

# BANKING ON THE COMMON GOOD, FINANCE FOR THE COMMON GOOD

+ MARIO TOSO

## 1. *The reform of the major international institutions and the dismantling of paralyzing prejudices*

Here I would like to present some considerations from the *Reflections* of the Pontifical Council for Justice and Peace entitled *Reform of the international financial system with a view toward a general public Authority*.<sup>1</sup> I pause to consider first what has so far been made for the reform of the international institutions, then move on to the three directives set out at the end of the text - taxation measures on financial transactions; forms of recapitalization of banks; separation between commercial banks and investment banks - which have been suggested not as mandatory and dogmatic guidelines, but rather as a basis for discussion.

With regard to the reform of the *major international institutions*, we must say that so far nothing of relevance has been found, apart from the bland reform of Wall Street by Barack Obama, the emergence and gradual strengthening of the European Central Bank and the relevant bailout Fund – the European Stability Mechanism (ESM), whose operation should be improved, in order to help the real economy of the supported countries. It must be noted, also, that it is trying to reform, within the International Monetary Fund, the balance of the voting rights, so as to give greater weight to the emerging economies. In 2010, an

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<sup>1</sup>PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, *Reform of the international financial system with a view toward a general public Authority*, Libreria Editrice Vaticana, 2011, Città del Vaticano 3.a reprinted. It is not the first time that the Pontifical Council addresses issues related to the economy and finance. Suffice it to even think about: ID., *Un nuovo patto finanziario internazionale 18 novembre 2008. Nota su finanza e sviluppo in vista della Conferenza promossa dall'Assemblea Generale delle Nazioni Unite a Doha*, Tipografia Vaticana, Città del Vaticano 2009. Before that he was interested in the applicants' financial crises and the need for new institutions issuing the following texts: ANTOINE DE SALINS-FRANÇOIS VILLEROY DE GALHAU, *Il moderno sviluppo delle attività finanziarie alla luce delle esigenze etiche del cristianesimo*, Libreria Editrice Vaticana, Città del Vaticano 1994; *Social and Ethical Aspects of Economics*, Atti relativi al I Seminario di economisti organizzato il 5 novembre 1990 presso il Pontificio Consiglio della Giustizia e della Pace, Vatican Press, Vatican City 1992; *World Development and Economic Institutions*, Atti del II Seminario di economisti organizzato il 4 gennaio 1993, Vatican Press, Vatican City 1994. Both seminars were made possible thanks to the collaboration of professors Ignazio Musu and Stefano Zamagni, experts and consultants of the Pontifical Council. For a first reading of the Reflections of the Pontifical Council for Justice and Peace on the reform of the financial and monetary systems one should read: P. FOGLIZZO, *Nuovi orizzonti per la finanza internazionale. Le proposte del Pontificio Consiglio della Giustizia e della Pace*, in "Aggiornamenti sociali", anno 63 (febbraio 2012), n. 2, pp. 117-125. Strumenti di divulgazione e di approfondimento delle *Riflessioni* sono: COMISIÓN GENERAL "JUSTICIA Y PAZ" DE ESPAÑA, *Por una reforma del sistema financiero y monetario internacional*, Caritas Española Editores, Madrid 2012; COMMISSION JUSTICE ET PAIX BELGIQUE FRANCOPHONE, *Quelle maîtrise politique des activités commerciale set financières mondiales? Réflexions consécutives à la publication (2011) par le Conseil Pontifical "Justice et Paix" du document "Pour une réforme du système financier et monétaire International dans la perspective d'une autorité publique à compétence universelle"*, Bruxelles 2013.

initial agreement was reached among the member countries of the International Monetary Fund. But the reform could not proceed without the go-ahead of the United States, which holds 16.7 percent of the voting rights. Exactly in the first days of March 2013, the Obama administration asked Congress for the authority to proceed with reform of these rights in the IMF.

However, other concrete steps towards global *governance* will have to be made, starting with the reform of the UN. Obviously, not everything can be obtained overnight. We must be realistic and, therefore, move *gradually*!

In this respect, it is a priority to dismantle some deep-rooted prejudices, which force them to remain anchored to the status quo.

### 1.1. *Which “politics” of the small steps?*

To those who say that it is utopian to think of a reformed UN in the sense of a world political Authority; to those who say that the journey is too long and that it would be better to settle for small steps possible only at the local and regional level, one can answer that, to advance even a little in the right direction, it is necessary to have a clear point of reference, otherwise one may take the wrong road. A political universal Authority, although not defined in all its aspects, must be displayed at least as a goal, because without its perspective it would not be known in which direction to move to reform the existing Institutions. Here's what the Pontifical Council has just done with a clear awareness that the foreshadowing of the reforms and the architecture of the institutions, national and international, lies with the responsibility of the States and jurists.

### 1.2. *The indispensability of international institutions for the emancipation of the poor*

Some, after having read the *Reflections* of the Pontifical Council argued that it would be better to become more interested in the poor, rather than wasting time talking about world political Authority, a reality that some literature depicts as an inevitable incarnation of evil. To them one can reply that those, especially today, not interested in the institutions, in particular those at the global level, cause enormous damage to the world. If all the supranational financial mechanisms are left intact, as well as work time and more

concentrated in the hands of a few, there is practically assured the certainty of a further deterioration of the emergence of poverty. It is precisely to defend the poor it needs to make efforts so that they are put in global political Institutions, which have the capacity to regulate the financial and economic markets, in view of a sustainable development for all. If one wants to really affect the poor, not rhetorically or only doing welfarism, one needs to be preoccupied with the *reform* of the International institutions, so that they are not further penalized, and those "public goods" can be disposed of, which are *free, stable, transparent, democratic, functional* markets of the real economy, to labor, businesses, families and local communities.

### 1.3. *Foundation and procedures of the world political Authority*

The proposal by the Pontifical Council for Justice and Peace rests on the idea that today the *conditions* of realization of the common good - these conditions will be returned to later – are these which must be arrived at before the institutions of this world political Authority. Without it, the above *conditions* that substantiate the common good of the human family will not be realized.

It is, however, important to ask *how* this Authority must be understood. Certainly not as a centralizing force, like a Leviathan, which deprives all the national and regional authorities, and concentrates power in a single point above all, as in the case of the modern absolute State. On the contrary, its task is to recognize each of them and to respect their autonomy and freedom, according to the *principle of subsidiarity*. This world political Authority must be set up from the bottom, democratically, on a supranational level, especially for certain matters with respect to which the latter or even groups of States do not appear competent or proportionate. Thus, the world political Authority should *not* be established to reserve to itself all social and legal questions, deemphasizing the preceding grades of authority. It must be raised to create, at the global level, a social, legal and civil *environment* to allow all people to achieve their *common good*, in the context of the *global common good*, that is, within a context of solidarity and international and supranational collaboration.

### 1.4. *World political Authority primarily as a moral force*

The world political Authority is to be understood primarily as a *moral force* and not as an unconditional power, arbitrary, that is, as a force governed by the law, the natural moral law which precedes positive law. It must not be a superpower free from any ethical point of reference, that is, absolute, but a *participative* authority, shared by the peoples and citizens, limited by international law, *polyarchic*, that provides other levels of exercise over their own. They are different levels that, however, cooperate with each other, remaining interconnected. It cannot be identified with the idea of an unlimited paternalistic, technocratic and hegemonic Superstate. It must be thought of as a political reality, supported by a *society of peoples*, united by a common social conscience, always increasing. It must be treated, therefore, of as a *limited* authority with special jurisdiction over the areas in which the individual states are not competent. These are international issues that they are not able to resolve apart. It must be a *true* world political authority, as suggested by Benedict XVI at number 67 of *Caritas in veritate*, that is, not a simple authority coordinated of the various States, on their same level, without the possibility to legislate or to sanction the States which transgress the decisions taken.

The Authority must have primarily the possibility of *operating according to reason*, on the basis of the moral order and International Law.

According to the *Reflections* of the Pontifical Council, then, “On the way to creating a world political Authority, questions of *governance* (that is, a system of merely horizontal coordination without a higher authority *super partes*) cannot be separated from those of a *shared government* (that is, a system which in addition to horizontal coordination establishes a higher authority *super partes*) which is functional and proportionate to the gradual development of a global political society. The establishment of a global political Authority cannot be achieved without an already functioning multilateralism, not only on a diplomatic level, but also and above all in relation to programs for sustainable development and peace. It is not possible to arrive at global Government without giving political expression to pre-existing forms of interdependence and cooperation.”<sup>2</sup>

##### 5.5. *World political authority and global economic conditions*

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<sup>2</sup> PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, *Reform of the international financial system with a view toward a general public Authority*, pp. 27-28.

The proposal of a world political Authority, which goes beyond simple coordination, has raised many negative reactions in the Catholic world. And this, first of all, because *power* is often confused, understood in a sociological sense, with *authority*, and then because, under the influence of some economic schools – one thinks of that of Chicago - it is believed that the political authority does not have, ultimately, any responsibility in the face of the orientation of the economy. Politics and economics would be conceived as autonomous entities, each in their own field. Politics should not oversee the economy and finance and, therefore, would not be called upon to direct them in view of the realization of the common good.

With an almost antithetical reasoning, *Pacem in terris*, cited by Benedict XVI himself, proposes the urgent establishment of a world political Authority because the *permanent and contingent* demands of the common good, linked to the same economic world, require it. To it, as mentioned, should be given the *power to command* and not only to indicate the objectives and to coordinate the subjects with regard to the realization of an economy at the service of the common good, according to the principles of solidarity, gratuity and subsidiarity.

#### 1.6. Which world “order”?

It must also be mentioned that other Catholics do not support the proposal by the Pontifical Council because, in their opinion, the Social Doctrine of the Church would not allude to such an Authority, much less a "world order."<sup>3</sup> How to answer? First, it is really remarkable that a fair number of people, constituted in responsibility in the Church and in its organizations and associations, appear poorly informed about the contents of the Social Doctrine. The proposal of a world political Authority, to be fair, had already been made by Pius XII and then taken up by all the successive Pontiffs. This is also reflected in their speeches at the UN, in their Messages for the "World Day of Peace"! Why, then, this denial of a reality so obvious in the documents of the social Magisterium, even by people with good culture? The most plausible explanation is that of ideological bias. What is claimed by the popes cannot be seen, especially since it is adversely affected by a professional

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<sup>3</sup> Cf, for example, JEAN-YVES NAUDET, *Un texte qui invite au débat. A propos de la Réflexion de Justice et Paix sur la réforme du système monétaire international*, in “Liberté politique”, 57 (June 2012), p. 123.

sectionalism, from a biased culture, which causes it to be highly selective with respect to the social doctrine. With regard, then, to the prospect of a *world order*, it should be stressed that when the Social Doctrine of the Church speaks of it, it does not identify at all with that world order that has emerged through the supremacy and the political and economic dominance of international financial power, essentially speculative, which, for one side, is autonomised and separated from the productive economic process, to generate the virtual wealth that allows it to prey on the riches and the real resources and to get hold of them, and; for another side, it is appropriate of the governmental structures and the states of the developed countries to impose its political direction. What is proposed by the Social Doctrine of the Church is exactly the opposite. It does not intend at all to indicate a *One World Government*, involving the vision of a world reduced to a productive unit, the weakening of the Nation-States and their replacement with a supranational sovereignty that subordinates them to itself as cogs of a larger system. Do not think of a cultural-religious syncretism, which is a kind of universal-cosmic religion that replaces the many faiths and their respective cultures, and that does not affect the dominant technocratic culture; and even as a UN as a system that imposes social, economic, cultural policies that allow the political rule of the world by the transnational financial Power.

### 1.7. *World political Authority, social and cultural pluralism*

The social doctrine of the Church sustains the organization of a community of people, that makes reference to a supranational Authority, yes, but participative and democratic, an Authority that does not destroy the multiplicity of the communities and cultures. It is for a system of culture and pluralistic religions, animated by the conviviality and by the *strong* identities, capable, however, of interacting with each other within the bounds of the *common search* for the true, the good and for God. Therefore, it is for a policy that is not instrumental to a few groups, to financial and monetary systems, absolutized and oligarchic, but rather for a policy that is primarily at the service of the common good, which takes advantage of markets, not regimenting them, but making them more free, stable, transparent, democratic, functional to the real economy, businesses, families, local communities, making them function, that is, as “goods” and not as “public bads.”

## 1.8. *World political authority and the common good of the human family*

Other believers still claim that in the pronouncements of the Church it is indeed curious that there is talk of the need for a world political Authority, basing it on the common good, since there is no shared understanding of it.

They conclude that in the absence of a shared common good, it would be absurd to interest itself in the establishment of an authority responsible for it on the world stage. Again, what to say? First, despite the different approaches on the part of individuals and peoples, a national and world common good exists, as evidenced by all the personal and collective property that the human family must cultivate and which is usually codified in the constitutions of constitutional Charters of countries. In the second place, if you really want to be consequential with the sustained prospect, they would have to convince the politicians that represent them to abandon not only the Parliament of their country, but also the UN. If really the common good of nations and of the human family did not exist, the effort of all those who devote themselves to its implementation, albeit imperfect, would be useless for the society and for the world.

However, the Church proposes the establishment of a real political authority in the world, because it is deeply convinced that the common good of the human family exists, is inclusive of the common goods of the various peoples and transcends them. At n. 67 of *Caritas in veritate* we find a detailed list of reasons why that world political Authority must be established. They represent the major and many historical instances of the global common good today.<sup>4</sup>

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<sup>4</sup> Usefulness to the reader it seems appropriate to quote in the notes no. 67, although in it are well established concepts already mentioned in our “conclusive” reflections: “*To manage the global economy; to revive economies hit by the crisis; to avoid any deterioration of the present crisis and the greater imbalances that would result; to bring about integral and timely disarmament, food security and peace; to guarantee the protection of the environment and to regulate migration: for all this, there is urgent need of a true world political authority*, as my predecessor Blessed John XXIII indicated some years ago.” “Such an authority”—continues Benedict XVI—“would need to be regulated by law, to observe consistently the principles of subsidiarity and solidarity, to seek to establish the common good, and *to make a commitment to securing authentic integral human development inspired by the values of charity in truth*. Furthermore, such an authority would need to be universally recognized and to be vested with the effective power to ensure security for all, regard for justice, and respect for rights. Obviously it would have to have the authority to ensure compliance with its decisions from all parties, and also with the coordinated measures adopted in various international forums. Without this, despite the great progress accomplished in various sectors, international law would risk being conditioned by the balance of power among the strongest nations. The integral development of peoples and international cooperation require the establishment of a greater degree of international ordering, marked by subsidiarity, for the management of globalization. They also require the construction of a social order that at last conforms to the moral order, to the interconnection between moral and social spheres, and to the link between politics and the economic and civil spheres, as envisaged by the Charter of the United Nations” (CIV n. 67).

## 2. *Some significant steps for the West*

To be fair there some significant changes emerged regarding the detailed indications offered towards the end of the *Reflections* of the Pontifical Council.

Some measures were recently taken that have contributed or are contributing to change the landscape of the markets.

1. We refer, first, to the decision of the U.S. Department of Justice that asked to impose a pecuniary fine of more than \$5 billion to the giant Standard & Poor's (S & P). It is a serious blow to the anarchy and the greed of financial capitalism and its ideological system. This is the first case brought by the federal Authorities against a major *rating* Agency, charged with grave responsibilities in the financial crisis of 2007. The cause of the civil government is backed by 16 States and the District of Columbia, to which belongs Washington, the capital. According to the findings of the U.S. Government, Standard & Poor's violated its own criteria in assigning positive ratings to junk *bonds*, linked to loans that then triggered the financial crisis and resulted in losses of billions of dollars to investors. The U.S. Administration seems to be ready to act also against Moody's for fraud to investors.
2. Then, a proposal of the regulation of the "OTC derivatives" (*over the counter*, that is, negotiated under the table, outside the Stock market) was put forward as the first item on the agenda for the 2013 meeting of the SEC (Securities and Exchange Commission), as is also a restriction on the credit Institutions expected. After the heavy bailouts of 2008, London is going to pass a law that will dismantle the credit institutions that will not respect the dispositions of the Government in the matter of risky operations, separating *investment banking* from other activities. In practice, if a bank will not respect the laws, the Authorities and the Treasury will have the power to dismantle and implement an actual separation.

And some of the other banks, among which are BSBC, Barclays, Lloyds and Royal Bank of Scotland, will have to repay the small and medium enterprises in the country for having sold their derivative securities in an irregular manner. This was established by the Financial Services Authority (FSA), the British Financial Authority, according to which 90 percent of the stipulated contracts from the large institutions would violate the rules.

According to the Authority, the thousands of customers were hardly able to understand the risks associated with such products. In the past eleven years, 28,000 small and medium-sized UK companies have signed *swap* contracts.

3. On 13 March 2013, the European Parliament gave the green light to the so-called Two Pack, or the new regulation of economic stability. The measure gives the European Commission a role that is unprecedented: the opportunity to comment on the national budgets of the 17 euro zone countries (as of 2014) and possibly veto, while until now could express only recommendations. The meeting in Strasbourg added to the original set a number of provisions to improve the transparency and accountability of the surveillance system. In particular, the Commission's assessment of budgets, country by country, will have to consider more aspects, to avoid that the proposed cuts block the investments for growth. According to the apparatus adopted by Parliament, when a country will be called upon to make cuts in public spending, these will not have to prejudice the investments in the field of education and health, especially in the presence of severe financial difficulties. In addition, the roadmap for *deficit* reduction should be applied more flexibly in the event of exceptional circumstances or severe economic downturn.<sup>5</sup>
4. The recent agreement between the European Parliament and EU Council of "Basel 3" should also be noted with reference to the capital requirements of banks. According to this agreement the capital improvements needed to give greater stability to the banks should not make more difficult access to credit for small and medium-sized enterprises. In the new European standards, in fact, a special weighting was inserted: this will allow the banks, in the case of loans to companies, to decrease the required regulatory capital.
5. In addition, there have been some steps in the direction of the *separation* of speculative financial activities and normal activities of credit and savings:
  - a) The Government of Angela Merkel approved a bill on 7 February 2013 that imposes on the above mentioned banks. The project also increases the penalties for those credit institutions which put at risk the survival of the banks through inappropriate speculation.

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<sup>5</sup> Cf "L'Osservatore romano" (Thursday 14 March 2013), p. 2.

- b) Last December 2012, the French executive scheduled for February 2013 the discussion in Parliament of a similar provision and, in addition, also included the ban on high frequency trading and speculation on the prices of agricultural products.
  - c) Also the British Government launched a plan that aims to complete the separation of investment banks from commercial ones, which should quietly enter into force in the next twelve months.
- 6) On the subject of taxation, for reasons of social justice, *of financial transactions*, many Catholic associations for a long time have been promoters of it. It is known, then, that in Europe, 11 states have joined the project. In Italy, the *Tobin Tax* was implemented with the stability law at the end of 2012. Of course, this tax must be organized with moderation and wisdom and used primarily to discourage highly speculative financial transactions in short-term so as to favor the *other* finance, that which provides credit to the real economy. It is, in particular, to launch new fiscal policies.

In Italy, the modulation of the tax on financial transactions has worsened the formulation of the European Commission. It is in fact applied to the daily balances rather than transactions; solely to equity derivatives, excluding interest rate derivatives, currencies, *commodities*; companies with turnover of less than € 500.00 are excluded; the flow of *High Frequency Trading* is substantially excluded.

The question is relevant in two respects. The first concerns the fiscal incentives as an effective means to overcome the crisis. Taxing financial transactions means, in fact, to discourage speculative finance and begin to recover some of the enormous negative externalities that it has downloaded on the economy and society in terms of recession and breaking of social cohesion. To the financial transaction tax would be associated tax concessions on interest income and the possibility of allowing the deduction of credit losses in the short term (today 18 years are provided). In this way, fiscal policy would be able to effectively and selectively favor a model of bank based on credit while discouraging a model of bank based on finance and speculation. It would come out, finally, from the abstract debate on the banking model expressing a clear orientation for a type of socially responsible brokerage at the service of the families, businesses, economies and communities of reference.

The second aspect relates to the slowness and the tortuosity of the national implementations of communitarian guidelines exposed to high risks of distortion and weakening under the influence of the pressures of the financial *lobbies*, an important issue that requires broad civil society movement, which allowed the change, a vigilance and a capacity for critical and constant motion against Government Authorities.

An objection is constantly raised with regard to the so-called *Tobin Tax*: that it cannot be effective unless it is introduced at the same time all over the world otherwise it will cause capital flight. In reality, the central problems are other ones. The falsity of certain clichés must be denounced. The more entrenched myth - that, to produce advantages, it would occur that it be applied in all the world - is belied by the fact that such a tax is in force in forty countries, without any international agreement and without causing massive escape of capital to other countries. Great Britain, that is opposed to the *Tobin Tax*, in fact already applies something similar by means of the *stamp-duty*. It is a stamp duty and registration fees, in force for years, that has not prevented the London Stock Exchange from being, along with *Wall Street*, the main financial center of the world.

Another myth would see such a tax fall on the shoulders of investors. In this regard, there is a 2011 study of the International Monetary Fund, according to which the tax would be progressive, with a greater impact on the huge transactions carried out in a very short time. It would aim, therefore, to affect mainly the large speculative operations, and not so much the small savers and the long-term investments, which would be affected only marginally.

Concluding, the regulation of the financial markets is necessary, because they are at the service of the realization of peace and the common good. There is need of their institutionalization with ethics, of a regulatory intervention of the political Authority at the world level, not being sufficient those which are confined to the regional level.

### 3. *Conclusion: financial reform in a context of sustainable development and social economy policies*

Despite the growing Euroscepticism, one cannot imagine a realistic solution to the current financial crisis without the implementation of economic and financial policies of the European Community, as well as social policies, while respecting the just autonomy of the

States.<sup>6</sup> Obviously, the Union is called to change some parameters, moving more towards the prospects of a *social economy*, as proposed by the Social Doctrine of the Church, and having as the cultural foundation *communitarian and relational personalism*, open to *transcendence*, which places at the center of the economy the human person considered in its entirety. In essence, it is to flip the primacies of contemporary financial capitalism: the primacy of capital over labor; the primacy of short-term profit on businesses, families and communities; the primacy of politics over finance. Policy needs to restore its role of service to the common good and is called on the regional, national and supranational levels, based on a democratic and participatory method, to ensure the conditions of a sustainable development for all.

The Commission of the Bishops' Conferences of the European Union (COMECE), which represents the bishops of Europe, promulgated a Declaration on 12 January 2012, bearing the significant title: *A Community of European solidarity and responsibility*, centered on the objective of a social market economy competitive in the European Union Treaty. This *Declaration* certainly deserves to be disclosed and in-depth, because it is an example of how one can participate in civil debate on the possibility of achieving the objective of the social economy in the European market, which cannot be limited to economic growth and financial statements in balance, translating the guidelines of the Social Doctrine of the Church in this particular context.<sup>7</sup>

About Europe, the following statements of a recent co-authored book seem illuminating: "Europe needs a new economic *New Deal*, social, human, comparable to that promoted by Franklin Delano Roosevelt in 1933. The problem now seems to cleave Europe is that of economic competition in a polycentric world in which new global actors have appeared. The worst mistake that could make Europe is passively the pressure of the competition, adopting foreign models to its history, its tradition and its achievements of civilization. Europe needs, on the contrary, a defense, a raise and a reinvention of its economic, civil and political model, based on welfare, commitment to the protection of the material and moral dignity of the existence of every single citizen, the deepening and

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<sup>6</sup>Some suggestions for the solution of the Italian crisis in the European context are traceable in ALBERTO QUADRIO CURZIO-CARLO DELL'ARINGA, *Puntare su Europa e lavoro per vincere la crisi*, in "Vita e Pensiero" XCV/6 (November-December 2012), pp. 35-46.

<sup>7</sup>Cf COMECE, *Une communauté de solidarité et de responsabilité. Déclaration sur l'objectif d'une économie sociale de marché compétitive dans le Traité de l'Union européenne*, Brussels 2012.

broadening of the quality of individual and collective life. Europe needs a new social pact. A new social pact at European level is a priority, as much as the goal of political unification and the goal of economic recovery: each of these objectives cannot be achieved independently of the others.”<sup>8</sup>

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<sup>8</sup>EDGAR MORIN-MAURO CERUTI, *La nostra Europa*, Raffaello Cortina Editore, Milan 2013, pp. 64-65.