which are all related to migration. In their work, the Academies have invited Christian denominations, but also Shiite and Sunni Muslim, Jews and other religions to discuss common action. Other areas for priority action marked by the Pope are those of global climate change and its link to poverty, and the need to promote education. *Lord Brennan* confirms as a politician that the traditional right and left are falling apart and the future of large urban areas and the young can evolve in unpredictable ways. CST can be the base of agreement because it is largely human decency and common sense; it should be taught in the first place to our own schoolchildren! As regards refugees and children refugees, unfortunately the UN and the governmental structures are often too rigid and intransigent; there is no relationship between the big decisions (for example, EU offering six billion euros to Turkey, "and we haven't heard of a significant plan") and the real projects one did try to promote to provide provisional housing, for example, in Syria and Kurdistan close to the Turkish border. And how is it possible that 100.000 children refugees can't be received in a group of countries of 500 million people? It is urgent to let people know and show it is possible. *Marc Surchat* thinks that there are two main barriers against scaling up ethical policies: there are systems which are self-serving, but very efficient, which produce the mafias and slavery and tolerate youth unemployment and other ills. The other barrier is a lack of co-operation among ethically based initiatives: there is not enough sharing of information about possible new solutions, often technology based and promoted by NGOs. For *José María Simone* the essential element to sustain coalitions oriented towards the common good is to be found in sustainable, person-centred company management where leaders are servants; this opens the possibility of a true revolution in decision making. And *Flavio Valeri* explained how in a place with a strong rooted practice of phi-

lanthropy and charity like Milan, a financial institution can support employees' will to work for the community.

From CAPP Foundation's consultations on the financial crisis and the subsequent reform efforts ('The Dublin Process'), one of the conclusions emerging was presented by *Josef Bonnici*: the creation of a network of Voluntary Solidarity Funds (VSF) as a moral response to increasing income inequality. The idea is based on the parable of talents: success is the product of our work; we don't have all the same capabilities; we work for a higher purpose – not only for our interests; we will be held accountable. There is evidence of a continued worsening of inequality in rich societies and the inability of growth to 'lift all boats': against the fact of large groups of society falling behind, what is our moral obligation as Christians? What can be done to "transform people into better fishermen"? The VSF network will be an attempt to enlist as many Christians as possible to embrace the concept and contribute regularly a small percentage of their income. The use of funds will be either through interest-free loans or donations to support scholarships and training courses, family mentoring and the promotion of small entrepreneurship. This initiative does not pretend to compete with existing charities; a clearly long-term oriented purpose should be its differentiating feature. The VSF will offer an opportunity to people to meet their moral obligation to help others building on their own capacities through an expertly governed and transparent structure¹.

FAITH BASED COMMITMENT

Cardinal Pell spoke in his introductory address of currents which are running against Christian living in the Western world, whereas there is no such visible decline in Africa, in

¹The VSF initiative is developing autonomously from CAPP. A VSF Foundation is being established in London and local pilot VSF entities are being discussed in several European Catholic dioceses.

Asia or in South America. When people are disaffiliating and young people are absent, the temptation for some Christians could be to take refuge in the small world of church affairs. Certainly, lay participation to the running of parishes, dioceses, hospitals, schools and the proper financial running of these institutions is essential. Episcopal and priestly leadership are necessary for evangelization, not so much for management. And the role of laity is also more ambitious in spreading the message: as affirmed by the Second Vatican Council, it is to seek the Kingdom of God by engaging in temporal affairs and ordering them to the plan of God.

But what if, as *Cardinal Tagle* said in the final session, so many people suffer an “economy of exclusion”? “Those who used to be on the margins or fringes of society have been pushed out. They are the persons excluded from the growth or development that some countries and businesses have achieved. But if the majority of peoples are excluded from growth, we have to ask if the so-called growth is real”. This brings us back to our starting point, the need to include the poor in productivity and exchange channels. How is this going to happen? Economists, as mentioned above, have their recommendations, mainly through support of small enterprise reaching critical mass. From his more personal point of view, *Cardinal Tagle* has some practical advice:

“I propose that we all engage in an examination of consciousness...:

- Are the poor included in our vision-mission statements?
- Are the poor included in our goals and planning? As commodities, consumers or partners?
- Is the development of the poor a factor in deciding on products and services?
- Are the poor consulted in the type of development that they desire?
- Is our corporate social responsibility an appendix to our corporate life or is it integrated in the way we do business?

- In our offices and establishments, are personnel trained to deal with the poor?

Pope Francis said that reality is greater than ideas. The excluded are not categories or numbers but persons, like us, with feelings, dreams, hurts and thresholds. We come to the poor... with a posture of humble learning from their wisdom... The pursuit of inclusive growth by business and the corporate world should begin with the 'entry' of poor persons in our consciousness to disturb us, to teach us and to move us to action".

Being linked to the Holy See through the Centesimus Annus pro Pontifice Foundation involves a special meaning and a challenge: as *Archbishop Gallagher* explained:

"The three perspectives that I have briefly traced (the anthropological, the political-international and the ecological, in broad terms) allow us to recognise how the Holy See assumes a role on the international scene, that might be considered prophetic, recalling to everyone's attention: the fundamental and overriding dignity of every human being, the necessity of bringing about an international order founded on harmony and peace – thus rejecting violence as a means of resolving conflict – and the necessity of constructing a process of truly sustainable development, both for the good of the earth and for that of the human family in its entirety. To do this, we cannot simply protect our own interests, disguising them as rights, while ignoring the obligation to respect the rights of others. It needs to be remembered that no nation can guarantee its own security and its own economic and social well-being by isolating itself from the rest of the world and without showing solidarity with other countries. The Holy See's position is also a call to responsibility by everyone, especially by those who occupy leading roles in civil society and in the direction of economic activity".

Adhering to this Vatican-based Foundation should help members to commit concretely to "a new humanism", as defined by *Archbishop Celli* in a meditation. "Pope Francis defines this new humanism as the product of three abilities: ability to integrate, ability to engage in dialogue, ability to

create". In this process, *Celli* recalled, Christians will find support in a Church which should be a mother: "A mother may not approve our choices, but she keeps her door open for us, for our return".

At the audience to participants in the conference, the *Holy Father* said: "It is my hope that your Conference will contribute to generating new models of economic progress more clearly directed to the universal common good, inclusion and integral development, the creation of labour and investment in human resources". This challenging invitation marks the way forward for the work of the Foundation, but it is also a clear invitation for all those who want to act in the economy in a way which is rooted in their Christian faith.

CONFERENCE INFORMATION

The annual international conference organized by the Centesimus Annus pro Pontifice Foundation (CAPPF) was held at the Vatican from May 12th to 14th, 2016 under the title:

Business Initiative in the Fight Against Poverty

The Refugee Emergency, our Challenge

The list of speakers, chairpersons and rapporteurs included:

NIKOLAUS VON BOMHARD, CEO of Munich Re, Germany

JOSEF BONNICI, Governor, Central Bank of Malta, member of CAPP Foundation's Scientific Committee, Malta

DANIEL LORD BRENNAN, House of Lords, Capp Foundation's Advisory Board member, UK

Cardinal DOMENICO CALCAGNO, President of APSA (Administration of the Patrimony of the Apostolic See), Vatican

JEAN PIERRE CASEY, Head of Investments, European Private Bank – CAPPF, UK

Archbishop CLAUDIO MARIA CELLI, CAPP Foundation's International Assistant, former President of the Pontifical Council for Social Communications, Italy

MARK DE MICOLI, operations manager – CAPPF, Malta

JESUS P. ESTANISLAO, member of CAPP Foundation's Scientific Committee, Institute for Solidarity in Asia, Manila, Philippines

DANIELE FINOCCHIARO, Chairman & General Manager GSK Pharmaceuticals Italia, Italy

Archbishop PAUL R. GALLAGHER, Secretary for Relations with States, Secretariat of State, Vatican

LAWRENCE GONZI, former Prime Minister of Malta – member of CAPP Foundation's Board, Malta

RALPH HECK, Director McKinsey, Germany

JAKOB KELLENBERGER, former State Secretary for Foreign Affairs and former President, International Committee of the Red Cross (ICRC), Geneva, Switzerland

Fr. LUIS LEZAMA BARAÑANO, Social entrepreneur, Spain

GIOVANNI MARSEGUERRA, Secretary of CAPP Foundation's Scientific Committee, Catholic University 'Sacro Cuore', Milan, Italy

ADRIAN PABST, member of CAPP Foundation's Scientific Committee, University of Kent, UK

FABIO PAMMOLLI, member of CAPP Foundation's Scientific Committee, Institute for Advanced Studies IMT, Lucca, Italy

Msgr. GIAN CARLO PEREGO, Director General, Fondazione Migrantes, Italian Episcopal Conference

Cardinal GEORGE PELL, Prefect of the Secretariat for the Economy, Vatican

FRANCIS X. ROCCA, Wall Street Journal Vatican correspondent

THOMAS RUSCHE, entrepreneur, member of CAPP Foundation's Board, Germany

Fr. RICHARD RYSCAVAGE SJ, specialist on Immigration and Refugee issues, Fairfield University, Connecticut, CAPP USA Ecclesiastical Assistant, USA

Msgr. MARCELO SÁNCHEZ SORONDO, Chancellor of the Pontifical Academies of Science and Social Science, Vatican

- JOSE MARÍA SIMONE, entrepreneur, International President of UNIAPAC, Argentina
- DOMINGO SUGRANYES BICKEL, Chairman of CAPP Foundation's Board, Spain
- MARC SURCHAT, Chair of the Working Party No. 1 on Macroeconomic and Structural Policy Analysis at the OECD, Paris, France
- Cardinal LUIS ANTONIO G. TAGLE, Archbishop of Manila, President of Caritas Internationalis, Philippines
- ATTILIO TRANQUILLI, entrepreneur, CAPPF Local Coordinator, Italy
- FLAVIO VALERI, Chief Country Officer Deutsche Bank Italy, member of CAPP Foundation's Advisory Board, Italy
- FRANCESCO VANNI D'ARCHIRAFI, CEO Citi Holdings, New York and London, member of CAPP Foundation's Advisory Board
- ANDREAS WIDMER, Director, Entrepreneurship Programs, CUA (Catholic University of America), USA
- YOUNG HEE YU, Chairman of Yudo Group and CBFK former Chairman, South Korea
- LUANNE ZURLO, Founder & Co-Chair, World Education & Development Fund (Worldfund) – Assistant Professor of Finance, The Catholic University of America (CUA), USA

FINANCIAL REFORM AND THE COMMON GOOD

THIRD MEETING
MALTA CONSULTATION – 29-30 JANUARY 2016

JOSEPH DARMANIN

The Dublin Group aims to advise the Foundation on matters of finance and ethics. **Domingo Sugranyes** read a letter from Archbishop Diarmuid Martin of Dublin, where he noted that the gathering in Malta is taking place in the context of a rapid change in the geopolitical landscape of Europe. The refugee influx to Europe have shifted the perspective of inequality faced by the marginalised, instilling a sense of urgency to react in the face of the suffering of others. Both the financial crisis and the tragic refugee problem form part of a broader set of issues including the need for integration of the ethical dimension in all sectors of society.

CATHOLIC SOCIAL TEACHING ON FINANCE AND THE COMMON GOOD

Fr. Galea Curmi

Business is a noble vocation provided that it serves the common good by striving to increase the goods of this world and make them more accessible to all. Primacy should be given to the human person created in God's image. Dignity and integrity should be preserved while exclusion and inequality should be avoided. Humanity must be the goal of the economy and not the opposite. Money should serve not rule. There are goods which cannot be traded like mere commodities. If left to itself, the market may not succeed in achieving greater social justice. The economy and financial

system need to be built on well-defined ethical principles and on solidarity.

Politics that reduce people to a passive state of dependency on welfare do not accomplish justice to the dignity of the human nature. Catholic social teaching provides guidelines that need to be addressed in the context of dialogue and with all those seriously concerned for dignity. The role of Christians is to rethink and develop new proposals inspired by Catholic social teaching and translate them into actions which may be effective in the world of today.

These values are universal, they are accepted by other Christian churches and ecclesial communities and also by other faiths, and hence they allow wider dialogue. The encyclical *Laudato Si'* – on the respect of God's creation – is a fine example of universal values and a point of dialogue with all. In fact, *Laudato Si'* can be seen in a non-theological context as it speaks about a world of common goods and externalities; and the only way to address the issue of externalities – such as climate change or a financial crisis – is through ethics.

DOES FINANCIAL REFORM ENTAIL REAL CHANGE, FOR WHOM, BY WHOM AND HOW?

Domenico Siniscalco

Externalities cannot be successfully addressed with just pricing or regulation, because we all know that there is no such thing as perfect regulation.

The global financial crisis has triggered criticism towards economists in their different capacities. Academics failed to understand or predict the crisis, government officials failed to prevent it and bankers were held responsible for what happened. Although it is perhaps too early to audit the financial crisis and to confirm its exact causes, the determinants of this crisis are well known: too little savings and too much consumption in the US, too little consumption and too much savings in Asia and too little investment in Europe. The root

of the crisis emanated from the real economy. The crisis resulted from global imbalances, deregulation and also the deep interconnectedness of the economies. In a deregulated environment, banks proved unable to understand the risk and to act accordingly. Financial turmoil fed back immediately to the real economy and the consequences were dramatic for the economy and the people.

The responses to the crisis came in three phases. First, there was a policy response which included an expansionary monetary policy, an expansionary fiscal policy and several banking rescues. To the extent that this first response prevented a total collapse of the entire system, it was relatively successful. Second, the banking sector has been repaired and remodelled with the introduction of various reforms which include increased capital requirements, stress testing, asset quality reviews and so forth. This second phase of response raises some major questions. What is the system that is coming out of this big regulatory reform? Is it a system with more capital? Is it a system with less liquidity where banks lend less? And this is probably one of the unintended consequences of such reform. In this new regulatory landscape it is becoming harder for companies and start-ups to find the required financing.

Nonetheless, fundamentally we have a much smaller, safer and more stable banking sector. The question is whether we are satisfied by a system which is intrinsically more stable, and where banks are deeply regulated, and whether this is enough.

Clearly, the banking sector is not an end in itself. The banking sector makes sense if it contributes to the common good, to welfare. It makes sense if it lends to small and medium enterprises, if it favours new start-ups and so on. So the answer is probably no. What we have today is not enough. This leads to the third phase of response. Without a set of principles, culture and ethical behaviour the reform will never be complete.

Debate

While the Banking Union is an important step in the right direction, the financial sector is not yet serving the real economy as it should. In the European context, it is the Commission's aim to change banking and put it to the service of the economy. This is also the stated intention of many intergovernmental declarations on the crisis. However, legacy issues of the crisis, including lower growth, weak risk appetite and poor credit provision to the real economy remain prevalent. In addition, the use of taxpayers' money to bail out banks has had severe consequences, including the unresolved question of the debt issue that casts a shadow on the prospects for recovery and, concerning banks, the excessive accumulation of public debt on their balance sheet (**Markus Schulte, Alfredo Pastor**).

Regulations can never be perfect and cannot alter human nature. It is impossible to regulate ethical behaviour. The digital transformation of the financial sector puts clients at the centre of business. It is an inclusive tool. Cloud computing is a key issue in terms of civil security and privacy. Digitisation and the rapid change in business model it triggers is a challenge for policy makers: regulating too fast could be just as dangerous as being too slow (**José Manuel González Paramo**).

The paradox of the crisis is that good intentions to enhance financial inclusion actually threatened the financial stability, and affected mostly the weakest in society while informed people ended up better off. The latest innovations (the so called 4th Industrial Revolution) in the financial sector could either enhance access to finance or be the next big source of concerns. In addition, cyber security issues and overreliance on artificial intelligence are important financial stability risks (**Giancarlo Bruno**).

Some participants think that the real issue does not lie in the banking model but in the vices of individuals themselves.

The behaviour of bankers contributed to the loss of confidence in human persons. Regulators can also fall into the vices of the human person and express signs of superiority and arrogance. More regulation may not be the best solution as it gives rise to even bigger banks, less competition, harsher financial exclusion of SMEs, more shadow banking and unregulated digital finance. We should rather find ways to regain confidence in human beings as they were created in God's image (**Joseph Zahra**).

However, for others, there remains a basic structural problem and thus a unanimous diagnosis of the crisis will never show up. Why the world economy has become so vulnerable and dependent on the financial sector? Why the functioning of the financial system became flawed by wrong culture incentives? These remain controversial issues. Depending on the diagnosis, we get a different reform agenda. Stabilisation helped but did not solve the problems. It is reactive, not proactive. There was no rethinking of how the financial system works. Its three main functions are: payments, credit allocation and risk management. The development of the latter surpassed the others. The financial industry is opposing deeper change, NGOs are dispersed, and governments are paralysed. The consequence of long-lasting low-interest rates are: growing debts levels, asset bubble risks, intermediation flaws and shadow banking risks. Several things remain to be done: reducing the size and the complexity of financial institutions; regulatory perimeter should be extended; volatility should be addressed, ethics should be promoted (**Paul Dembinski**).

There is another perspective to the question of whether the actions to address the crisis were effective. From the point of view of financial institutions, such reforms were successful in making the system safer; but what about the rest of society and the unacceptable levels of unemployment? In the face of this enormous social crisis the question is whether this is the result of the pre-crisis way of handling matters or

whether it is actually the result of the methods used to address this. Perhaps, the austerity measures are not the best approach. Moreover, in the context of the specificities of the various countries, measures of a one size fits all nature may not be the optimal way forward (**Lawrence Gonzi**).

In the same way, shouldn't there be different capital requirements for those banks financing sectors predictably creating bubbles and for banks who are instead investing in alternative energy resources or intelligent transport systems? Economic thinking cannot escape value judgments though an academic view, now well over 200 years old, has all the way induced us to believe that economics is value free (**Eutimio Tiliacos**).

Drawing from some experiences in the UK, there are several examples of how good intents can go wrong or be abandoned. The Banking Bill in the UK should have made senior managers more accountable but this has been taken out of the legislation, probably to please City of London bankers. A Bank of England programme to promote cultural change in the financial sector has been abandoned. The Head of the Financial Conduct Authority (i.e. the actual regulator for misconduct) showed signs of passivity. Five of the traders in a LIBOR fraud taken to court were perceived as merely following orders from top and were all acquitted. The message from all this is that people need to be held accountable. In conclusion, there is consensus that the re-establishment of trust in financial institutions necessitates adherence to a set of ethical principles (**Daniel Brennan, Adrian Pabst**).

There is consensus that it is not a matter of more or less regulation but a matter of better regulation. And better regulation has to be based on the fact that we really believe in human potential and human development and that we need to regain trust in the human person and believe that the human person can in fact be self-responsible (**Daniel Brennan, Marco Gubitosi**).

It is important to recognise the potential of the human person to be entrepreneurial and to be able to construct a better society. Boardroom discussions have been reduced to discussion on compliance and on whether the right rules are being applied and this is replacing the discussion that is so much necessary on development and innovation. There needs to be a cultural change at the corporate level (**Joseph Zahra**).

This is fine, but our dialogue should not avoid coming back to the underlying unresolved questions about the aims of the financial system, its priorities and the allocation of resources, as requested by Pope Francis in several recent documents. This could be discussed in future meetings (**Lorenzo Rossi di Montelera, Domingo Sugranyes**).

INTERNALLY DRIVEN ETHICAL RECONSTRUCTION.

IS IT HAPPENING?

Robert Annibale

Following the global financial crisis, financial institutions became the least trusted firms. For confidence to be re-established, the objectives of financial institutions need to be aligned with shareholders, clients, stakeholders, and the wider public (being indirect shareholders). History has showed that banks are important for the community but neither do nor should fully self-regulate, and in any case, compliance to rules is not enough. An internal change of the corporate culture is required to enhance ethical behaviour. There are a number of philanthropic initiatives, especially oriented towards entrepreneurial development in poor and low income communities, which is an essential part of this change, for example in Citigroup. But the cultural change should also address the banking business itself: banks' new products and policies should be assessed from a community development perspective. Any new bank products or policies should be analysed by asking questions that matter: Does this action improve inclusiveness and access to financial services?

Does it create real economic value? Is this essentially in the client's interest? Does it create any systemic risk?

In other words, bankers need to broaden the way they consider the impact on all segments of clients and communities in developing their business models, product design, pricing, distribution and selling of products. In some jurisdictions, regulators have taken the lead. In the US, the Consumer Financial Protection Board is influential in supporting product transparency, appropriateness and in protecting consumers. This goes far beyond prudential banking safeguards. The issues of financial inclusion and fair lending are important, and some products and activities can lead to unintended and, at times, unfavourable impacts on clients, hence the benefits of clear and appropriate regulations and oversight. Finally initiatives in the field of digital payments will provide important opportunities to reduce cost, expand scale and deliver new services to millions, but these new technologies and products also need an appropriate regulatory framework to avoid unintended potential consequences, despite the good intentions.

The example of Citi demonstrates that there is a new awareness of the importance of the ethical dimension and of social corporate responsibility. This is a very positive development in the context of the agreement reached upon in the Dublin meeting that the starting place for the embedding and focussing on ethics is at the corporate sector and the enterprise. Given the growing uncertainties and the lack of trust in the financial sector, the concept of ethical capital is crucial. Trust is perhaps the most important factor in the financial sector as it deals with risk and uncertainty.

Debate

Citi's example may be exceptional in that it is more of a universal bank, with an important retail segment, as opposed to pure investment banks. The question of ethical reconstruc-

tion can't be successfully approached without discussing compensation and bonus policies (**D'Maris Coffman**).

Positive examples of good practice should be widely distributed and discussed within industry organisations of the financial professions. Thus, the ethical reconstruction will progressively move from the micro to the macro level (**Paolo Garonna**).

We may not be able to quantify the value of ethics within the balance sheet of a company but to the stake holders, ethics have significant value. Honesty of purpose and honesty of action have economic value (**Daniel Brennan**).

Regaining trust involves the development of a key distinctive social purpose and collaboration with all the stakeholders with the purpose of serving the community. It is hard to regain trust and long-lasting relationships when staff turnover is high and when customers never see their banker. One way of institutionalising the code of ethics is by rewarding employee compliance and linking ethical behaviour to the reward system (**Barbara Ridpath**).

At the same time, it is very hard to instil ethical principles in an adult. Education needs to start at a tender age; it should start at school. Financial education of consumers as well as of future managers must change in order to insert ethical concerns at every stage (**Jean-Baptiste de Franssu, Giovanni Marseguerra, Marco Gubitosi**).

At the same time, however, the responsibility for change comes from the top and we need to ensure that the people at the executive level are leading by example and that they have the moral authority to be able to do so. So we have to spend much more time and resources to ensure that the selection of people sitting on boards and of CEOs are done right (**Joseph Zahra**).

The ethical reconstruction process requires deep changes in accountability practices, which are still lacking. Church financial institutions must show the way, also by adopting ethical investment criteria (**Jean-Baptiste de Franssu**).

Furthermore, it is an important challenge to build institutional trust from the personal level in a digitised and anonymous world. In fact, the new world of digitisation offers the possibility to detach one's actions from oneself and in a way we are entering into a period of anonymity which is even more risky in terms of connecting ethical formation to behaviour. The detachment of identity from responsibility could introduce new challenges to the sphere of ethical business behaviour (**Malcolm Brown**).

However, digitisation should not be demonized despite its disruptive nature and the new challenges it creates alongside the huge positive potential. As digitisation is an unstoppable process, it should rather be embraced positively (**Markus Schulte**).

The digital world is different but not anonymous in that identification becomes an essential security precondition for any transaction. It is not possible to stop customers' demand (**José Manuel González Páramo**).

From another point of view, increased complexity in this world of technology and digitisation could be a hindrance to ethics because one cannot observe the consequences of his or her actions directly. Technology and digitisation put a distance to the consequences and it is very difficult to behave very ethically if the consequences of the actions cannot be seen (**Paul Dembinski**).

The reality of globalisation adds to the challenge. People have been making a lot of profit by simply moving capital around from one country to the other. Globalisation has enabled this movement, and in a way, such movement could contribute to the better allocation of resources. But it also implies that individuals seek to create value by simply shifting capital around and not by producing something of practical benefit or something productive (**Lawrence Zammit**).

Increasing income inequality has become a phenomenon of widespread concern as it has worsened within most advanced, emerging and developing countries. It has recently received considerable attention from academics, politicians and economists.

It is fair to note that until not so long ago, the prevalent opinion in the economics profession was that rising economic development would benefit everybody, "Growth is a rising tide that lifts all boats." Such optimism seemed for a while to be supported by the significant economic growth that took place until the mid-1970s and early 1980s and the apparent improvement in the distribution of income and reduction in income inequality. However, various political and economic developments, and improved data measurement capacity in recent years, have increasingly indicated that the previous paradigm suffered from a false optimism, given actual income distribution developments in many countries. In fact, the overwhelming evidence points to a worsening situation, with income inequality increasing and threatening the well-being of society.

Growing income inequality is negatively affecting growth by depriving the ability of middle and lower income families to accumulate physical and human capital. Inequality of opportunity is at the core of this social injustice which has dragged an increasing number of families towards the brink of poverty. This trend is also referred to as socio-economic decay where the current generation will face poorer prospects than the previous generations in terms of access to education. This is occurring for various reasons such as the changing family structure with increasing single-parent families, and also because in some parts of the world the cost of education has gone up exorbitantly. A prolonged period of slow economic growth will further intensify these problems.

Given these developments, fundamental questions arise: what can somebody who believes in the catholic social teaching do about this? Is there anything that we can do? And this is where the concept of the solidarity fund comes up.

The fund is not envisaged as a charity, but more as an enabler and there are various aspects to this. Given that inequality is the basis of the issue, those who are earning normally a higher level of income – and this could be broadly defined as € 100,000 annually – would contribute 1% from their income for a special purpose, starting at the local level, while individuals earning a higher income than EUR 200,000 may contribute at a higher rate. The ideal scenario would be that an individual feels comfortable that she or he are meeting their moral obligation to be responsible for others who are less fortunate than themselves and who may be caught in a low-income or even a poverty trap. The shareholders of a company could also decide to contribute from the company's earnings. Corporations could be invited to present their shareholders with a proposal to contribute 1 or 2% of the company's profits, and the shareholders invited to vote on this proposal. There is also scope in encouraging retired people with the right credentials to take up role as mentors, providing opportunity to contribute in a direct way.

As regards the type of programmes, there needs to be flexibility and openness to suggestions. The line of thinking proposed makes even more sense today as we are living in a period where people are placing their funds in the banks in case they need them and yet there are so many people who could be helped in one way or the other. What if we can be creative enough and if we are able to encourage people to utilise these hidden 'talents' for a much more noble purpose? Drawing from the parable of the talents, the least favourable response was the person who got one talent and buried it underground and managed to return the same talent. I think that in some ways this is what we are doing with our funds when we put them in bank accounts – earning almost nothing

in these days – and sometimes we put them in deposit boxes so as to hide them from everybody. From a morality point of view, this is not right and surely we can do better; and this is what the solidarity fund is all about. Initially, the Fund is envisaged to be small and simple but this would be a stepping stone for further growth. Clearly, this is not a substitute to charity but a complement. Charity helps people in distress, providing ultimate support to people who may be simply falling apart. The solidarity fund provides an opportunity to the more fortunate to utilise their funds in a way which hopefully satisfies his or her conscience that they are not turning a blind eye to those people who could be helped live a fuller life as God intended.

Debate

The idea proposed is powerful because it demonstrates that there are alternative ways of thinking. Inequality needs to be addressed not just because it is bad for the poor, but because it is bad for everyone, even the rich, in terms of the kind of life they are able to lead and the way in which acquiescing in deepening inequality prevents anybody from having the desired type of life. And yet when inequality is challenged, not least by Atkinson & Picketty's books, the response is often one of rage, not even argument, but of rage. Clearly, there is something morally profound happening. We find it difficult to discuss the concept of the disutility of inequality in a rational way. The common good concept, which is so much at the heart of our ethical thinking, seems to be eclipsed by a kind of visceral attachment to a deeply unequal world.

It has become increasingly difficult to square a Christian moral formation with a 'for granted' approach in living in the culture we do. Yet, these two cultures are in some ways bridgeable and the solidarity fund proposal is one of those potential bridges (**Malcolm Brown**).

Growing inequality creates a multi-generational disadvantage transmitted from one generation to the other. In view of this reality the question is whether a voluntary solidarity fund undertaken with the aims of Catholic social doctrine could serve as a vehicle to haul, aggregate and accumulate financial resources for a greater good and a more noble cause. This interesting concept comes at an opportune time because there is remarkable financial innovation going on which is really moving now into the area of charitable giving. And this raises three relevant questions: How would this VSF fit into the constellation of charitable activities globally? What would be the scope of the VSF? What would be the mission, vision and values that shape the voluntary projects that are undertaken? And finally how can the seed capital be leveraged by taking advantage of some of the other technological inventions going on? The notion of crowd funding is of major interest in this area. In 2010, for instance, following mass devastation caused by super storm Sandy on the East Coast of the United States, the Red Cross reported that 20% of the millions of dollars collected for storm relief had been raised by SMS messaging comprised of small individual pledges of \$10 or less. There has recently been an explosion of foundation giving as opposed to traditional individual and religious charitable giving and there are various examples such as the Gates Foundation, the Buffett Foundation and so forth. An interesting statistic is that over a ten year period, US foundations grew by 54%. The high net worth individuals are looking for opportunities to direct their giving and really see the outcomes of their giving in a more acute way. One of the big challenges in social impact investing is clearly identifying what the measurements of success are and this is also important for the VSF. There needs to be a plan of what to accomplish and how to measure it, and then to communicate it. There must be a metric to evaluate the impact of the money given to the various recipients. There is currently a broad interest in supranationals; there has been robust demand for World Bank Bonds, for IMF Bonds, IFC Bonds,

Green Bonds, Social Impact Bonds, and so forth. In this context, it could be interesting if a Catholic initiative would position itself as a supranational and this could give a boost to the fund and to attract capital (**Ted Kowalsky**).

As a demonstration that socially assisted people can become creators of wealth and that it can change public opinion about the capacity of the poor to become entrepreneurs, there is the example of Association pour le Droit à l'Initiative Economique, the name directly inspired by the Encyclical of John Paul II. Created in France this micro financial institution is devoted to provide financial and business development services to the unemployed and to people on welfare. It respects the teachings of the Gospel as regards the primacy to be given to the poor and to the vulnerable. Its loss rate is about 3% and the rate of survival of the enterprises created by these very poor people is the same as the national average. In other words, this project has been a huge success in France and shows that likewise, the VSF could also succeed. The primary aim of the VSF is to combat the fetish of money and the dominance of faceless economics. Second is the doctrinal basis of the VSF which is the parable of talents and the right to economic initiative which is promoted by Pope John Paul in encyclical *Sollicitudo Rei Socialis*. Third is that the right to economic initiative presupposes access to capital and access to capital requires creation of some specific financial instruments for the poor. In the long term the voluntary solidarity fund could finance the development of social business by combining market logic with the common good. It could start with micro credit enabling excluded persons to develop income generating activities thus helping them to determine their own destiny and become active members of the community. Voluntary solidarity funds classified as social impact funds would combine financial, economic and social goals adding three specific principles: recognising the creativity of every human being, associating financial and human capital, giving priority to labour and striving to link finance and the

real economy. In terms of the organisational aspects of the VSF, the project could combine investment funds, equity, debt guarantee, and technical assistance funds for the micro-finance institutions but also business development services for the final beneficiaries. Volunteers could participate in the creation and operation of funds and especially, business development services for the final beneficiaries (**Maria Nowak**).

It must be recognised that the market cannot accomplish everything and neither can the state, so there is a third sector which provides a unique opportunity for the positive energies we have in our societies. Still, there is an important role of the state in incentivising and boosting such initiatives with a tax deduction that is capped. In the US this idea of tax deduction of charities proved to be extremely effective (**Domenico Siniscalco**).

On the other hand, it is possible that donors try to play the tax game and that introduces an undesirable element. Hence, while the idea of a tax deduction is not to be ruled out, it is perhaps not wise to focus on it as a fundamental basis (**Josef Bonnici**).

The percentage contributions should not be mandatory as a sort of tax imposed by the Church; this is after all a voluntary fund (**Robert Annibale**).

Although the VSF's creation will not address all inequality problems, the church would be more credible in criticising the abuse of financial capitalism by showing that financial institutions can serve the common good and can have respect for human dignity and creativity. Finally the VSF could be a vehicle for translating the church social doctrine into action, responding to the major challenges of the economy's 'financialisation' and growing inequality, helping the poor to recover hope and trust in themselves, and in addition providing finance that makes it possible to expand economic activity well beyond charity (**Maria Nowak**).

The VSF translates, in a concrete way, the message of the *Laudato Si'* (**Lawrence Gonzi**).

In fact, all Papal encyclicals speak around two main themes of Catholic social teaching. One is humanisation, the human purpose of the economy, focusing on people not just profit. The second is subsidiarity. And the VSF meets these two themes in a very complete way (**Daniel Brennan**).

The issue of inequality that the VSF is trying to address does not simply refer to the kind of extreme inequality of the top 1%. It is about the idea of human dignity and the fact that a number of people are excluded from opportunities that would allow them to live a decent life (**José Manuel González Páramo**).

In terms of recipients, the VSF is not intended to target the cases of extreme poverty such as those that we find in third world countries. There are other instruments that reach this area. As Aristotle rightly pointed out, the worst form of inequality is to try to make unequal things equal, and in fact this is not the aim of the VSF (**Daniel Brennan**).

The VSF is about influencing the average reasonably well-off individual to contribute to the betterment of society especially his or her society to avoid a possible breakdown in our social system, in our economic system, in our fundamentals of the economy. Central banks are constantly debating the issue that rate of economic growth is going down such that the pie is growing at a much slower rate. And this is a different situation compared with a growing pie where everybody could have a bigger slice. This development is also affecting individuals in advanced economies. The VSF attempts to create a warm glow effect in that people are invited to contribute to something meaningful, not simply a charity but a contribution that enhances the individual capacity to improve the standard of living and the capacity to enjoy a fuller life as God intended (**Josef Bonnici**).

The focus should be on local projects which really change life for people in difficult positions, especially lonely mothers (**Camilla Borghese**).

The structure of the VSF could be envisaged as a gift on one side and possibly a credit on the other. And this structure would crystallise its uniqueness when compared to charity for poverty; because if this takes the form of a loan, the beneficiary must have the capacity to work and to reimburse the funds (**Maria Nowak**).

At a later stage the fund could make use of borrowing instruments such as bonds but as a Fund – in terms of asset class – it should not be an investment fund because it would contradict the fundamental idea of the VSF. In addition, the VSF should be Christian in approach and not only Catholic in order to maximise visibility across various denominations and be universal (**Paul Dembinski**).

Defending the interests of the marginalised requires proper funding schemes coupled with a favourable legal environment. Lack of regulation in finance could lead to higher inequality by making the rich richer and by ignoring the poor. There needs to be institutions helping the marginalised to emerge from the poverty trap by lending to those who are unable to provide collateral and who cannot promise a steady income. Unfortunately the crisis has also affected the microfinance sector, reducing the lending potential of institutions that have a high level of non-performing loans and at the same time having to meet increased capital requirements. So it is indeed an opportune time to propose a solidarity fund especially in those countries where the microfinance sector has been hit the most (**Maria Nowak**).

CLOSING REMARKS

Domingo Sugranyes Bickel

At the end of this third meeting of a series on 'Finance and the Common Good', the Centesimus Annus pro Pontifice Foundation expresses deep thanks to all participants for their papers and for their active contribution to the dialogue. Special gratitude goes to the Central Bank of Malta for hosting

this third consultation meeting. The documents will be made available to the public under the participants' own responsibility and with their agreement, and hopefully this material will be useful to foster a widening debate on financial reform and its ethical dimension.

The idea of new Voluntary Solidarity Fund (VSF) will be further discussed within the Foundation's meetings. But the Fondazione is not the owner of the VSF idea; the VSF is not a task of the Foundation, it is much wider. It will not develop under Vatican jurisdiction either. Putting it into action will need people with a strong sense of commitment and dedication from different places in the Church. But it is significant that the idea was developed and emerges as a conclusion of our dialogue on Finance and the Common Good.

The Dublin meeting (October 2014) ended with a number of specific action-oriented recommendations which were agreed upon in spite of differing opinions on the underlying questions, and this is not surprising in such a diverse group composed of moral theologians, financial economists, bankers and banking supervisors. Our Malta meeting was asked to answer two questions: is current financial reform addressing the basic ethical questions? Do speeches about internal ethical reconstruction mean anything in real terms? The answers were not unanimous, but they all had nuances: some positive aspects can be seen in the current process – more or less according to different diagnoses –, but there are also unintended consequences and unresolved basic questions; banks are only part of the financial system today, and the new realities of digitization and *fintech* are adding new problems, also from an ethical point of view. The Board of the Centesimus Annus pro Pontifice Foundation will examine the possibilities of continuing this dialogue. The main benefit is in the exercise itself, where people of different backgrounds try to analyse how Catholic social teachings can be applied in practice. This is an unending process, but it is worthwhile trying to expand its reach to more people of good will.

THE MALTA FINDINGS

SHORT SUMMARY AND CONCLUSIONS OF THE CONSULTATION
HELD AT THE CENTRAL BANK OF MALTA, JANUARY 2016

A year after issuing its “Proposals on Finance and the Common Good”¹, the *Centesimus Annus pro Pontifice* Foundation once again invited the *Dublin Group on Finance and the Common Good*, a group of bankers, banking supervisors, financial economists and specialists in financial ethics to a consultation meeting, this time hosted by the Governor of the Central Bank of Malta. A full summary and the papers presented will be made available on the Foundation’s website www.centesimusannus.org.

1. THE CALL FROM POPE FRANCIS

The crisis context is still more urgent and tragic in 2016 due to the European refugee influx which is not an isolated problem, but forms part of a broader set of social problems we face in a post-secular society. In this context, with long term views postponed by the urgency of immediate needs, Pope Francis has “an emotional connection with people around the world, whether Catholic or not”; he was described as “the most prominent figure addressing issues that have dominated global debates since the financial crisis began”². This gives added audience to Catholic Social Teaching and

¹The Dublin Proposals on Finance and the Common Good, *Centesimus Annus pro Pontifice* Foundation, 2014.

²Worth magazine, 5 October 2015.

opens new possibilities of change, but the challenge remains: how are these calls to be implemented?

Pope Francis starts from an anthropology where primacy is given to the human person, and where money should not be idolized. These principles have universal value. He says that the market will not, by itself, succeed in bringing about greater justice and inclusiveness: in fact, economists know that choices concerning common goods cannot be solved by regulation or price, but only through a decision process based on ethics. The preferential option for the poor is essential to the Christian view, but not to foster a passive state of dependency on welfare; the Pope says that helping the poor financially “must always be a provisional solution in the face of pressing needs. The broader objective should always be to allow them a dignified life through work”³.

The Group was asked two sets of questions: *Does financial reform entail real change? For whom? And how?* and *Internally-driven Ethical Reconstruction: is it happening?* The third subject was an action-oriented idea: how to promote new Voluntary Solidarity Funds.

2. DOES FINANCIAL REFORM ENTAIL REAL CHANGE? FOR WHOM? BY WHOM? AND HOW?

No doubt, financial reform does entail real change and banks are in the middle of a resource-consuming implementation process. The financial sector is stronger. But there are also some unintended negative effects.

The two phases of the policy response were, first, stabilization by means of liquidity injections by the Central Banks and, second, strengthened regulation, unified supervision, resolution, data gathering and stress tests. Contrary to popular belief, the carnage wrought on bank valuations shows that

³*Laudato si'*, 128.

public money was used essentially to protect depositors, not shareholders. The system is now better capitalized and more solid. But is stabilization all that needs to be done? And must the policy response address only banks?

While successfully reaching their immediate aim, the stabilization plans however have left a legacy of problems: a possible risk of new asset bubbles, excessive bank holdings of public debt and an unsustainable overall debt mountain. Increased capital requirements are causing credit rationing and high spreads for low-grade borrowers (often SMEs). An increased weight of compliance risks is squeezing out smaller financial agents and bringing about more concentration. On a longer view, the hidden causes of the crisis, which made the system so vulnerable, still need to be addressed: they ask for a rethinking of the functions society requires of a good financial system and how resources should be allocated.

Conventional banks today are just one variety of financial agents. A large sector of unregulated lending is developing in the corporate world. The digital revolution, with the creation of an indefinite number of new means of payments and the increased knowledge of potential customers by financial institutions will pose a number of new regulatory and ethical questions.

The next steps in the reform process will probably lead to extend the supervision perimeter and set additional limits to some purely speculative activity. However, the problem is not so much to introduce more regulation, but better regulation. There might be a degree of *hubris* in believing that regulation is sufficient to reform the financial system. A good regulatory framework can be a complement, but never a substitute to a solid set of ethical values. There is a need to rethink regulation holistically in view of the aims and to find a balance between previous deregulation and present re-regulation.

The principles set in reform programs adopted by the G20 or the European Union are ambitious and truly intend to put

finance at the service of the economy, but the actual process does not yet meet all of these aims and there still is a big accountability gap. There being no “perfect” financial markets, the remaining problems of the past and the new problems posed by digitalization and an integrated approach to inclusive finance will need more than ever the construction of a financial professional ethos underlying a continued, permanent reform effort.

3. INTERNALLY-DRIVEN ETHICAL RECONSTRUCTION: IS IT HAPPENING?

Some large financial institutions are showing the way by committing publicly to responsible finance and stewardship. They organize intensive communication from the top about corporate ethics, as well as mechanisms allowing employees to report on inappropriate conduct of peers or managers. Employees are asked to explicitly adhere to the corporate Code of Conduct, translated in the different languages, in spite of strong linguistic and cultural differences. They also organize specially designed training programs on conduct risk management. It is essential that these cases of best ethical commitment are duly circulated in the business world.

Many institutions are also developing philanthropic programs geared at consumer financial education, non-profit and community led innovation, and support for the most financially excluded. A question is raised in this respect: are the social goals set for these programs best served by the corporations themselves, or by independently managed organisations? There may be a point for economies of scale and independent supervision in larger, professional solidarity organisations. A dialogue between corporations and charities should be developed in this context, where both can learn from each other.

Philanthropy should not prevent the ethical questioning from reaching the mainstream operation itself: some banks

have started to assess the economic value of products from the point of view of customers and systemic risk, thus addressing one of the traditional CST demands, that every business decision has an ethical dimension. For some products, it is feared that excessive complexity may impede such examination. Also, some financial institutions are introducing products that respond to the needs of the undeserved, unbanked and youth entering the mainstream, often informed by the work of non-profit and community organisations. Thus a proactive attitude is possible where inclusive finance becomes a business policy, not just a philanthropic plus.

As on other points, opinions on ethical reconstruction differ: for some the changes in corporate culture are more difficult, especially when recent management trends develop a mercenary soldiers' attitude in the ranks of business organisations. The high number of recent cases of financial misconduct and consequent sanctions show persistent ignorance of the *economics of ethics*: short term investment perspective with no ethics ends in shareholders' suffering. Ethical reconstruction also needs to be supported by education: there is a permanent need for reform in economic and financial teaching. Ethical literacy needs to be part of economic and business administration studies in an integrated way so as to make economic teaching closer to real world problems.

The re-regulation trend has developed the "ticking boxes" approach of ethics, which is the opposite from a true ethical construction. The ethical culture of an organisation must start from below, but example of accountability and social impact criteria must be given at the top, and it is urgent that contents issues, as opposed to formal matters, return to the boards. Management selection criteria need to include the capacity of ethical discernment. In financial matters, Churches are expected to be especially transparent and socially minded.

4. VOLUNTARY SOLIDARITY FUNDS (VSF)

In its previous document the Dublin Group proposed to promote Voluntary Solidarity Funds, rather than levies on financial turnover or capital. The Group continued discussing this idea with the aim of presenting a practical proposal to the *Centesimus Annus pro Pontifice* Foundation, to Church authorities, and to Christians world-wide.

In the Rapporteur's view⁴, recent IMF and OECD findings show that income inequality in developed countries is growing, hurting economic growth and squeezing the middle-class: previously attained levels of security in our societies are now under threat because of slower growth, young and middle-aged unemployment, and *socio-economic decay*. In the meantime, in spite of substantial progress in average income in different parts of the world, needs continue to be pressing for large parts of populations in Latin America, Africa and Asia. Sustainable solutions, as indicated by Pope Francis, require empowerment of the poor: "We must allow them to be dignified agents of their own destiny"⁵. Training for entrepreneurship, micro-credit and support for start-ups seem three ideal ways in this direction. The report proposes to focus specifically on the lower income category or families that are being dragged towards the brink of poverty. It should try to mobilize the vast amounts of liquidity now sitting idle, a "talent buried underground" which through the VSF initiative could be utilized to "make better fishermen".

One can observe an explosion of foundation giving, and the "warm glow effect" for very rich donors is every day in the news. But the idea is not so popular among relatively well-off Christians: solidarity still moves around traditional

⁴*Inequality and Growth, the Road Ahead. Setting up a Voluntary Solidarity Fund.* Report by Josef Bonnici, to be published on the CAPPF website.

⁵Meeting with Delegates to the UN General Assembly, Address by Pope Francis, September 2015.

charities, which rather focus on families in extreme poverty, and whose very important role one should never attempt to *cannibalize*. But there may be space for new funds aimed at entrepreneurship and the reintegration of the excluded, where average people regularly contribute a small part of their income, and where the use of funds and the evaluation of success is made totally transparent through independent evaluation.

The proposal was met by the Group with enthusiastic support and also with some *caveat* and suggestions:

- The best existing examples in this field are using loans, not gifts: confirmed micro- credit organizations show a very low level of bad debt. Very small credit, associated with professional and voluntary coaching can give extraordinary results in real life personal recoveries.
- Church money participation could have exemplary impact, but the new funds must be lay-led initiatives, with intensive professional involvement of experts and with highest accountability standards. They should develop separately from State structures, although the question of tax deductibility must be approached in different jurisdictions.
- The danger would be to duplicate existing efforts with a 'crowding out' effect. The new funds need to be clearly different from existing relief organizations. They should not be just a new asset class of social impact investment, although they could benefit from the discipline of market validation. In future, they could issue solidarity bonds, for which there is demand.
- There could be a wide range of national or regional funds coordinating into some sort of common structure. As a first step, however, it is recommended to start on a trial base, with a relatively limited universe of contributors and recipients. This will require extreme precision in the definition of aims, focus and methodology.

It is unlikely that any initiative of this kind will substantially change income distribution. But it is worthwhile to take the risk: a Voluntary Solidarity Fund, deeply rooted in Christian principles, may show that things can be conceived differently in the search for sustainable ways to escape from poverty: idle funds can be put to work and the needs of the poor, who lack access to bank credit, can be included in a more ambitious reform of the financial operation and legal framework.

5. ACTION POINTS AND FUTURE MEETINGS

- A task-force composed of members of the Group will discuss and submit a proposal on Voluntary Solidarity Funds to the *Centesimus Annus pro Pontifice* Board. The proposal will be discussed at CAPPF's international conference (May 12th-14th, 2016), during which a meeting with Pope Francis has been confirmed, as well as at the conference to be held jointly with Fordham University in New York City (September 23rd, 2016).
- It was suggested to prepare an intervention to submit to the European Commission and Central Banks on the question of facilitating inclusive finance and micro-credit as part of the financial reform program.
- The present full dedication of the banking sector to implementing new regulations should not prevent the sector and its industrial organizations from discussing about a new definition of the ideal balance between different functions (payments, intermediation, risk management) in a good financial system. This could be a subject for future meetings of the Group, which could then channel its findings through international organizations like the World Economic Forum and through national financial sector bodies.
- Another subject for future meetings is Digitalization, the new financial world and its emerging ethical problems.

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“DIGNIFIED AGENTS OF THEIR OWN DESTINY”
POPE FRANCIS’ CALL FOR ESCAPING POVERTY:
PRACTICAL EXAMPLES AND NEW PROPOSALS

HOSTED BY CAPP-USA AND FORDHAM UNIVERSITY
NEW YORK CITY – SEPTEMBER 22-23, 2016

Final report

BRIAN A. STRASSBURGER

“Economic and social exclusion is a complete denial of human fraternity and a grave offense against human rights and the environment. The poorest are those who suffer most from such offenses, for three serious reasons: they are cast off by society, forced to live off what is discarded and suffer unjustly from the abuse of the environment”.

“The number and complexity of the problems require that we possess technical instruments of verification... The simplest and best measure... will be effective, practical and immediate access, on the part of all, to essential material and spiritual goods”.

“To enable these real men and women to escape from extreme poverty, we must allow them to be dignified agents of their own destiny. Integral human development and the full exercise of human dignity cannot be imposed. They must be built up and allowed to unfold”.

POPE FRANCIS, *Meeting with the Members of the General Assembly of the United Nations Organization*, 25 September 2015

INTRODUCTION

On September 22-23, 2016, the conference titled **Pope Francis' Call for Escaping Poverty: Practical Examples and New Proposals** brought together Church prelates, international specialists, business professionals and academics to examine the definition and measurement of poverty and propose specific, practical efforts which help to operationalize Pope Francis' call that people "be dignified agents of their own destiny" (Pope Francis, *Meeting with the Members of the General Assembly of the United Nations Organization*, 25 September 2015). The Fondazione Centesimus Annus Pro Pontifice, with the help of Fordham University, organized the conference in the spirit of the foundation's initiative to help define and broadcast Catholic Social Teaching's implications on the structures of society and on the political, economic and social issues facing our world. To that end, the conference brought together practitioners and scholars to examine poverty from their varied professional and academic perspectives. The conference was organized according to the following outline:

1. Frame the issue of global poverty according to Pope Francis' position
2. Examine the definition and measurement of poverty
3. Propose specific, practical efforts to enable an escape from poverty

This report attempts to summarize the discussions and the conclusions reached in regard to this outline. It aims to fulfill the intention of the conference to provide "value added," that is, a practical and substantial contribution to international dialogue on the topic of poverty.

The conference included a sense of urgency: the international community has taken increased interest in the religious reality on the ground, including the significant role of religious organizations in fighting extreme poverty (Auza). Thus

the moment is opportune to analyze the current reality of global poverty in light of Catholic Social Teaching such that the Church might continue to be an active voice in enabling the poor to generate positive socioeconomic change in their lives. Inspired by the call of Pope Francis, participants in the conference advanced this work through their presentations and dialogue.

The global picture of extreme poverty is dire: we encounter a daily flow of information about poverty and war for millions across the globe. The urgency that this forces upon us can leave us unsure of the best way forward. Is it only about action? Are we impelled to bypass conversation in the interest of advancing concrete measures? Should we stop talking and just get to work? On the contrary, un-reflected action is not enough (Sugranyes Bickel). A rational, analytical approach to addressing extreme poverty is both possible and necessary. The problems faced by the world's poor are inherently complex and thus require slow analysis, even in the midst of urgency (Sugranyes Bickel). In *Evangelii Gaudium*, Pope Francis reminds us that "time is greater than space", a fundamental principle for progress (222). As he goes on to write, "this principle enables us to work slowly but surely without being obsessed with immediate results. It helps us patiently to endure difficult and adverse situations, or inevitable changes in our plans" (223). Thus patient and deliberate analysis remains a worthy and valuable effort, in fact indispensable. Accordingly, this conference was convoked to contribute critical analysis offered through the particular lens of Catholic Social Teaching. The indispensable role of critical analysis gives rise to a sense of optimism, which was encountered among participants in the conference in the belief that we were in fact engaging with all those who work to uncover solutions to the problems of global poverty.

1. FRAME THE ISSUE OF GLOBAL POVERTY ACCORDING TO POPE FRANCIS' POSITION

Pope Francis' efforts to denounce and combat poverty are one of the main priorities of his Pontificate. This was clear from the very beginning when, at his election, he chose the name of the saint of poverty, Francis of Assisi. Pope Francis has insisted on many occasions that he desires a Church that is poor and works for the poor (Parolin). He is constantly centered on the need to be taking care of brothers and sisters, especially those with the greatest needs (Auza). Pope Francis draws from the Gospel, which tells us that the compassionate care of others is the basis of our eternal judgment (cf. *Matthew* 25).

What are the causes of extreme poverty that we encounter in the world today? In the writings and speeches of Pope Francis, we can identify a series of root causes. We must begin with the causes in order to attack the issue of poverty, just as a doctor needs to diagnose an illness before prescribing medicine (Auza). The first root cause identified by Pope Francis is the globalization of indifference:

“To sustain a lifestyle which excludes others, or to sustain enthusiasm for that selfish ideal, a globalization of indifference has developed. Almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor, weeping for other people's pain, and feeling a need to help them, as though all this were someone else's responsibility and not our own” (FRANCIS, *Evangelii Gaudium*, 54).

Selfishness and indifference have reached global levels today. “How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?” (FRANCIS, *Evangelii Gaudium*, 53). As Christians, we cannot tolerate the globalization of indifference. This presents a real and present danger to all of us, especially those who live in places where it is hard to notice the poor around us, where we find ourselves in places of

abundance that are too comfortable. In response, Pope Francis calls for a spiritual renewal in which we repair our moral compass lest we end up anesthetized to the poverty around us (Auza).

The second root cause of global poverty lies in overconsumption and consumerism:

“We all know that it is not possible to sustain the present level of consumption in developed countries and wealthier sectors of society, where the habit of wasting and discarding has reached unprecedented levels. The exploitation of the planet has already exceeded acceptable limits and we still have not solved the problem of poverty” (FRANCIS, *Laudato Si'*, 27).

While “consumption” in general is normal and necessary to live, the production and consumption of more than what is needed exacerbates extreme poverty. We live in a world where 90% of resources are consumed by 10% of the world’s population; where 99% of wealth is in the hands of the richest 1% of the world’s population (Auza). In a world with wealth and resources so concentrated, the poor fall further and further behind. Alarming, the gap has been rapidly increasing, not closing (Auza). Such inequality corresponds with the pervasiveness of consumerism, in which we become dangerously engrossed in our own selfish desires, at the expense of the poor. “Whenever our interior life becomes caught up in its own interests and concerns, there is no longer room for others, no place for the poor” (FRANCIS, *Evangelii Gaudium*, 2).

The third root cause identified by Pope Francis is the idolatry of money: “We have created new idols. The worship of the golden calf (cf. *Ex* 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human person” (FRANCIS, *Evangelii Gaudium*, 55). The world has become focused on money, and we have “calmly accepted its dominion over ourselves and our societies” (55). This idolatry denies the primacy of the human person and reduces human beings to

mere consumers. The poor, lacking the resources to be major consumers, are overlooked and even discarded, thus denying their dignity as human beings.

Pope Francis' response to extreme poverty and its root causes is based on "integral human development", a concept first outlined by Paul VI in *Populorum Progressio*. Included in this term are four key ideas. The first is solidarity, which requires a culture of encounter that can serve as an antidote to the globalization of indifference. In an individualistic age, the ideas of solidarity and encounter are not always well received (Auza). This is where the poor have something to teach us. There exists a unique solidarity among those who suffer, among the poor, among those whom our society seems to have forgotten. Solidarity, as the poor experience it, often means thinking and acting with respect to community, not just as an individual. The poor thus teach us the true meaning of solidarity (Parolin).

The second key element of integral human development is the preferential option for the poor. This directive of the social doctrine of the Church consists of a "special form of primacy in the exercise of Christian charity, to which the whole tradition of the Church bears witness" (*Compendium of the Social Doctrine of the Church*, 182). This option "is implicit in our Christian faith in a God who became poor for us, so as to enrich us with his poverty" (BENEDICT XVI, *Address at the Inaugural Session of the Fifth General Conference of the Latin American and Caribbean Bishops*, 13 May 2007). The Church, in imitating God who became poor for us, is called to act in accordance with this preferential option for the poor that respects the dignity of every human person (Parolin).

The third key element of integral human development is access to basic human needs, often referred to by Pope Francis in his native Spanish as "the three T's", that is "*tierra, techo, trabajo*", which can be translated as land, housing and work. To live a dignified life, a person needs to have their basic minimum needs met. This includes a job, and land to live on

and a roof over his or her head (Auza). When poverty is identified with material destitution, namely the lack of basic needs like “the three T’s”, it offends the dignity of the human person created in the image of God (Parolin).

The fourth and final key element to integral human development is the building of an economy that serves rather than an economy that kills. While the Pope admires business and this important vocation, he is wary of “trickle down theories,” which are unconfirmed by facts (FRANCIS, *Evangelii Gaudium*, 54). Such theories express “a crude and naïve trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system. Meanwhile, the excluded are still waiting” (54). Those who have capital are able to increase their capital, and the poor who lack capital also lack the means of acquiring it. Many of the poor contribute to the economy through their labor, but do not benefit from this contribution. Economic progress alone is not enough for integral human development. Many are left behind.

The image that “high tide lifts all boats” fails to illustrate the reality. Instead, economic progress seems to lift the yachts, but leave the rickety ones unmoved (Auza). The economy thus needs to be transformed in a way that serves rather than kills, that respects the dignity of all people, and that benefits all people, including and especially the poor.

Through analyzing the writings and speeches of Pope Francis, we encounter these four key elements of integral human development: solidarity, the preferential option for the poor, “the three T’s”, and the building of an economy that serves. By working for integral human development in these ways, we can address the root causes of extreme poverty that Holy Father identifies: the globalization of indifference, overconsumption and consumerism, and the idolatry of money.

2. EXAMINE THE DEFINITION AND MEASUREMENT OF POVERTY

What is poverty and how do we measure it? The traditional international measurement for extreme poverty is based on income and usual defined as people who live on less than \$1 per day (adjusted for inflation). Statistics have shown that there has been great progress in reducing this number since the Millennium Development Goals began. The number in extreme poverty has been roughly halved from around 2 billion in the year 2000 to 1.2 billion by 2014: a goal that was reached before the 2015 target date (Auza). Of course, this depends heavily on the measurement of \$ 1 per day. If that number is increased, it can drastically change the resulting statistics that measure those who qualify. How well can we trust these statistics to accurately capture the global reality? With a global perspective, it is difficult not to question these optimistic results of poverty reduction as poverty continues to be prevalent and severe across the world. One challenge is trying to compare across countries, where wages vary greatly, but so do purchasing power and cost of living (Auza).

While there are ways to control for this variance, a remaining question is whether income serves as an adequate measurement tool. The lack of other resources, such as an adequate education or access to health care, also impacts a person's lived experience. Does income serve as an adequate proxy for other indicators? Today we have increased access to micro data, and the empirical findings reveal that income fails to capture all deprivations (Alkire). In Europe, for example, data was compiled measuring income poverty, material deprivation, and joblessness.

When they mapped these out, they found three independent circles like a Venn diagram. There was some overlap, but plenty of mismatches, which indicated that these indicators were capturing different people. Income was not a bell-weather indicator that served to proxy the rest (Alkire). Micro data has likewise shown that increasing income is not suffi-

cient to address other deprivations. Reducing income poverty does not inherently address issues like material deprivation, joblessness, health care access, and education. The trends do not go together: growth is important, but it is not sufficient (Alkire).

To properly define and measure poverty, we need to go to the experts: the poor themselves. We need to listen to their reality. What we measure has to match their experience (Alkire). “What tends to inflame the minds of suffering humanity cannot but be of immediate interest both to policy-making and to the diagnosis of justice” (AMARTYA SEN, *The Idea of Justice*, 2011). The World Bank’s “Voices of the Poor” and the “My World Survey” are a couple examples of efforts undertaken to ask people in poverty to articulate what poverty and its converse, wellbeing, mean to them. Common descriptions of poverty from such surveys reveal sentiments such as: the inability to think about the future, the scarcity of food, the constant need to wait for access to services, the fear of violence. When asked to articulate wellbeing and what would be necessary to flourish, the results yielded categories that clearly go beyond income. The needs include: material wellbeing (having enough food, assets, work); bodily wellbeing (health, appearance, physical environment); social wellbeing (being able to care for children, self-respect and dignity, good relations with family and community); security (civil peace, physically safe environment, personal security, lawfulness and access to justice, security in old age, confidence in the future); psychological wellbeing (peace of mind, happiness, harmony); and freedom of choice and action. These results, drawn from the lived experience of the experts, reveal with clarity that poverty is **multidimensional** (Alkire). This is not to say that income should be neglected, but rather that other dimensions must be evaluated alongside it. “Human lives are battered and diminished in all kinds of different ways” (Amartya Sen).

Along with being multidimensional, poverty also involves **overlapping deprivations**.

The poor do not just experience one particular deprivation: they experience many that overlap at the same time. This contributes to the complexity of poverty, and it makes programs in response more difficult as well (Alkire). For example, a well-funded health project might struggle to reach its desired cliental if people in need lack money for transport to arrive at the health center. The most cost-effective programs can only be developed when the interconnectedness of overlapping deprivations is better understood.

Furthermore, surveys to analyze poverty demonstrate the importance of freedom in choice and action, which underscore the value of dignified agency. The poor need to be seen and treated as agents, as people of leadership, creativity and skill (Alkire). This is fundamental to helping people to rise out of poverty. Recognizing the talents of the poor, Pope Francis has praised their creativity and expressed his belief that the future of humanity is to a great extent in their hands (Parolin). The poor possess the capacity to sow the seeds of transformation by peacefully combating the structural causes of poverty and inequality, unemployment, the lack of land and housing, and the denial of social and labor rights (Parolin). The poor cannot be relegated to mere passive recipients, but rather they must be entrusted and empowered as masters of their own destiny.

While income is inadequate as a measurement indicator for poverty, there are a number of reasons why such a measure remains valuable. First, from a political perspective, there is a desire for a single summary measure that can produce eye-catching headlines. Second, a good measure can increase the effectiveness of progress in combatting poverty. Third, it can offer incentives, allowing the celebration of progress towards a specific goal or objective. Lastly, in a world where micro data is more accessible and less costly, such a measure is feasible (Alkire). What, if not income, can we use to capture

the multidimensional nature of overlapping deprivations to capture poverty?

During the conference, two measures were discussed at length and will be elaborated here: the Multidimensional Poverty Index and the Fordham Francis Index.

A) *Multidimensional Poverty Index*

The Multidimensional Poverty Index (MPI) was developed by the Oxford Poverty and Human Development Initiative (OPHI). The OPHI developed both a global MPI that covers over 100 developing countries and a national MPI that is supplemented with different dimensions measured by locally appropriate indicators. In general, the MPI is intended to complement income-based poverty measures by capturing the deprivations people face with respect to three dimensions: health, education and living standards. It uses ten indicators across these three dimensions: *years of schooling* and *school attendance* for education; *child mortality* and *nutrition* for health; *electricity*, *sanitation*, *drinking water*, *cooking fuel*, *floor*, and *assets* for living standards. Each dimension is equally weighted, and each indicator within each dimension is equally weighted. A person is identified as multidimensionally poor if he or she is deprived in at least one third of the weighted indicators (Alkire).

The results of the global MPI found that across 102 countries, 1.6 billion people are multidimensionally poor, which is higher than the statistics for income poverty. The number of incidences and the intensity varied by country. In the poorest countries, each poor person is deprived in more ways, thus being deprived in more than one third of the weighted indicators. The results were complementary with income poverty, but there are multiple examples that indicate that the MPI does not necessarily overlap with income poverty and thus is capturing different populations. Looking at impoverished populations, the MPI functions as a high-resolution lens that

allows you to zoom in by country, region or indicator and see more (Alkire). The national MPI, for example, allows countries to look internally within regions and make comparisons. Further evaluation by indicator allows the creation of a profile of poverty within a given region or across a country as a whole.

Individual countries can then use the national MPI to create tailor-made policies. While international donors typically use income or conflict measures to allocate resources, national governments can use the MPI internally to inform geographic targeting of services based on local needs. A couple of examples can illustrate the impact that the MPI has had on informing policy decisions. In El Salvador, when the government listened to the voices of the poor, it brought attention to underappreciated aspects of their experience, in particular by placing a greater focus on the problem of violence. In Costa Rica, the MPI results have begun to directly impact where money is spent and invested based on which indicators, such as education, show the most acute needs. In Colombia, committed business leaders in the private sector have embraced the MPI as a management tool to drive their social enterprise (Alkire). The MPI does not explicitly provide policies that create change according to each indicator, nor does it illustrate which policies are more effective in situations of limited resources and limited timelines. Nonetheless, the MPI provides a means for tracking progress, which will help to evaluate the success and effectiveness of attempted policy interventions.

The MPI does not include any measure for gender, which results from the lack of availability of international data based on gender. There is interest in creating a gendered measure that would reveal empirically what can be seen anecdotally: women are more multidimensionally poor than men (Alkire). The MPI also lacks an indicator to measure spiritual or psychological deprivations. One difficulty in capturing this data is that it is usually self-reported, and a changing frame of reference can impact the results. The other challenge with

spiritual and psychological deprivations is the difficulty for policy makers in developing policies to address them (Alkire). While there remains room for growth, the MPI can serve as an important complement to income statistics and drive policy decisions. The goal of the MPI is not simply measuring poverty in a passive way, but uncovering useful ways to confront it on both the global and national levels.

B) *Fordham Francis Index*

The Fordham Francis Index (FFI) was developed by Fordham University's International Political Economy and Development Program. The FFI is a simple, broad, and innovative international poverty measurement tool derived from a set of primary indicators identified by Pope Francis during his 2015 address to the U.N. General Assembly:

“The simplest and best measure and indicator of the implementation of the new Agenda for development will be effective, practical and immediate access, on the part of all, to essential material and spiritual goods: housing, dignified and properly remunerated employment, adequate food and drinking water; religious freedom and, more generally, spiritual freedom and education” (Pope FRANCIS, 25 September 2015).

Drawing on the Holy Father's words, the FFI is simple because it is based on a small number of indicators (7) with easily accessible data. The seven indicators are organized based on the two broad categories of material wellbeing and spiritual wellbeing as outlined by Pope Francis. The primary indicators of basic material wellbeing are *water, food, housing* and *employment*. The primary indicators of basic spiritual wellbeing are *education, gender equity* and *religious freedom*. The simplicity of the FFI contrasts with the U.N. Sustainable Development Goals, which include roughly 250 indicators in 17 categories (Schwalbenberg). The FFI is purposefully simple as it is intended for local community groups rather than

complex organizations. Its objective is to empower local groups to take action themselves (Schwalbenberg). The FFI is a broad poverty measure because the chosen primary indicators are strongly correlated with a large number of key measures of both material and spiritual wellbeing. For example, the percentage of a population using an improved water source shows high correlation with maternal mortality rates, infant mortality rates, and access to sanitation (Schwalbenberg). The FFI is innovative and distinguishes itself from other standard poverty measures through its inclusion of spiritual wellbeing, in particular by including *religious freedom* as one of the indicators (Schwalbenberg).

Using its data, separate indexes were created for material wellbeing (MWI) and spiritual wellbeing (SWI) respectively. Countries with the most concerning material deprivations are found in south Asia and sub-Saharan Africa, while countries with more severe deprivations of spiritual wellbeing are more concentrated in Asia (Schwalbenberg). Combining the MWI and the SWI yields the composite Fordham Francis Index. Results for the FFI demonstrate its divergence with the U.N.'s Human Development Index (HDI). This variation between the FFI and the HDI primarily stems from the influence of spiritual wellbeing, particularly the inclusion of the *religious freedom* indicator, which again highlights the innovation of the FFI (Schwalbenberg).

Religious freedom is not a straightforward issue: it is complex and difficult. The FFI uses the *government restrictions index* from the Pew Research Center, which compiles 20 sub-indicators to measure how national and local governments restrict religion through means including force and coercion. The complexity of the issue dictates complex responses. The rise of religious pluralism presents challenges when the right to religion results in a conflict of rights (Mallon). For example, the rights of one religious group can, and have, impinged upon the rights of individuals, minorities and other religious groups. At times, individual religious groups have called on

the state to impose its power to repress minority positions (Mallon). ISIS provides a striking example. Although they are widely considered religiously and morally abhorrent by fellow Muslims, ISIS has been careful and deliberate in seeking theological justifications for their actions. To not take them as religious is to not take them seriously enough (Mallon). They purport to be exercising their religion as they understand it. At what point does their “freedom to exercise religion” end?

When properly expressed and protected, religious freedom offers the positive contributions of the moral reconstruction of a society and subsequently economic reconstruction. Religious freedom, best understood, creates an atmosphere of respect and cooperation with everyone’s participation, including those without religious convictions. A practical and realistic understanding of religious freedom should be directed at the goal of bringing together people of faith and people who do not ascribe to a faith in order that all might work together to build the common good (Mallon).

While not explicitly included in the material wellbeing index, child mortality correlates with the indicator for water. In the field of child mortality today, addressing this issue has broadened from mere survival to include analysis over how children can thrive as they grow and experience transformation in their lives (Carvajal). The principal goal remains ending preventable deaths among children, and significant progress has been achieved through the Millennium Development Goals. Yet work remains and child survival is still an urgent concern. Diarrhea, for example, remains one of the major killers of children, despite the fact that it is preventable (Carvajal). Expanding access to clean drinking water is a clear preventive measure to address diarrhea, thus illustrating the high correlation these indicators have.

Beyond basic survival, we need to enable children to thrive by ensuring their long-term health and wellbeing, which fits with the goals of the FFI. Under-nutrition and stunting both contribute to poverty in the lifespan of indi-

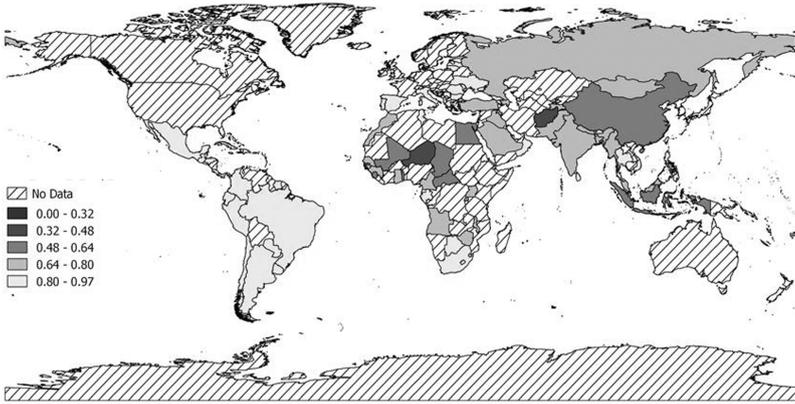


Figure 1.

**Map of the FFI scores across the globe.
Lower FFI score indicates higher levels of deprivation**

viduals. Thus the broader goals fit with other indicators like *food* in order to help end malnutrition, increase early childhood development, and increase universal health coverage (Carvajal). For children to survive and thrive, transformation is needed. This requires the creation of environments enabled to sustain change, rather than instances where quality of service is sacrificed for the sake of a “quick-fix” mentality (Carvajal).

This was the first iteration of the Fordham Francis Index¹, and future versions hope to improve on its weaknesses. Primarily, there is need to incorporate more independent measures of gender equity and basic housing. For gender equity, the FFI uses the *youth gender parity index*, which measures the ratio of female youth literacy rates to male youth literacy rates between the ages of 15 and 24. This indicator is too closely

¹A detailed description of the Fordham Francis Index is available on the “Publications” page of Fordham’s IPED website (http://www.fordham.edu/downloads/file/6681/fordham_francis_index_2016).

related to the measure used for education (*the adult literacy rate*). The FFI uses the measure of *access to improved sanitation facilities* as a suitable proxy for adequate housing. But this proxy measure correlates heavily with the indicator used for clean water (*the percentage of the population using an improved drinking water source*). Both of these indicators will be reevaluated in future research for the FFI. Additionally, a significant number of countries lacked complete data for all seven primary indicators and were therefore excluded from this iteration of the index. Yet even now, its contribution is evident in its simple, broad, and innovative design.

3. PROPOSE SPECIFIC, PRACTICAL EFFORTS TO ENABLE AN ESCAPE FROM POVERTY

What can be done to enable the poor to be “dignified agents of their own destiny” and escape from poverty? We will evaluate specific and practical efforts organized by two themes: inclusive finance and entrepreneurial responses and the relationship between violence and poverty. The organizers of this conference chose to focus on a few specific examples related to these themes, rather than discussing the whole question theoretically. Related topics, such as entrepreneurship in poor environments, have been explored through previous FCAPP conferences².

A) *Inclusive Finance and Entrepreneurial Responses*

Pope Francis has acknowledged and shown appreciation for the crucial role of business leaders in creating employment opportunities, thus providing opportunities for the poor (Parolin). In *Laudato Si'*, Francis quotes Pope Benedict XVI re-

²See: FCAPP's 2015 Statement and the report from the 2016 International Conference in Vatican City; available on the FCAPP website (<http://www.centessimusannus.org>).

garding how important it is that “we continue to prioritize the goal of access to steady employment for everyone” (*Caritas in Veritate*, 32). Francis goes on, “In order to continue providing employment, it is imperative to promote an economy which favors productive diversity and business creativity” (*Laudato Si'*, 129). Creative corporate initiatives are already at work combating poverty. Traditionally, ethical responsibilities were applied exclusively to the state and to nonprofits, but the reality today is that ethics are now applied to all institutions, including corporations and banks (Annibale). Shareholders have driven much of this shift. Clients are increasingly expecting more than just returns; they take the ethical responsibilities of corporate behavior more seriously, which is having a formative effect (Annibale).

In response to ethical responsibilities, corporations have principally responded with philanthropy projects. These projects play a significant role in supporting non-self-sustaining projects, especially projects that are relatively new and require support to get established, or those projects that, by their very nature, need heavy ongoing subsidies (Annibale). But philanthropic donations are not the only way that corporations are addressing their ethical responsibility to the community. Perhaps more creatively, institutions are using their business models to contribute to poverty reduction as well. Mission-related investing has led to the promotion of entrepreneurship, small business development, the construction of affordable housing, microfinance programs and the support of women’s groups (Annibale).

Furthermore, companies can leverage their role in finance to bring change by influencing industry behavior and even the market at large. Currently, most capital sits in big funds and banks, which is partly motivated by the need to manage risk (Annibale). But are there ways to share risk by working together across corporations and banks? Banking institutions, like development banks, are now taking more risks. Development finance is being leveraged on many sources instead of

just one as a way to mitigate risks (Almeida). This is a start, although there continues to be room for further development and advancement.

New dialogue between parties can challenge how projects are financed and who can get access to credit (Annibale). Trends in development finance, for example, are pushing the industry beyond traditional banks. Technology in particular is creating significant changes in how funding is being done. There is a movement away from banks towards hundreds of new platforms, including crowdfunding, which could reach populations traditionally overlooked or excluded (Almeida).

While we have witnessed a downward trend on global poverty, this has been accompanied by a worsening of inequality. Growing Gini coefficients indicate a widening of the gap in the distribution of income between the top income groups and the rest. This deterioration of income growth is coinciding with slower productivity growth (Bonnici). The top 1% now has between 15-25% of wealth, which has reversed a post-war trend. The lower 90% have experienced negative growth since 1972 (Bonnici). This is further evidence that the paradigm that “growth is a rising tide that lifts all boats” is not valid in the world today. Increasing income inequality, along with inequality in opportunity, education and access to health and social services, demands a moral response. This cannot be part of God’s plan (Bonnici).

In a wealthy world rife with inequality, the main bottleneck to promote development has not been finance (Almeida). Examples include the \$ 5 billion poured into Haiti since the 2010 earthquake, and the \$ 1 billion invested by the United States in the Northern Triangle of Central America to address sources of immigration (Almeida). In these cases, money has been available, but obstacles to development remain. If the problem is not the lack of development finance, what is it? We can identify multiple factors that contribute, including: lack of political will and coordination, ineffective

and biased interventions, and the lack of capacity for execution and innovation (Almeida).

In response to growing inequalities and the obstacles to successful development finance, we need to look for new innovations. One such mechanism to combat inequality is a Voluntary Solidarity Fund (VSF), which would be a way to bring together individuals and corporations who embrace the concept of solidarity (Bonnici). A VSF would receive contributions made by wealthy individuals and companies. These funds could then be financed out as interest-free loans, scholarships and training, and seed money for entrepreneurs. The success of VSF's would depend on networking at the local level to identify needs. Potential partnerships between small businesses and financial institutions could provide valuable assessment, managerial and mentoring expertise (Bonnici). The mission of a VSF would be to enhance the capacity of individuals to build their own human capital and to participate in society in a dignified way. It would provide an opportunity for financially secure individuals and corporate entities to meet their ethical obligation to help others through a well-governed structure that enhances the impact of the contributions (Bonnici).

In response to obstacles in development finance and in light of the social teaching of the Church, finance needs to be aligned at the service of integral human development. What really makes change is virtue: can we create institutions that are virtuous and make decisions based upon this foundation? This ideal could be accomplished by the development of Virtue-Based Development Finance (VSDF) institutions. A VBDF institution would face the challenges of generating an internal cultural based on virtues, along with generating enough incentives and safeguards in order to insert these virtues in the programs they manage and finance (Almeida). These challenges would need to be addressed through a number of means. Human resource management functions would need to be aligned with virtues, including recruiting people

with the right will and skill set. Programs seeking finance would need to be evaluated by these virtues, and their promotion and financial reward would be based on these criteria. This culture of VBDF could also be promoted externally by means of institutional operation, including knowledge sharing, institutional marketing and financed programs' propaganda (Almeida).

Sustainable change requires the participation of a diversity of parties. Businesses need to be agents of change within their business model and through their philanthropic efforts. The development of business models built for initiating change needs to be formed based on ethical responsibilities. Partnerships, such as ones between corporations and local community organizations, are invaluable for putting resources to their best use in a way that positively impacts the community. Along with corporations and banks, other groups that can use and invest their capital to initiate change include individuals with their personal or family savings, foundations, and university endowments (Annibale).

How can the Church play a role? Given the issues at hand, goodwill brokers are needed to address the problems and initiate change. Key factors for an institution to be a goodwill broker include credibility, proximity to beneficiaries and unbiased interventions (Almeida). The Church's institutional strength, creativity and knowledge lend to its credibility. The "culture of encounter" within the Church, particularly at the parish and community level, gives it close proximity to beneficiaries. Furthermore, the universality of the Church and its presence in nearly every country around the world reduce any suspected biases (Almeida). Thus the Church is suited to lead. Moreover, undertaking the role of goodwill broker to innovate development finance or address issues of inequality will serve as a means of evangelization for the Church.

Promoting Virtue-Based Development Finance or creating Voluntary Solidarity Funds would put the Church out front on the global stage as a goodwill broker working for change

and helping to empower people to escape from poverty through the inspiration of the Gospel and the guidance of Catholic Social Teaching.

B) *Violence and Poverty*

We cannot discuss the escape from poverty without addressing its relationship with violence. Poverty itself can contribute to violence or drive people to act out in violent ways. However it is typically the poor who are on the receiving end of violence (Borja). We witness in the world today a stark image of global violence. Wars and conflict rage across the planet, accompanied by the violence of everyday life. Such violence includes contemporary forms of slavery, sexual exploitation, domestic violence and the seizure of land. Moreover, billions of people live outside the regular protection of the rule of law and institutions of justice (Carozza). The challenge for humanity and for the Church is uncovering how to address issues of peace and justice. Any attempt to empower the poor to be “dignified agents of their own destiny” will be hampered or altogether prevented in the midst of violence and insecurity. Agency is trampled on by violence; in fact, violence makes agency meaningless (Carozza). There is a constant need for peaceful negotiation, especially in a way that engages people on the ground.

Mediation efforts that seek to resolve conflict situations cannot focus solely on ending hostilities. The world has experienced a recent evolution in conflicts. While conflicts used to be primarily inter-state in nature, the current trend is toward intra-state conflicts. Most victims in the conflicts of the world today are civilians (Michel). In this environment, a broader vision of comprehensive change in the political process must be developed and implemented. This vision must involve a number of components. Certainly, solutions cannot be made without the active participation of many strategic international parties, but people on the ground must be included

as well. Space must be provided for effected individuals to become active agents for peace and development (Michel). In fact, it is essential to continually verify the adequacy of assistance with the people on the ground who are being targeted by a particular plan or negotiation. Well-intentioned initiatives might be ineffective or a disservice to the people intended to be helped if caution is not exercised (Michel).

There are various measures that can be employed in negotiation and peace-building efforts that engage people on the ground. We can first look at particular parties that need to be involved. Civil society organizations need to be sought out through sustained contact and dialogue. In practice, such organizations have exhibited a great interest in discussing issues faced and ideas for how to approach solutions. The inclusion of women and mothers is particularly important in conflict resolution, which can be played out, for example, through the creation of advisory bodies comprised solely of women. From a legal standpoint, parties in negotiation efforts need to be consistently reminded of obligations to international laws and norms. From a business perspective, business organizations and entrepreneurs need to be encouraged and assisted in re-starting economic projects in the transition out of a situation of conflict. Media and journalists play an important role, and they need to cultivate a responsible media environment since truthful information is essential for the exercise of freedom by individuals. Religious communities can be a unifying factor for peace and should be included accordingly (Michel).

Structurally speaking, accountability is essential for negotiation and peace building. This can include the establishment of truth-telling or reconciliation mechanisms in a post-conflict environment, which need to be designed according to the particularities of a given conflict.

Victims need to be appropriately recognized as such for the sake of their dignity. Sanctions need to be evaluated more critically. Sanctions that do not impact regimes in power but

hurt the people on the ground should be lifted. Negotiators in a conflict need to focus on agreements that protect fundamental human rights. Conflict resolution likewise must address the pressing situation of refugees, including creating the conditions for safe return in a given country (Michel).

Our world today has witnessed a refugee crisis at historic levels. Without other means of protection in violent environments, many of the world's poor are resulting to flight. Displaced by violence, poverty is exacerbated by costs of flight, combined with psychological wounds. In countries with prolonged internal conflicts, many refugees are experiencing repeated displacements. Physical wounds that often result in the flight from violence are worsened by the limited access to medical resources for refugees (Borja). Lasting physical and/or mental health issues push refugees into perpetual traps that leave them on the bottom of the economic ladder. Many refugees become victims of kidnapping and ransoms, or subjects of human slavery. They typically face xenophobia in transit or at their destinations. Rather than being viewed as victims, refugees are instead perceived as dangerous or threatening (Borja).

There is no single easy solution to address the problems faced by refugees today. Two key methods for improving their life and future prospects are education and hospitality.

Education is a vital, life-saving intervention for refugees, especially youth. Education builds peace, empowers communities, jump-starts economic growth, and provides a path to a better future. Each additional year of education brings a 10% increase in expected income (Borja). In the long-term, education forms future community leaders. Yet among refugee children between the ages of 3-18, only 50% are enrolled in primary school, 25% in secondary school, and less than 1% in tertiary education (Borja). Greater efforts need to be undertaken to increase enrollment opportunities for refugee youth.

The hospitality demonstrated to refugees as they are received and integrated into new communities is essential to

their integral human development. Faith-based communities can and should play a valuable role in modeling hospitality (Borja). Hospitality requires recognition of the dignity of every refugee in a way that extends beyond material assistance and addresses the physical and emotional isolation of the refugee experience. As Christians, we are called to give a voice to refugees, to advocate on their behalf, and to be a companion following Jesus' example with the poor and outcast (Borja). It was telling that Pope Francis' first trip outside the Vatican was to visit Mediterranean refugees. His words to the U.S. Congress offer a guide to a true Christian hospitality toward refugees:

"We must not be taken aback by their numbers, but rather view them as persons, seeing their faces and listening to their stories, trying to respond as best we can to their situation. To respond in a way which is always humane, just and fraternal. We need to avoid a common temptation nowadays: to discard whatever proves troublesome. Let us remember the Golden Rule: 'Do unto other as you would have them do unto you'" (Pope FRANCIS, 24 September 2015).

We must heed these words in our response to the global refugee crisis. Refugees who flee violence and those who live under its constant threat must be treated with dignity. Their escape from poverty cannot function apart from efforts to bring an end to violence. Only in peace can one truly be free from poverty.

CONCLUSION

"It will be necessary above all to abandon a mentality in which the poor – as individuals and as peoples – are considered a burden, as irksome intruders trying to consume what others have produced. The poor ask for the right to share in enjoying material goods and to make good use of their capacity to work, thus creating a world that is more just and prosperous for all" (JOHN PAUL II, *Centesimus Annus*, 28).

We are called to participate in bringing an end to global poverty by empowering the poor to be “dignified agents of their own destiny”. According to the *Compendium of the Social Doctrine of the Church*, “development is not only an aspiration but a right that, like every right, implies a duty” (446). In fact, it implies two duties: to accomplish one’s own development and to help others in their own development (Parolin). We are all called to collaborate and cooperate together in solidarity to commit ourselves to the common good of all. To achieve the success desired requires the participation of individuals and organizations. *National governments* have the fundamental role of establishing the necessary conditions for every citizen to fulfill him or herself. Politics, accordingly, needs to regain a sense of vocation, a sense of love and responsibility in respecting the dignity of all persons (Parolin). *Corporations and business leaders* play a crucial role in creating employment opportunities, building ethical business models, and utilizing capital in a way that facilitates development. *Religious and faith-based organizations* have been intimately involved with lifting people out of material poverty, providing education, and modeling hospitality. The international community has recently become more attuned to the effectiveness of on-the-ground, grassroots movements of faith-based organizations (Auza). *The poor themselves* possess the talent and ability to implement creative alternatives in their efforts to provide labor, housing and land. The poor must continue to be empowered to participate in the process of bringing change on the national, regional, and global levels to the benefit of all peoples but especially those left behind (Parolin).

Moreover, the duty falls on *all people* to give the poor what is theirs by right and to ensure that the goods of creation are available for all. Just as the poor have the duty to work for their own growth and development, so too it falls on us – whether religious leaders, politicians, business people, academics, the Church faithful, or wealthy citizens – to help the

poor in their advancement (Parolin). Undertaking this duty fits with the goal of the Fondazione Centesimus Annus Pro Pontifice: to develop a strong, committed group of Catholic lay leaders to explain, develop and implement Catholic Social Teaching in the challenging world of today. Members of FCAPP across the world are called to understand and embrace the twofold duty to accomplish one's own development and to help others in their own development. In this sense, a conversion of our hearts towards the poor is needed (Parolin). "We are called to find Christ in them, to lend our voice to their cause, but also to be their friends, to listen to them, to speak for them and to embrace the mysterious wisdom which God wishes to share with us through them" (Pope FRANCIS, *Evangelii Gaudium*, 198).

This conference was conducted in the spirit of FCAPP and informed by the wisdom of the social teaching of the Church. This conference and the discussion that it initiated are intended as a starting point. Now it must be advanced and further communicated in the public square in order to create a movement of opinion and to initiate change. Let us close by reflecting on a valuable reminder from the papal conclave in 2013. During the final vote, as it was becoming clear that Pope Francis was going to be elected, a friend sitting at his side tugged at his sleeve and offered him a piece of advice. Let us hope and pray that each participant in the conference and every member of FCAPP, like Pope Francis, will feel such a tug on the sleeve and hear the very same words of advice: do not forget the poor.

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