REACTIONS TO THE FINANCIAL CRISIS BY THE PONTIFICAL MAGISTERIUM: REVIEW AND INTRODUCTION TO THE TEXTS

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General remarks

Considering the importance of the financial crisis, we might be surprised to find relatively few documents on the subject. Apart from the hurried document issued by the Pontifical Council for Justice and Peace in 2011, we can only rely on a quite limited set of texts and interventions by popes and nuncios at the UN both in New York and Geneva. On the one hand this is to be expected, yet on the other hand this does not do justice to reality. First and foremost, finance is not among the topics usually addressed by Catholic Social Teaching (CST). A lack of understanding of the functioning of complex financial architecture and probably some underestimation of their growth and importance over the last three decades certainly explains why the Catholic Church has not addressed the topic more forcefully. But the official interventions are only the tip of the iceberg. Not reproduced here are the many letters, recommendations, and interventions by popes, bishops' conferences, or Church committees to political leaders, international organizations and civil society leaders.

Most of these omitted documents are letters asking leaders to rise up to the crisis and dare to tackle its ethical dimension. On the level of personal behaviour: exalted greed, dishonest behaviour, lack of responsibility; on the level of government and international institutions: lack of proper regulation, no place for the common good in finance. But mainly, bishops ask politicians and leaders to see to the poor and the more vulnerable. They plead not to cut social programs, to tackle the 'new poor' near and far that the crisis has created—those dealing with unemployment, loss of homes or food programs, displacement through migration, and so forth. In one word they plead with the leaders to help the victims of the crisis; those who have lost everything to it. On this second level the Catholic Church has been very active indeed, especially through its own many relief agencies around the world. These may be in fact the most real answer given by the Church to the crisis.

However, as we are dealing here with the financial crisis at the level of ideas, this introduction shall focus on the texts issued by the pontifical magisterium on the financial crisis, trying to see how the social tradition of thought of the Church could be extended and applied to this crisis. Without much surprise, we find more general and elaborated answers in Benedict XVI's encyclical *Caritas in Veritate* and Francis' apostolic exhortation *Evangelii Gaudium*, as well as in the Justice and Peace document '*Toward reforming the international financial and monetary system in the context of global public authority*'.[1] Then there are several smaller addresses by the Holy See at international agencies that are more specific, but also more creative and practical. The encyclicals articulate the longstanding principles of CST applicable to the crisis; the addresses are more concerned with the consequences of the crisis and its victims far and near. Indeed, the nearer we get to the actual people affected by the crisis or dealing with it, the more the passion we see in the writing. Humanitarian urgency—the need to help the poor—becomes the main intention of the writer.

❡ *Analysis of pontifical documents*

The two popes, as would be expected, do not venture into the realm of practical action, but stay at the level of the root causes of the crisis. Almost every document follows what could be called a basic pattern of argument. They usually begin with a *summary analysis* of the financial crisis, then go on to state that self-regulation has not worked and reform is necessary. They then turn quickly to signal the moral roots of the crisis, lambasting greed, risk taking, lack of prudence, dishonesty, and *laissez-faire* policies and starkly remind that to function, financial markets must not be separated from ethics. A free market economy, for all its rightful autonomy, must serve the common good if it is to fulfil its social utility. As a third and last step in this basic pattern, the popes then appeal to the States or international agencies to address these root causes, reform financial markets, and enforce regulation on its actors. Responsibility for the common good and solidarity rather than exclusion shall be the criteria of this reform. Care for the poor and the vulnerable must be of special concern as they are the first victims of the crisis.

This basic pattern uses terms and criticisms that are not new and will be familiar to most readers. I thus do not intend to detail the argument for why the free market has to serve the common good or why greed cannot be the criterion for wealth creation, but will instead focus on some of the more original features that were brought up by the two popes on the topic of the financial crisis. Here are some of these features:

1. ***The self-regulation of financial markets has dramatically failed***. Both Francis and Benedict are adamant. There is a need to reform and regulate financial markets; to bring political and ethical governance to international finance. This means to stop making the assumption that market freedom is tantamount to an absence of regulation. A free market economy requires ethics and

political governance if it has to remain free. The economy must serve the human community and not be a mere disconnected instrument of wealth creation. The crisis is a stark reminder in the eye of both popes of the need for ethics. The wide disruption and suffering brought by the financial crisis on the economy and the society, especially the poor, clearly shows the consequence of refraining from exerting governance over modern financial flows.

2. ***The trickle-down effect is an illusion***. Pope Francis has one of the starkest condemnations of the notion that wealth creation will per-se ultimately reach the whole society. Empirical experience and research prove that increased wealth creation tends to enhance extremes, not to reduce them. While wealth concentrates on one end, on the other end vast numbers of people get progressively excluded from the economy, affecting their very survival. Financial markets—through the crisis—are seen as paradigmatic of a system of wealth creation that works against the poor and against humanity.

3. ***At the root of the economy there is a logic of gift and reciprocity***. Perhaps one of the most interesting and moving elements brought by Pope Benedict in the debate is that gift and reciprocity matter in financial markets. His argument runs along the following lines: The crisis was one of trust between institutional lenders. When even in the short term, forecasts could not be made based on the trustworthiness of other actors, engaging in reciprocal activity did not make sense anymore. The collapse of confidence was also the collapse of financial activity. Thus under the logic of reciprocity, another logic is at work that allows the former to exist. Gift and reciprocity, so says Benedict, are the twin elements of the basic grammar of love that creates trust in relationship and thus enables stable, long term interactions. Complex societies like ours tend to take trust as a given, something that simply exists and allows for the smooth functioning of our institutions. The financial crisis laid bare that the logic of the market—the logic of exchange, reciprocity, and contract—rests on the deeper logic of gift without counterpart that looks for trust to exist between social actors.

4. ***International financial markets require new forms of responsibility and solidarity***. This is another constant element of Benedict's thought on the crisis. The starting point is the following: the growth of international finance in the past decade has deeply altered the power of States. It has put objective limits on their sovereignty, specifically over their domestic economies. This trend is however not seen by the Pope

as something merely negative, since he seems to understand sovereignty rather as a responsibility. Confronted with the loss of national governance over the economy, Benedict XVI says we ought to find new, creative ways to fulfil the responsibility to protect that defines sovereignty. In keeping with the dynamic of the universal common good, he sees sovereignty more as a dynamic reality. The notion of sovereignty is not limited to a notion so greatly linked to the Nation-State and exclusive control of a territory and a population. International financial markets show how the responsibility to protect is now a shared reality that can only be tackled together or not at all. This is the main narrative that drives him to mention the need for a global political authority. However, the responsibility to protect is broader in Benedict's usage than in its international definition. It is a responsibility we have toward future generations and a responsibility we bear for the poor and the vulnerable. He spells out four dimensions of responsibility in one text: responsibility toward ourselves, responsibility toward other nations, responsibility for our common world, and responsibility for the other who suffers.

5. ***Financial crisis and the need for a world political authority***. With the financial crisis in mind, Benedict XVI argues that the case for a global political authority is stronger than before. This should not be an authority imposed by anyone, but freely seen as a necessity by all nations and commonly agreed with respect for subsidiarity. It should seek and serve the common good and have the means to enforce its governance, but not to impose it against the will of any member. It should be a political as well as a moral rule. Clearly enough, much more than a specific political system, the Pope points here to the practical need emerging in a globalised world for stronger governance bodies that will not leave forces that exceed Nation-States without political and moral governance. The world political authority being directly linked to the search of the universal common good, it belongs to the eschatological horizon toward which we are meant to work but will not reach but at the end of time.

These five points, once brought back to the debate on the root causes of the financial crisis, open new perspectives on the question. But besides their direct, personal interventions on the matter, the Holy See also has repeatedly taken position on the crisis. These interventions precede and complete the ones made by the popes.

¶ Interventions of the Holy See at the UN

Among the interventions of the Holy See, a special mention must be made of the ones at the UN. They are by nature more sensitive to the place and timing of the address and must therefore be understood in the context of the discussion at the time.

The first follows the immediate aftermath of the 2008 onset of the crisis and was given at the UN General Assembly by Msgr Migliori. The document still glows with the first outrage toward the unfolding crisis. The Holy See lambasts the "disregard for regulatory and supervisory structure and the contempt for accountability rules and transparency" and the lack of a "complete and effective regulatory system." However, the crisis is already seen not as merely technical but having an ethical root: the collective failure of the *social responsibilities of corporations and public institutions* regarding international finance. The crisis reveals the negatives of the *social function* of corporations and public institutions in the market and therefore the *shared duties* they have toward the common good. The intervention outlines three major failures:

1. ***Failure of banks, governments, and international financial institutions to enforce at the highest level the rules they implemented at lower levels***. Developing countries, ordinary citizens and bank consumers were submitted to hard scrutiny whereas developed economies, governments, and bank management were lax in their own administration.

2. ***Failure to exert prudent governance for the common good***, especially from government and banks. "Government is the exercise of the virtue of prudence in the enactment of legislative and executive measures capable of directing social activity toward the common good" (2008/10). Excessive risk taking by bank management and sheer ignorance by government of the systemic risk was created by large under-regulated financial institutions to the society.

3. ***Failure of the general public to resist an economic system based on increased and uncontrolled consumption***. Not only is the trend unsustainable, but also offends the dignity of the consumer as a rational creature and the dignity of others.

Some months later, in December 2008, a second intervention was made by Msgr Migliori at Doha as a follow up to the 'Monterrey Consensus on Financing for Development'. The point made by the document is that in the same way that we have developed an approach to development as having to be sustainable, we should now see and seek *sustainable finance*: "sustainable financing should meet the present capital needs for development, while ensuring the long term preservation and increase of resources. It is time […] to reaffirm the principle of sustainable financial development, apply it to financial markets and thus create truly sustainable capital management" (2008/12). Lending is a necessary social activity connecting savings to production and must remain at the service of production if it wants to remain reasonable. "If lending is seen merely in terms of trading off financial resources without regard for their reasonable use, it fails to be a service to society" (2008/10). Moreover, financial stability and security is a social good that drives job creation, stable fiscal revenue, and long term growth. Therefore, governments should see as one of their priorities to guarantee such stability and security.

The two statements made by Msgr Tomasi were made at the Human Rights Council in Geneva in 2009 and 2010. Therefore they tackle the crisis through the lens of human rights protection and look mainly to the negative social impacts of financial market failure. The crisis has cut millions of jobs, pushed an additional 53 million people below the threshold of $2 USD a day, threatens MDG achievement, and is a serious threat to international peace. The poor bear the brunt of the crisis, usually a distant victim of a crisis far from the actual financial markets.

The imbalances created by the crisis are caused, says Msgr Tomasi, when economic action a) is seen merely as an engine for wealth creation; b) is detached from political action and justice. "To engage in financial activity cannot be reduced to making easy profits, but also must include the promotion of the common good among those who lend, those who borrow and those who work" (2010). Free financial markets should be framed by solidarity, justice, honesty, and the principle of 'reciprocity and gift'.

Most interestingly, the Holy See states that the focus of concern in the reform of the financial system "should shift from goods and services to the persons who are the recipients of these services" (2010). The question is not one of techniques but of what becomes of human beings in financial markets. By giving priority to human beings, says Msgr Tomasi, we can "modify the rules that govern the financial system to serve concrete change" (2010).

❡ *Conclusion*

As seen before, the texts are fragmentary in nature and may disappoint people who would have expected a more solid argumentation from the Church. But easy condemnations are more often than not the signs of superficial analysis. The complexity and gravity of the crisis was not grasped immediately nor was an analysis ready-made to apply to the case in CST. Rather the contrary. As the documents show, there is indeed very little done in CST on the specific nature of financial assets, international financial flows, and financial market exchange. Much could and actually should be said. The present report intends precisely to engage the question of a Catholic perspective on what has happened and what is now unfolding as the landscape emerging 'beyond the crisis'.

NOTES

67. This document is not reproduced herein. Available at: http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20111024_nota_en.html (accessed 22 April 2014).