

REFORMING THE INTERNATIONAL FINANCIAL SYSTEMS

PREFACE

Joe Inguanez

When the document *Towards Reforming The International Financial And Monetary Systems In The Context Of Global Public Authority*¹ was issued I was enthused by the ideas it contained. I immediately contacted Mr Joseph F.X.Zahra, the Chairman of the *Fondazione Centesimus Annus Pro Pontifice* (Malta) to ask whether this Foundation and DISCERN could join forces to organise a public discussion on this document. Mr Zahra immediately agreed and did his best to set up top-rate panel, consisting of Mr Michael Bonello, Mr John Cassar White, Mr Joe Vella Bonnici and Mr Lawrence Zammit.

It is extremely encouraging that the Holy See was amongst the first international institutions to issue a statement on this extremely important issue which is effecting the livelihood of millions in different nations.

The Holy See's Document consists of a premise, four sections and a conclusion. The four sections are devoted the following related themes, namely,

- a. Economic Development and Inequalities
- b. The Role of Technology and the Ethical Challenge
- c. An Authority over Globalization
- d. Towards Reforming the International Financial and Monetary Systems in a way that Responds to the Needs of all Peoples

In this small publication, we are presenting the four papers read during this meeting and an introduction by Mr Zahra. However, there are few points which I would like to make by way of an overview.

¹ *Pontifical Council for Justice and Peace*, "Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority", October 24, 2011.

This document's perspectives intersect with other viewpoints of people both within and others outside the Catholic Church. Since this crisis has had an huge effect on both human dignity and the common good, the Church's perspective can act as a catalyst among responsible and free people of good will to aim and possibly reach the their highest aspirations. As Cardinal Turkson puts it in the Preface of this document, this economic and financial crisis "summons everyone, as individuals and peoples, to examine in depth the principles and the cultural and moral values that underlie social coexistence". Furthermore, this crisis has engaged private actors and competent public authorities on the national, regional and international level in serious reflection on causes and possible solutions of a political, economic and technical nature. In my view, for us Christians, this crisis should be "a sign of the times" and we should both individually and collectively take the opportunity for to search for a vision of a better the future.

Another point which I want to make is motivated by the name given to this document which makes it clear that it aims a reform radical – which a number of people view as rather utopian - of global governance through the setting up of a "global public authority". My view is that the proposal is radical rather than utopian. Thus a few words on the third theme of the document: An Authority over Globalization. It is a quite disappointing that that world leader have been speaking of a "new world order" without acting on any radical changes. In my view, there can be nothing "new", if one excludes elements of radicality. Continuity should never be opposed to novelty.

The proposal itself of having a "global public authority" scares several people. Some seem to think that this proposal ignore or at least endangers one of the major principles of social order which the Catholic Church had always strenuously defended, namely the principle of subsidiarity. However, one should keep in mind that the Church has never enunciated this principle in isolation. On the contrary the Church has always spoken of three concomitant principles of social order which should balance one another for the achievement of good life and human fulfilment, namely, the principle of solidarity, the principle of subsidiarity and the principle of common good.

It is highly questionable whether in contemporary age one can speak anymore of absolute sovereignty – all States have limited sovereignty and consequently limited jurisdiction. One might even question whether the notion of the State as a perfect society, in the sense that it has at its disposal all means for its perfection, is still tenable. Sovereign rights are limited as can be seen by the fact that sovereign debts have become internationalised... at least in their consequences.

Besides this we already have a number of supra-national jurisdictions. The sanctions imposed by the Security Council of the U.N. – although de facto they can sometimes be ignored – have very wide-ranging effects. Examples of a supra-national authority include the War Crimes Tribunal (as far as the signatories of the treaty are concerned) and, for all the members of the Council of Europe, the European Court of Human Rights.

These Institutions can serve as a paradigm for the creation of an international jurisdiction based on a new concept of sovereignty - which I believe is de facto, if not de iure - already in existence. Then the creation of a global authority in economic and financial matters is possible without sacrificing the principle of subsidiarity and in line with the principles of solidarity and common good.

INTRODUCTION

Joseph F.X. Zahra

Discern and the Malta group of the *Fondazione Centesimus Annus Pro Pontifice* thought it was more than opportune to organise a Roundtable Conference at Palazzo de Piro, Mdina on the Pontifical Council for Justice and Peace document “Towards Reforming the International Financial and Monetary Systems in the context of a Global Public Authority” published in October 2011. The time could not be better in January 2012 to analyse, interpret and debate a paper which is forthright, frank, direct and controversial.

Discern is the Institute for Research on the Signs of the Times and it aims to promote research and formation to scrutinise the signs of the moment and interpret them in the light of the Gospel. It has pioneered such discussion in Malta and has always taken a leading role in involving believers and non-believers in a rational but inspired debate on matters of concern.

Fondazione Centesimus Annus Pro Pontifice, a Vatican based foundation, aims to disseminate the social thinking of the Church in various communities and to involve economists and other professionals in discussing the Church’s social doctrine and to form think tanks that evaluate and interpret social and economic events in the light of the Catholic faith. The Malta group formed in 2008 organised a well-attended conference on Pope Benedict XVI’s encyclical “*Caritas in Veritate*” in 2009 with the participation of the Prime Minister of Malta, Dr Lawrence Gonzi and the Leader of the Opposition, Dr. Joseph Muscat. The conference was aimed at soliciting the views of Malta’s two largest political parties on the ideas of Pope Benedict XVI as presented in his encyclical published only a few months after the outbreak of the deepest global economic and financial crisis.

This Roundtable on the Pontifical Council paper brought together four foremost Maltese economists hailing from different economic thinking positions, and with different political views. I will be summarising here the principle thesis of their papers, the ensuing debate and the replies to the questions put to the speakers. It was a lively

meeting with more than eighty delegates listening and participating by asking questions and expressing opinions.

Lawrence Zammit who was the first economist to speak seemed to take a cue from this introduction in stating that while we have globalised the economy and the financial markets, we have not globalised public authorities. "Politics is still confined to the nation state and the parochial interests of the nation state." The point made is that the political thinking and structures are still modelled on an "international" economy and trade, with "transactions in trade" being predominant in nation to nation relationships, while a "globalised" economy is more intricate and complex, as with new relationships it becomes difficult to identify the nationality of companies, their ownership, and their super-national business models become difficult to regulate. Zammit further highlights the fast growth over the last decades in capital markets and its detachment from the real economy. Two global flows have been created – one being monetary but autonomous of its transactional value, "money for money's sake" (the growth of hedge funds, creative financial assets), and the other being real and productive, which became secondary in importance – the flow of products from emerging markets to the developed Western world and its implications on social structures and realities. Zammit points out that wealth is not an objective *per se*, but an enabler to real economic growth and social development.

Zammit outlines an evolutionary approach to economic history – from barter between individuals, to that between tribes and communities, to city-states and nation states. Adaptability to a new order is necessary as much as a globalisation in business and finances has to make way for globalisation in authority, responsibility and accountability. This is probably the biggest challenge.

Joe Vella Bonnici describes the document as visionary and brave and that the Council is not afraid "to challenge conventional wisdom and to endorse solutions which threaten existing powers and vested interests". He interprets the prevailing economic crisis as a vindication of the risk of "blind faith and legitimacy of capitalism". Vella Bonnici is critical of the fact that economic growth has become dependent on a particular consumption, "much of which is needless". The point being put forward here is that economic development is being detached from the basic human needs and that new

poverty is being created by the widening gap between people's aspirations and their abilities to realise them.

Vella Bonnici insists that economies exist to serve society and not the other way round. This has been the *leitmotif* throughout the conference as well as that growth in financial services was not being reflected in the real economy. Bubbles were being blown ...in technology, property, financial products, out of proportion to their multiplier in the real economy. The wealthy became wealthier, the poor becoming poorer. Besides, wastefulness and neglect of the environment has serious consequences on humanity. For far too long commercial decisions and the free market mechanism seemed not to take these fundamental matters into consideration. The Holy See paper is rightly concerned about inequalities and stagnating living standards for the middle classes in Western economies, and the false promises being made by consumerism in the emerging markets. This creates an opportunity, says Vella Bonnici, for a call to re-examine the principles and moral values at the basis of social existence.

The next speaker was John Cassar White who began his address by giving a picture of the reactions to the document by learned economists and commentators. On one hand, a great deal of criticism was aimed at the superficiality of the document and its recommendations. This criticism cites the high level commentary of the document and that this is not supported by facts and figures. On the other hand, others criticised the document for being "too technical" and for going into specific solutions when it could have stopped short in giving remedies. The major weakness of the document according to the latter critics is the fact that the authors have given such "specific" and "technical" recommendations which in such a short document seem incongruent and farfetched. Two views which are contradictory, and which prove the incompleteness of the document according to Cassar White.

The speaker's thesis in his paper highlights the social dimension of the Paper. His first point is that the economic crisis is likely to accentuate the inequalities between the rich and the poor in the world. Secondly, Cassar White says that there is the need to "humanize" the global economy, where the needs of the person are given priority over

the interests of countries that are taking a financial and economic advantage of globalisation.

The Vatican document creates an opportunity to administrators and corporate leaders to think about the social implications created by the world's economic situation, especially in its spread of social deprivation and poverty. The objective therefore is that of provoking and challenging policy makers to come up with remedial action. The controversy sparked by the document can therefore be beneficial in further raising the matter of poverty on the global agenda.

Cassar White however made another important point. The Church has a big responsibility in leading by example in this remedial process by means of marking the way forward in words backed by action to lift the state of persons living below or on the poverty line, be they in developed, developing or under developed economies. The Church needs to be seen that it is getting closer to the suffering people in these countries. Much is being done by Church institutions in this direction, but these are mostly church groups in the periphery of the established structures. In Cassar White's opinion it is now the time for the Vatican and its established institutions that need to get closer to the sentiments of the people.

Michael Bonello was the last speaker during the Roundtable. The document, he says, gives a veritable analysis of the events that have led to the current situation. This part is factual and historically correct. The document is however less convincing when it comes to its policy prescriptions.

His observations centre around three major themes: the unprecedented and unregulated growth of the financial sector, the non-triggered solidarity principle upon which international institutions were originally founded for, and the failure of decision making because of faltered ethical preparation of economic agents (companies, consumers and governments).

Bonello states that governments have been (and are still today) being held hostage by financial markets to the point that their policies and even their tenure are being subject

to decisions being taken outside the accepted and established legislative, executive and judiciary governance structures , and consequently these are decisions be taken by non-elected and sometimes obscure quarters. The financial sector grew to be too big to be properly regulated, and that creative and innovative financial products are still today too complex to have their risk profile understood or controlled by the regulators.

The speaker than turned to one fundamental principle upon which the European Community was founded – solidarity. Bonello comments that European leaders have gone much further beyond paying lip service to solidarity. The principle was supposed to mean that the strong must help the weak, not only because this is one of the fundamental values upon which the European Union is built, but also because it is in their own interest to do so. Bonello therefore registers the failure of the European Community and the United Nations to deliver according to the objectives of their charters – a lack of willingness to show and apply solidarity.

The vision of a super-national political authority proposed by the document is considered as utopian by Bonello. He has faith however in the G20 which he believes has already set in motion a number of concrete reform initiatives in the field of financial and economic governance on an international level. In the opinion of the other members of the panel, this has still to be seen.

Bonello's prescription for the future lies primarily in the restoration of ethics in politics, governments, consumers, producers and providers of service and financial institutions. This implies that the role of the state needs to be reappraised in having as its major goal that to ensure an equitable distribution of resources within the context of balanced budgets.

On the intergovernmental level, Bonello clamours for the implementation of the many initiatives launched recently in different fora including the recapitalisation of banks with public funds on condition that the banks concerned extend credit to the productive economy, and that investment banking is separated from retail banking. An early implementation of these initiatives would militate against the risks of having the financial turmoil spreading to other economies.

The debate that followed these presentations manifested that in the opinion of both the economist speakers and the audience, there is no alternative to the market mechanism in economic development and that central planning had failed miserably in the decades during which it was applied. Socialism did not resolve the issue of wealth distribution and it created more serious problems with personal freedom and human rights. Capitalism however has the ability to destroy itself if it is not inspired by morals and values. Commercial activity should be directed towards the Common Good – this being the main aspiration of human activity as described in both the encyclicals *Centesimus Annus* (1993) and *Caritas in Veritate* (2009).

This fundamental basis for human and economic activity is therefore subject to a paradigm shift in the understanding and application of a value system that can only be formed by the family, education and the media. This sphere of influence and inspiration is a much wider than what has been presented and discussed during the Roundtable, and it is much more complex. A description of a vicious circle the results of which have culminated in the crisis we are going through today. The deterioration in values has destroyed the family. This deterioration is the result of the state of affairs in the media, which propagated the wrong images and role models (the celebrity's culture), consumerism (beyond the basic needs, epitomised by "how many mobile phones do you have?"). Our educators are the product of this culture, and our educational system has marginalised the teaching of civility and religion. Young people are entering the labour market without being prepared for discernment, and these becoming the decision makers in politics, governments, business and banks. Economic development is being measured by what you have (house, swimming pool, smart phone, fast car etc) rather than what you are... a person who is honest and full of integrity, who fulfils himself in his work, and who decides while keeping in mind the good of his community. How can this vicious circle be changed into a virtuous circle. This is the significance of a paradigm shift – with the radicality that has been asked for by the document.

The conference confirms the pretext that wealth needs to be created before distributed, and that both normative and positive economics does not resolve the issue of income distribution and therefore inequality. Wealth is not neutral, and it can be used both for

the good and for bad. Wealth is a means to an end. Virtuosity in discernment influences how wealth is created and how it is used.

In conclusion, the conference highlighted a few other significant points. First that any debate on an intergovernmental level cannot just seek a trade-off between “austerity” and “growth” in government policies and strategy, but it should consider in its top most priority on its agenda, the application of “solidarity”. This translates into solidarity between nations and between social groups. If solidarity between peoples is not taken into account, austerity and growth programmes become self defeating and the economic crisis will spread and take catastrophic proportions.

Also in this context, we see the emergence of civil society. The traditional model of government and governed, has now changed into one of government, civil society (non-government) and persons. Governments will be re-proportioned in society where civil society is clamouring for more space on the decision making table. And this is happening as leaders in politics are seen as failures.

Much therefore depends on leadership skills and qualities. Predominately we can no longer have our leaders in government and business be and be seen as manipulators and speculators, but a new generation of leaders have to be morally prepared and assertive in their guidance, decision making and persuasion. It is no coincidence that the consequential document published by the Pontifical Council for Justice and Peace is entitled the “Vocation of the Business Leader” (February 2012). Leadership is a call to engage in the contemporary economic and financial world in the light of the principles of human dignity and the common good. This underlies the principle of “meeting the needs of the world” with goods that are “truly good” and which “truly serve” without forgetting in a spirit of solidarity the needs of the poor and the vulnerable.

The Vatican proposals to address the global financial crisis

by John Cassar White

The Vatican's document 'Towards reforming the international financial and monetary system in the context of global public authority' is a welcome contribution to the important debate on what needs to be done to ensure that the world exits this most serious economic and financial crisis in the last seventy years. But what chances do these proposals have to really resolve this crisis?

In brief, the proposals outlined in this document released on the 24th October 2011 by the Pontifical Council for Justice and Peace on the Global Economy include overhauling the world's financial systems, establishing a global authority to manage the economy and creating a 'world reserve fund' to support poor countries.

After citing teachings of popes over the last 40 years on the need for a universal public authority that would go beyond national interests, the document concludes that the current economic crisis is likely to increase the inequality between the rich and poor in the world. It concludes that the time is right to take concrete steps towards the creation of a central authority that is motivated by moral rectitude rather than monetary gain.

This global authority would take the form of what some commentators called a 'central world bank' that would regulate the flow of monetary exchanges, in a context where, according to this document, the International Monetary Fund has lost the ability to control the amount of credit risk taken on by the system.

The document is also quite specific on other proposals:

It agrees with taxation measures on financial transactions where the proceeds of such tax revenue could be used to create a 'world reserve fund' to support the economies of countries hit by the economic crisis.

It also supports the recapitalisation of banks with public funds that make support conditional on 'virtuous' behaviour aimed at developing the real economy.

Another proposal is that the management of financial markets should be made more effective through tighter regulation as, according to the Vatican document, this market remains largely uncontrolled today.

The perceived benefits, if these proposals were to be taken up, would be the humanisation of the global economy where the needs of the person are given priority over the 'interests of countries that effectively enjoy a position of economic and financial advantage'.

The document labels the current model of nationalistic self-interest adopted by many countries as 'anachronistic and surreal in the age of globalisation'. However, it must be said that the document does not condemn globalisation; even it notes its limitations in bridging the gap between the rich and the poor.

So let us look at the merits of these proposals to see whether they are likely to address effectively the current global economic crisis.

The Vatican document states that: 'In a world on its way to rapid globalisation, the reference to a world authority becomes the only horizon compatible with the new realities of our time and the needs of humankind.' So the main theme that characterises this document is that it is the duty of every Christian to help usher in this new society.

No one can criticise the document for indulging in nuances where the authors' real intentions are purposely obscure and subject to interpretation. The concrete economic proposals made in this document are clear enough to stand the scrutiny of political and economic analysis.

However, I agree with those who commented that this Vatican document, while warning against the error of trying to find solutions that are primarily of a technical nature, ends

up offering highly technical solutions in the form of the setting up of a 'central world bank' and a new 'global economic authority' to oversee relations between nations and regulate the flow of international monetary exchanges.

Kishore Jayablan who used to work for the Pontifical Council for Justice and Peace and who now runs the Rome office of the Michigan-based Acton Institute, which studies the relation between economics and theology is quoted by the Canadian financial magazine the National Post as saying:

This document is schizophrenic. The Church has always taught that the problems are best solved at the lowest level so this is a strange remedy. This doesn't even feel like a Catholic document. I think the first question anybody who knows anything about economics would ask is, 'On what basis would you think a global authority would work better than a national authority? The scope and scale of the global economy is so large that it can't be managed. It can only be regulated at much more local level where you would have some control.

I have some sympathy for this reasoning. I believe that while the Church was always right in rallying public opinion against economic injustices by appealing to morality and conscience, in this document it goes into a level of detail that perhaps goes too far. I am referring in particular to the proposals on taxing global financial transactions and subsidising banks to increase their capital on condition that they adopt virtuous behaviour practices.

But there are also other more positive reactions to this document. More conservative Catholic academics, like William Doyle, associate professor of economics at the University of Dallas, said that the Vatican's thoughts on a global economic authority and a world central bank make perfect sense, given the reality of the time we live in. What he fails to discuss is the practicalities of the implementation of such a solution.

There are many who argue that it was the centralisation of money and credit combined with centralisation of political authority that caused the current financial problem. So why would more centralisation be the answer?

As Father Oliver Williams, an associate professor of management at the University of Notre Dame in Terre Haute, Indiana said: 'the Vatican document is meant to force readers into thinking about the world's economic problems, especially that of extreme poverty. The goal is to be provocative and challenge people to come up with suggestions of their own.'

I fear that the authors of this document may have demonstrated a loose grasp of political and economic practicalities, as well as the limits and dangers of international solutions.

Aren't we all sadly aware on how political leaders in the EU have been squabbling for over two years trying to come up with a credible solution to the eurozone crisis.....without really being anywhere near to fixing this problem that is destroying the lives of so many people?

I am more positive on the fact that the document acknowledges the benefits that globalisation has brought to most developing countries, and the need for 'free and stable markets'. Dr Robert Moynihan, editor of the online Catholic magazine Inside the Vatican, probably reflects the opinion of many Christian economic and financial analysts when he says:

'The positive thing is that this document, in keeping with all of the Church's social teaching, wishes to defend honesty, transparency, truthfulness and justice in financial dealings over and against dishonesty, opacity, false representations and injustice.

In this, the document is to be praised, and praised highly. We need honesty and truth-telling in a global economy that is seemingly careening toward a train wreck which will inevitably hurt the poor and the weak most of all.

The negative thing is that the global economy, and especially the global derivatives market, is big, enormous,.....in fact, so big so opaque, so complex, that literally no one

knows what the situation really is, or what measures to take to undo the financial detonator that seems ready soon to go off.

In this sense, the Vatican's office policy recommendations are inevitably insufficient.'

Today it is not just Church leaders that are defending values and moral code but also political leaders.

The Archbishop of Canterbury Dr Rowan Williams in his typical unrestrained style in his Christmas day sermon called for Britons 'to learn the lessons from the upheaval and uncertainty of the past year, speaking of 'beastly ways' and 'broken bonds' and taking aim at bankers and rioters. Williams went on to say:

'The most pressing question we now face is who and where we are as a society. Bonds have been broken, trust abused and lost.

Whether it is an urban rioter mindlessly burning down a small shop that serves his community, or a speculator turning his back on the question of who bears the ultimate cost for his acquisitive adventures in the virtual reality of today's financial world, the picture is of atoms spinning apart in the dark.'

As is to be expected, political leaders do not take kindly to advice on economic and social matters from the Churches. They often try to occupy the moral high ground and are not prepared to take lessons on morality from Church leaders. Last year the Archbishop of Canterbury, Dr Williams, irked the British prime minister when he criticised the Government's austerity measures and expressed sympathy with the summer protesters who camped in front of St. Paul's Cathedral in London.

When speaking at Christ Church Cathedral in Oxford where Dr Williams used to teach, the British Prime minister David Cameron said the time has come for public figures to teach 'right from wrong' and questioned whether the Church of England has done enough to defend those values in the face of the 'moral neutrality' that pervades modern life.

David Cameron went further when he said:

'We are a Christian country and we should not be afraid to say so. The Bible has helped to give Britain a set of values and morals which make Britain what it is today - values and morals we should actively stand up and defend.

Whether you look at the riots last summer, the financial crash and the expenses scandal or the on-going terrorist threat from Islamists extremists around the world, one thing is clear: moral neutrality or passive tolerance just isn't going to cut it anymore.'

There is some sense in David Cameron's political ambition contained in his rather vague concept of the Big Society: improve the plight of disadvantaged members of our society through the good works in local communities that are often associated with churches.

The Church is in constant contact with both the citizens of advanced economies as well as with those of emerging countries in the developing world. In recent years the focus of the church on socio-economic issues has been dulled as it concentrated on dealing with serious internal issues which have come to light.

The time is right for the Church to once again propagate its social teaching not necessarily by proposing blueprints for economic reform, but by putting morality back on the agenda of political thinking, challenging 'utilitarian thinking' based on the belief that 'what is good for the individual leads to the good of the community'.

One lesson that the current crisis has taught is that what is useful for the individual does not necessarily contribute to the common good. Some bankers leading banks that faced serious problems and that had to be rescued with taxpayers' seem to believe that what was good for them was automatically good for the society they should have been serving.

The Church is strongest when it practices its teachings fully. My teacher of Latin always used to insist that we appreciate the wisdom of the saying that Verba movent, exempla trahunt – words move people, but example compels them.

One therefore has to acknowledge the effort of the Church not to seek to protect its privileges in certain countries like Italy where it is exempt from paying property tax on buildings used for business purposes.

I was relieved when cardinal Angelo Bagnasco confirmed in an interview with the Corriere della Sera confirmed that if there were any cases where such tax was not being paid such behaviour would be censored and tax paid. He went on to say: Nessuna copertura e' dovuta a chi si sottrae al dovere di contribuire al benessere dei cittadini attraverso il pagamento delle imposte.

The moral work of our lives is done continually, collectively and over time. It emerges in our personality and temperament, habits and character. The church has always had an important role in forming the character of young people instilling in them strong moral values. It is important that once again the Church is seen to be 'the salt of the earth' especially in its role of forming the conscience of people.

Religious sensibility and moral values shared by world leaders could ultimately be as powerful a tool to economic and financial reform as increased regulations and controls.

Towards Reforming the International Financial and Monetary Systems in the context of a Global Public Authority

by Michael C. Bonello

The need to make the international financial architecture more attuned to the new economic order brought about by the processes of liberalization and globalization has long been recognized and many initiatives have been taken. The changes that have been made, however, have now been overtaken by events. The financial crisis that erupted in 2008, the subsequent recession and, more recently, the sovereign debt crisis have accentuated the urgent need for a paradigm change. It is perhaps in this context, and in particular of the grave social consequences of these events, that the Pontifical Council's appeal to pursue the common good on the basis of moral values and principles is to be understood. Echoing the 2009 G20 Pittsburgh Declaration, which stressed the importance of ushering in a new era of sustainable global economic activity grounded in responsibility, the Council document calls on leaders and individuals to reflect on both the causes and solutions of the crisis in the light of the cultural and moral values that are at the basis of social coexistence.

The document's analysis of the events that have led to the current situation is factual and the conclusions drawn from it are widely shared in the literature; the policy prescriptions, however, appear less convincing. This will be the thrust of my contribution to today's discussion.

The document, for example, correctly attributes the unprecedented acceleration in average per capita incomes during the twentieth century to globalization. At the same time, it points out that the distribution of wealth has become more uneven, both among and within countries. Among the other downsides of globalization, one could also mention the now discredited view that the market is self-correcting. What we have witnessed instead are the excesses of economic liberalism, most notably greed and reward systems that prioritized short-term profits. These, in turn, have led to economic

instability, gross asset mispricing and the costly failure of the universal banking model, which has given birth to the “too-big-to-fail” bank, a negation of a basic principle of capitalism. As a result, governments have been obliged to borrow substantial amounts to recapitalise banking systems and to prop up economic activity, creating the premises for today’s sovereign debt crisis.

At the same time, as banks deleveraged and the flow of credit shrank, a negative feedback loop developed from the financial system to the real economy and then back again. Confidence evaporated, economic activity contracted and stock markets plunged. In the process there has been a massive destruction of wealth and this, in turn, is undermining the social and economic fabric of many countries and threatening the livelihood of generations to come. We are also seeing a subversion of the democratic order. Governments are today being held hostage by the financial markets, to the point that their policies, and indeed even their duration, are determined by non-elected, and sometimes obscure, constituencies. They are, therefore, unable to meet the legitimate expectations of their electorates.

All in all, as the document’s authors rightly point out, globalization means that the ability of governments to control events is weakened, especially when these originate beyond their borders. From this it is logical to conclude, as the document does, that the growing interdependence between countries and regions calls for approaches and solutions that are systemic and integrated. Governments need to make an effort to institute some form of global governance motivated by the common interest. Interestingly, former British Prime Minister Tony Blair, in his political memoir *A Journey*, reaches a similar conclusion when discussing the interaction between foreign and domestic policy: ‘Global challenges require global solutions. Global solutions require global alliances. Global alliances can’t be constructed on the basis of narrow self-interest. They have to be based on shared global values.’

Given the severity of the threats posed by the current turmoil, however, not least the imminent prospect of default by some sovereign debtors and banks as well as a widespread recession, the vision of a supranational political authority proposed by the document seems utopian. Indeed, the authors themselves implicitly acknowledge this

when they state that 'a long road still needs to be travelled before arriving at the creation of a public authority with universal jurisdiction.' The achievement of a 'convinced consensus' based on the subordination of national interests to a supranational body charged with the pursuit of a common good which, as yet, remains undefined, is indeed a long-term and seemingly unrealisable project. In any case, this is hardly the time to start out on such a journey.

My scepticism also derives from the disappointing experience we are living in the EU, and particularly in the euro area. The integration achieved in Europe during the past fifty years, even though incomplete, has ensured the longest uninterrupted period of peace and prosperity in centuries. Looking to the future, we have even more reason to pursue deeper integration. It is estimated that by the middle of this century Europe will account for only about 7% of the world's population and 10% of global output in a world economy driven by economies of scale and innovation. Before this decade is out, China's GDP expressed in PPS will have overtaken that of the euro area. Faced with this emerging geopolitical landscape, further economic and political integration is vital if Europe is to remain prosperous and influential on the world stage.

Integration is even more of an imperative for the euro area, because a common currency without a fiscal union is not viable in the long run. And yet, faced with what seems obvious, the leaders of the euro area, even though they already benefit from a limited form of supranational governance, appear incapable of taking the necessary, bold decisions. They have not gone much further beyond paying lip service to the principle of solidarity. The strong must help the weak, not only because this is one of the fundamental values upon which the EU is built, but also because it is in their own interest. Instead, we witness a failure to recognize that reconciling reforms and lower debt ratios with growth under current conditions is a near impossible task. Fiscal austerity will, in fact, further compress economic activity in heavily indebted countries and, if protracted, will prove socially and politically unsustainable. Greece, for example, is likely to have more debt in 2020 than when it started to implement its adjustment programme. Demand in such countries, therefore, needs to be supported by a symmetrical stimulus in the surplus countries. But the latter are refusing to provide it.

And this is happening in a Europe that is culturally and ethnically more or less homogeneous and subscribes to Christian values.

Developing further the argument about a supranational public authority, the document states that 'It would seem logical for the reform process to proceed with the United Nations as its reference...' Here again I find the authors' choice somewhat misdirected and even surprising, because they themselves admit that 'The establishment of a global political authority cannot be achieved without an already functioning multilateralism...' The sad truth, however, is that the world body has lost credibility in delivering upon the objectives of its Charter. The inability of the Security Council to unanimously condemn human rights abuses by authoritarian regimes is but one example of this failure. The fact is that there has been a retreat from the multilateral approach to world problems that characterised the early decades of the United Nations.

It would, therefore, have been more appropriate for the authors to look to the G20 as a likely forum for advancing their agenda related to the quest for the common good. And this for two reasons: first, because the opening from the G8 to the G20 in response to the financial crisis has finally recognized the increased importance of the emerging market economies and given hitherto marginalised billions of people a voice in the conduct of world economic affairs; and second, because the G20 have already set in motion a raft of concrete reform initiatives designed to improve global economic and financial governance.

This leads to Section 4 of the document, which deals with the central theme of today's discussion, the reform of the international financial and monetary systems. Here again the authors seem to opt for a grand design, this time in the shape of a body having the functions of a global central bank. Apart from being of doubtful practicality, this proposal stands in contrast with the authors' belief that '...a process of reflection and reforms needs to be launched that will explore creative and realistic avenues for taking advantage of the positive aspects of already existing forums.' This would seem to be a more promising approach in terms of achieving concrete outcomes. The reference to 'launching' such a process, however, betrays a surprising ignorance of important developments since 2008, particularly related to the regulation and supervision of

financial systems. The recommendations of the FSB, the BCBS and the De Larosiere Report, which are in different stages of implementation, seem to have been overlooked. This impression of being behind the curve is reinforced by the three examples of an ethical approach to reform which the document suggests should be considered, i.e. a tax on financial transactions to finance sustained global development and to support crisis-hit economies; the recapitalization of banks with public funds on condition that the banks concerned extend credit to the real economy; and the separation of retail banking from investment banking in order to ensure the integrity of the banks' core intermediation function. As is well known, each of these topics has been on national and intergovernmental agendas since the end of 2008. Indeed, it was the nationalization/recapitalisation of banks at that time in Ireland and the United Kingdom, among others, that contributed to an acceleration in debt/GDP ratios.

To conclude, therefore, I would say that the concerns expressed in the Pontifical Council's document are valid and follow logically from the analysis of global economic and financial conditions. In particular, the primacy of ethics needs to be restored and with it the primacy of politics, which is responsible for the common good, over the economy and finance. It is hard to believe that governments cannot make a difference. It is vital that they shoulder their responsibilities. The recent outbreaks of anti-capitalist protests near St. Paul's Cathedral in London and Wall Street in New York, among other places, are a stark reminder that the legitimacy of the free market system is seriously in question. It should not be forgotten that the extremist political regimes that emerged in Europe in the 1930s were born from a similar form of disenchantment with globalization among millions of people who felt powerless and fearful in the face of dominant market forces and the elites that appropriated most of the wealth that they had helped to create.

As I have tried to argue, however, the supranational approach to reform advocated by the document does not seem to be implementable within the time frame imposed by the urgency of the on-going crisis. The appeal to ethical principles is unlikely to elicit the required response at a time when millions of people, mainly in the relatively richer countries themselves, are experiencing a dramatic decline in living standards and face

bleak prospects for years to come. It comes as no surprise, for example, that support for development aid in the EU has declined significantly in the past year.

So where do we go from here? Since history has shown that capitalism is the least bad form of economic management, I believe that the priority should be to curb its excesses while returning the more developed countries to growth. Only then will they be in a position to look outwards and perhaps be better disposed to the collective management of global public goods and to a more sustainable and equitable allocation of resources through supranational institutions and multilaterally-agreed rules.

This implies the pursuit of an incremental approach on two levels. At the national level, a fundamental reappraisal of the role of the state is required in many countries designed to ensure a more equitable distribution of resources within the context of balanced budgets over the economic cycle. This will only be possible if there is a change in mindsets and if politicians resist the temptation to espouse populist policies and instead communicate with their constituencies with greater honesty and realism. This would help to restore confidence and trust in the political class, which has been largely discredited during the crisis.

Meanwhile, at the intergovernmental level, the full implementation of the many initiatives launched recently in various forums should be strongly encouraged. This would hopefully help to prevent the re-emergence of the kind of excesses and imbalances that have caused so much pain, and at the same time facilitate progress towards the supranational approach envisaged by the Pontifical Council.

Reflections on the document “Towards Reforming The International Financial and Monetary Systems in the context of Global Public Authority”

by Joe Vella Bonnici

In the last 30 years or so, globalisation has been presented as a panacea that will lead to increased prosperity for each one of us. We were told that the world will become a ‘global village’ and that market capitalism and democracy represent the ultimate triumph of human organisation.

But while globalisation has improved the economic well-being of many people around the world, it has created new divides and contradictions, both within and between societies. In many countries the most elementary goods like health, food and shelter are still lacking.

The 2007 financial crisis at the very core of the capitalist world is leading more analysts to question the blind faith and legitimacy of capitalism. The financial crisis exposed the greed and short-sightedness of capitalists who had fought hard for deregulation and market liberalism. In the meantime, the world economy has been hijacked by ‘casino’ (speculative) capitalism which is further distorting the market mechanism. Taxing financial transactions, introducing a degree of oversight and generally tweaking present economic structures and policies will not address the fundamental challenges facing the global economy.

Economic growth has become dependent on consumption, much of which is needless. This wastefulness is seriously challenging the limits of our planet and pushing the prices of commodities and raw materials upwards. A growing world population and the rising aspirations of Third World countries will worsen global warming and hasten the depletion of various mineral resources. The free market is not a fair one, as poor people are unable to participate fully. The number of poor people is increasing and not

decreasing; and they are no longer confined to poor countries. One of every three persons living on earth earn less than two dollars a day.

Governments and national institutions are unable to cope with the pace of globalisation and this is leading to a significant void in governance. Western leaders seem to have lost the insight, belief and political will to address global concerns. The modern world owes a lot to Western thinking and values; it was the French Revolution which created the people's desire for liberty, equality and fraternity. But the West exploited its superior knowledge and technology to push its 'imperial' interests. Its political hegemony may have faded but it still underpins most global institutions and economic structures.

It is these concerns which have prompted the Pontifical Council for Justice and Peace to publish a document entitled "Towards reforming the International Financial and Monetary Systems in the context of the Global Public Authority". The authoritative Vatican agency, responsible for stimulating thinking on social justice issues, confirms the commitment of the Catholic Church to raise public awareness on such critical issues.

The Pontifical Council believes that the recent financial and economic crisis is just a symptom of a deeper malaise afflicting the global economy. It states that utilitarian philosophy, neo-liberal ideology and a consumerist culture cannot provide the solution to equitable and sustainable development. It points out that in the wake of the failure of European communism, John Paul II's warned of the risk of an "idolatry of the market" and denounced all those who promoted market fundamentalism as the optimal behaviour of all economic and political agents .

The document's most important message is that the fate of people, our fate, cannot be left in the hands of politicians, financiers and technocrats because, ultimately, economics should be driven by people-focused ethics. Economics exists to serve society and not the other way round.

The document calls for individuals and societies to re-examine the principles and moral values at the basis of social existence. Every individual should go beyond seeking personal utility and search for the common good. In his encyclical "Caritas in Veritate", Benedict XVI had emphasised the need for each one of us to set new rules, embrace changed commitments and "re-plan our journey".

In 1963, John XXIII had expressed the hope in his encyclical "Pacem in Terris", that one day there will be a world political authority entrusted with promoting the 'universal common good'. In his 2009 encyclical, Benedict XVI stated that there is "an urgent need of a true world political authority" which would give poorer nations a bigger voice in economic decision-making. The document renews the call for the creation of a world political authority which will be given broad powers to regulate financial markets and rein in the "inequalities and distortions of capitalist development."

The authority, which should use the United Nations as its reference, will derive its legitimacy through participation and reciprocal trust. Its global reach will not be imposed by force, coercion or violence, but should be the outcome of a free and shared agreement, arising from a process of progressive maturation of consciences and freedoms as well as responsibilities. Its agenda should include also peace and security, disarmament and arms control, protection of human rights, and management of migration flows and food security.

The document does not call for an end to the free market, but insists that world planners should protect and guard markets which are truly free and stable. It also mentions the failure of the International Monetary Fund and calls for the creation of a global 'central bank' entrusted with regulating the flow of monetary exchanges. The document is also in favour of taxing financial transactions with the revenues going into a special "world reserve fund" to support crisis-hit economies.

It can be said that the document is a visionary and brave one, in that it is not afraid to challenge conventional wisdom and to endorse solutions which threaten existing powers and vested interests. Various analysts expressed their reservations on the social orientation and shallow economic analysis of the document. Others slammed it as being

'realpolitik' by the Church (given that two thirds of all Catholics live in poor, non-Western countries). Some Catholic commentators even accused the Vatican agency of living in a 'fantasy world'.

Although there is an element of truth in these criticisms, it is commendable that the Church takes up technical issues which 'prima facie' appear to be beyond the grasp of normal citizens. There is little doubt that the document's underlying thesis is correct: humanity needs to radically re-think its values so as to ensure equitable and sustainable development. Many of us should not be content with their favoured position and should look at Christ the Reformer, the agent of change, who was not afraid to talk about a fresh beginning. Was it not Him who drove out the merchants and money changers from the temple?

With its emphasis on money and temporal considerations, globalisation leaves no room for spirituality given that this has no price and cannot be traded in the marketplace.

Towards Reforming the International Financial and Monetary Systems in the context of Global Public Authority

by Lawrence Zammit

The introduction to the document of the Pontifical Council for Justice and Peace highlights three principles:

1. The economic and financial crisis that the world is going through calls everyone to examine in depth the principles and the cultural and moral values at the basis of social coexistence;
2. The profound value of human dignity and the quest for the common good;
3. The economic crisis demonstrates the importance of ushering a new era of sustainable global economic activity grounded in responsibility.

The current crisis has now been with us since 2008 and has mutated itself a number of times. It first we had an unsustainable level of the price of oil, followed by a crisis in several financial institutions that had invested in assets that proved to have little value, then the credit crunch as banks stopped trusting each other, to be followed by a slowdown in economic growth, a crisis of sovereign debt in a number of countries as a result of large fiscal deficits and now another slowdown in economic growth.

It should therefore come as no surprise that this crisis has many fathers, depending on one's perspective. At successive meetings of the G20, we have witnessed continuous disagreements as to what caused this crisis. In fact I believe that the crisis essentially emanates from a weak political class at the global level that has allowed a globalised financial sector to thrive on its obsession to make profit through speculation. The

political leaders of the world's largest economies have proved themselves to be incapable to agree on a set of measures that are needed to address the challenges of this crisis.

We have become accustomed to speak of the free market as being the solution to problems, as if the crisis developed because of a lack of a free market. We hear statements such as "the market is always right" or "the market is king". In my opinion we may have become slaves of the free market, to the extent that the lack of intervention by governments way back in 2008 to address head on the crisis in the financial institutions, was due to an unwillingness to interfere in the market. This was tantamount to an abdication of responsibilities of governments. One country, Iceland, stands out as an example as the person who occupied the post of Prime Minister three years ago has been charged in court for not doing enough to save Icelandic banks from bankruptcy.

Governments preferred to make taxpayers pay for the mistakes committed by operators in the financial markets, rather than exercise better control of the financial markets to reduce speculation.

This political inertia has meant that what we have had in the last years was a market failure in the financial markets. This was not a free market operating but evidently an oligopolistic market. What we have experienced is a systematic form of abuse by a few strong players, who have used their excessive power to make (what we call in economics) supernormal profits. The presence of supernormal profits is in itself a negation of the existence of the free market.

This happened because we have globalised the economy and the financial markets without globalising public authorities. Politics is still confined to the nation state and the parochial interests of the nation state. The political structures are still modelled on an international economy (where countries simply traded with each other) rather than a globalised economy . In fact an institution such as the International Monetary Fund can exercise much more influence than the United Nations.

Not only have we had operators in the international financial system making super normal profits, but we have also had a consolidation of financial organisations, with their number shrinking. The number of internationally recognised credit rating agencies is only three. This seems to indicate that the barriers to entry into this sector have become stronger and more intense. As barriers to entry become stronger, the operation of the free market becomes weaker.

Moreover the relationship between banks and their customers has not been rendered more open and transparent, with the merging of activities of investment banking and retail banking. One measure that has been proposed to regulate the international financial and monetary system better is the division between investment banks and retail banks. However even in this case we are witnessing political inertia and this division may not happen after all. The result shall certainly not be market that functions better.

Another consideration to make within this context is the way capital moves freely around the world. This has always been seen to be something positive as the free movement of capital enabled the economic development of a number of countries – Malta is a case in point and a good example. Our ability to attract foreign direct investment has helped our economy to experience consistent growth (albeit with some exceptions) in the last fifty years.

The problems started when financial institutions recognised that they could make a profit not through an investment in productive activities, but through the simple movement of capital; by speculating in currencies, bonds and equities and commodities. We are living in a paradox, where in a number of countries profits that are generated through speculation and the simple movement of capital are taxed at a lower rate than profits generated from productive activities such as manufacturing and agriculture.

We seem to have forgotten that wealth does not have an intrinsic value – it is an enabler. In economics, it is a factor production that is required to generate productive activities, income and employment.

To my mind the answer to the current crisis is not reversal of the process of economic globalisation or a total change of rules. Command economies do not function better than free market economies. However we do need to have a proactive approach such that we achieve effective economic and political governance at a global level to ensure that the financial markets operate effectively. Political leaders need to analyse again what the role of government should be in the operation of the national and international economy.

If governments were to restrict their focus simply to the national dimension, we will remain with an ungoverned international financial and monetary system. The pursuit of the common good, which is the *raison d'être* of politics, should not be seen purely at a national or a regional level but also at a global level. It is no longer acceptable that a few companies or a few individuals become richer at the expense of the majority, because they can operate at a global level, while the political structure do not.

During a visit to Cuba back in 1998 (when no one could have ever envisaged the crisis we have experienced in the last four years), Pope John Paul II said, "Various places are witnessing the re-emergence of a certain capitalist neo-liberalism that subordinates the human person to blind market forces and conditions the development of peoples on those forces. From its centres of power, such neo-liberalism often places unbearable burdens upon less favoured countries. As a result, the wealthy grow ever wealthier, while the poor grow ever poorer." These words sound prophetic in 2012.

I think that what we are witnessing now, is what Pope John Paul observed fourteen years ago, where market forces, through capital neoliberalism, took over the political role, with the only component of the market which is getting wealthier is the speculators, at the expense of large segments of the populations around the world.

As Benedict XVI has pointed out, every economic choice implies an ethical choice and therefore must be subject to political decisions and not the other way round. We can no longer afford to have political leaders that do not affirm the supremacy of politics.

In the context of a global economy, we do need a global political authority – otherwise we risk continue having further distortions of the markets and an increase in economic inequalities.

However such an authority would need to work with national and regional institutions. The principle of subsidiarity should still be allowed to work to avoid a disconnection between a global civil society and political decision makers.

The document of the Pontifical Council for Justice and Peace rightly speaks of the need of another quantum leap forward. Centuries back the concept of the nation state did not exist and governance was guaranteed by clans and a myriad of small kingdoms. They eventually gave way to the nation state. In certain countries such as Germany, this only happened in the late 19th century. International political organisations do not exercise political control over nation states. This can be witnessed at the United Nations and is also evident in the debate on whether to have closer political union in European Union.

The quantum leap forward is that the nation state must now make way to a global public authority that is capable of regulating a single humanity, while recognising the identity of every people, by working with regional, national and local authorities.

Political leaders need to unite under the umbrella of such an authority to work in favour of guaranteeing that, through ethical capitalism, wealth is generated productively rather than speculatively, where work is given once more its intrinsic value, where ‘making a quick buck’ is not seen as a healthy solution, and where the common good prevails over selfish interests.