

# ***Deleveraging and Structural Reforms: towards an ethical refoundation of finance***

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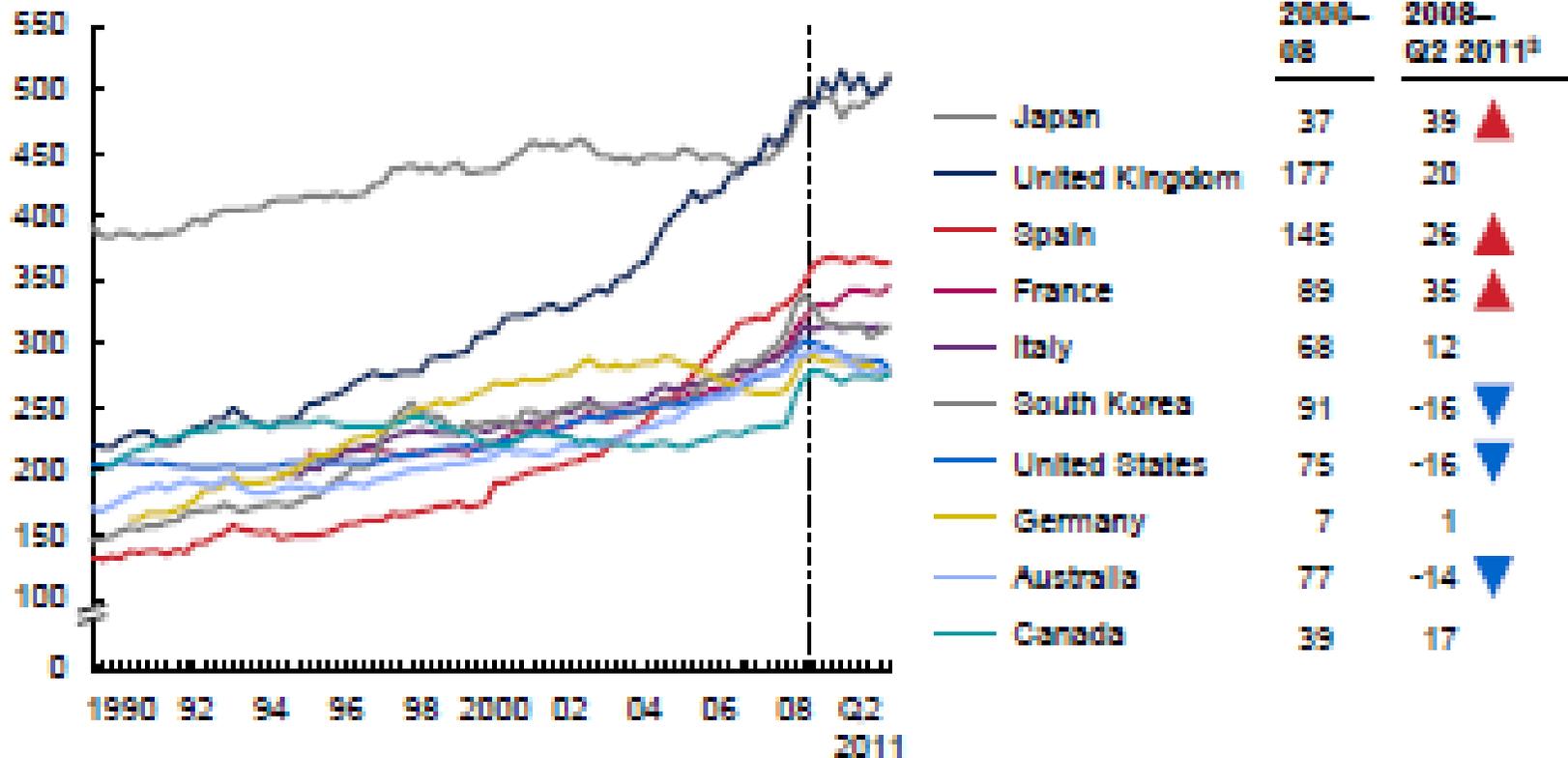
# Summary

1. Where we stand
2. How to alleviate the credit crunch
3. On-going reforms
4. The way forward
  - a) subsidiarity
  - b) supranational and global governance
  - c) new players in finance
  - d) new tools: the importance of business ethics

## Exhibit 1

### Deleveraging has only just begun in the ten largest developed economies

Total debt,<sup>1</sup> 1990–Q2 2011  
% of GDP



1 Includes all loans and fixed-income securities of households, corporations, financial institutions, and government.

2 Defined as an increase of 25 percentage points or more.

3 Or latest available.

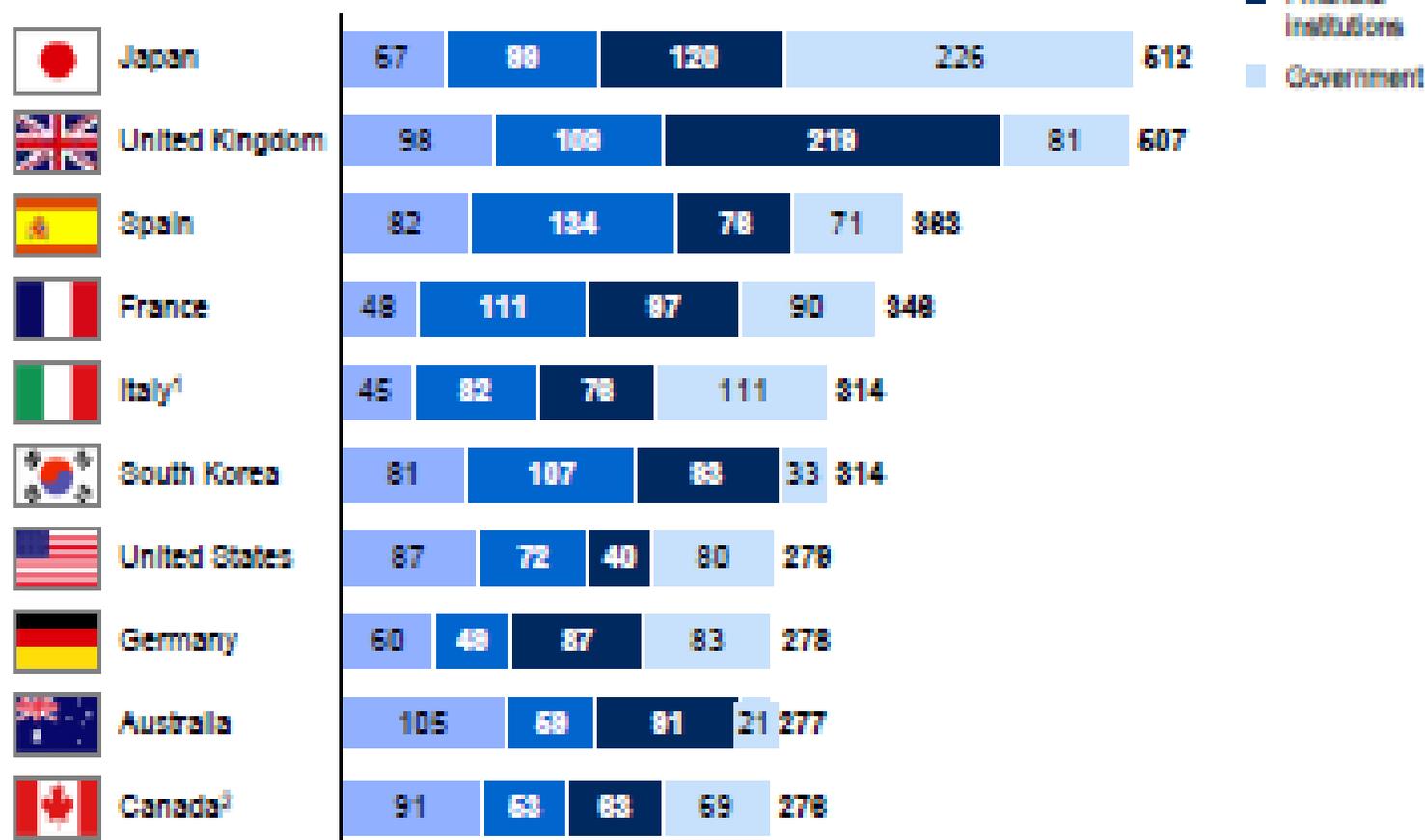
SOURCE: Haver Analytics; national central banks; McKinsey Global Institute

## Exhibit 2

### The composition of debt varies widely across countries

Total debt of ten largest mature economies, Q2 2011

% of GDP



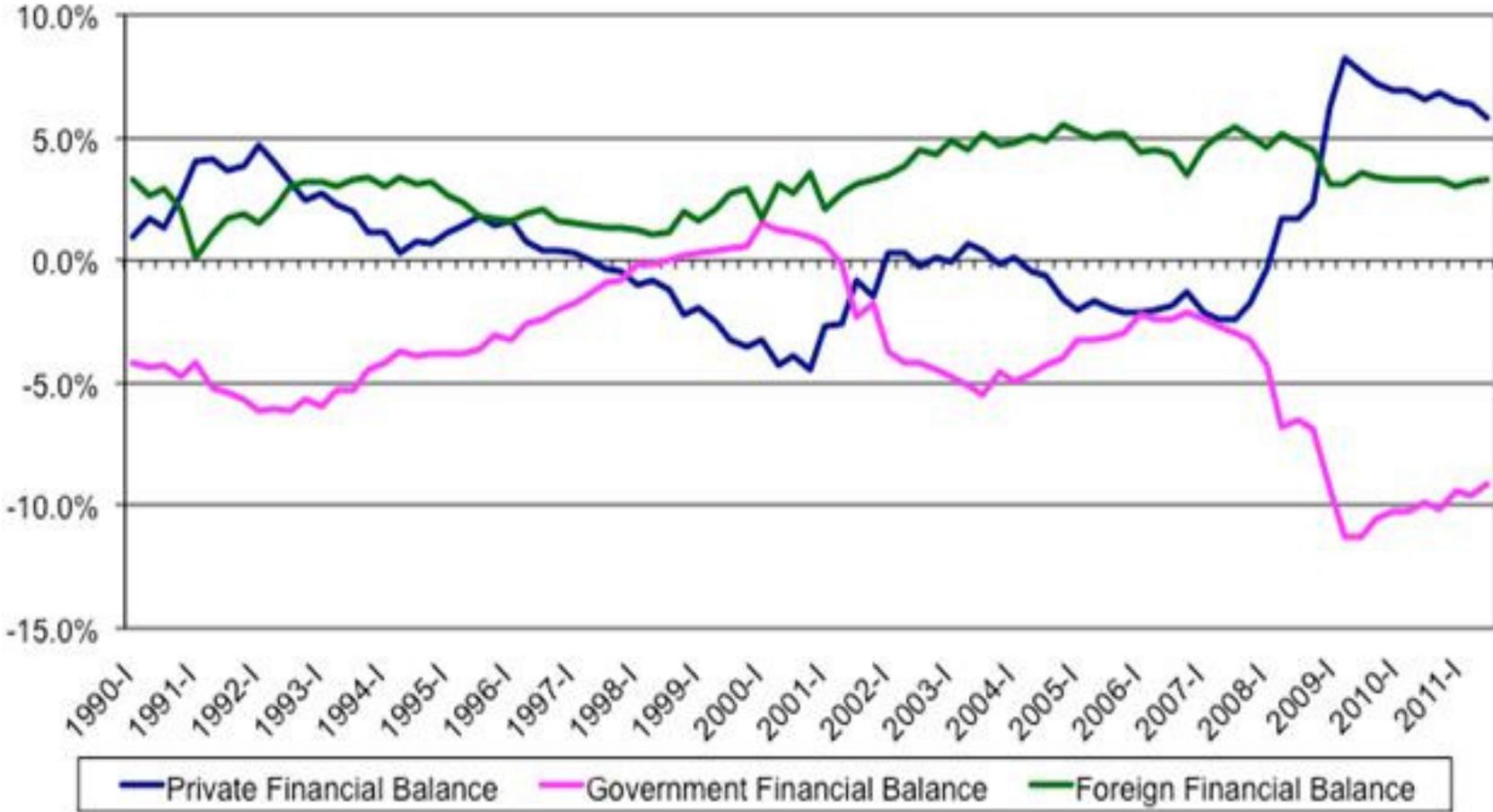
1 Q1 2011 data.

2 According to Canada's national accounts, "household" sector includes nonfinancial, non-corporate business.

NOTE: Numbers may not sum due to rounding.

SOURCE: Haver Analytics; national central banks; McKinsey Global Institute

# FINANCIAL BALANCES IN THE US ECONOMY, SINCE 1990 (per cent of GDP)



# Have we learned the lesson?

- The etiology of the financial crisis
- “real economy”, financial and governance factors
- The break-down of trust
- The ethics of finance

## 2. How to alleviate the credit crunch: from stopgaps to structural reforms

- The conceptual framework: act either on alternative sources of funding or on the capital base

2.1 Public interventions: public funding of ailing banks; nationalizations; public guarantee funds;  
Monetary policies: QE, OMT

2.2 Recapitalizations, increase in savings, change in asset allocation (e.g. from real estate to private equity)

### 3. On-going reforms: strengthen the non-banking source of financing for SME and infrastructure

- Main sources of financing:
  - Bank loans
  - Bonds
  - Equity
  - Grants
  - Other (leasing, factoring, crowd-funding, PPPs)

### 3. On-going reforms: strengthen the non-banking source of financing for SME and infrastructure

- In EU 80% of financing come from bank loans, in the US only 20%: need for financial market reform in EU and emerging market economies
- Improve transparency liquidity and regulation of securitized products and credit funds (shadow banking)
- Mini-bonds, private equity, securitization of SME loans
- Long-Term investments: project bonds, LT investment funds, PPPs

## 4. The way forward

### 4.1 New forms of collaboration/division of labour between the State and the individual, the public and the private sector

- New welfare: public-private protection system
- Risk-taking and financing of last resort
- Guarantee schemes
- Tax incentives
- Regulations and supervision
- Risk and uncertainty (market failures)
- The ethics of responsibility: the role of leaders

# 4. The way forward

## 4.2 Governance

- The EU Banking Union: a challenging project with global relevance
- The G-20 commitments and their implementations
- T-TIP: a common transatlantic financial area?
- The increasing role of NGOs, business associations, new media and social networks, religious groups, civil society
- Glocal: local government and communities
- The international organizations: the UN, the Bretton Woods institutions

# 4. The way forward

## 4.3 New players in finance

- Pension funds and other institutional investors
- Private equity and venture capital
- Micro-credit and micro-insurance
- Small banks, cooperatives, mutuals
- Promoters, advisors, agents, brokers: the distribution claims
- Reverse mortgages, real estate and poverty (Desoto)

## 4. The way forward

### 4.4 New tools of financial performance: from a top-down to a bottom-up approach

#### Top-down:

Legislation  
Regulation  
Supervision

#### Bottom-up:

Education and  
training  
Business ethics

# Areas where investing in ethics is essential and urgent

- Leadership and management practises
- Human and social capital
- Corporate governance and corporate identity
- Compliance and control systems
- Compensation
- Corporate social responsibility
- The UN Principles of responsible investment and sustainable insurance
- Sustainability and the green economy
- Equal opportunities and gender balance
- Helping the poor and underprivileged
- Reputation and public confidence in finance
- Anti-corruption and money laundering

## The fundamental role of the Catholic Church