



PONTIFICIUM CONSILIUM  
DE IUSTITIA ET PACE

## ***Banking on the Common Good, Finance for the Common Good***

**San Calisto, 13 May 2013**

### **A. Introduction to the day and its title**

We begin with the Pontifical Council's booklet, *Towards reforming the international financial and monetary systems in the context of global public authority*.<sup>1</sup> In October 2011 it recognized, and today we continue to recognize, the critical state of these systems. Our reflection then expressed faith and hope in the possibility of reform; and so do we now. It is a matter of restoring trust and of re-establishing a sense of direction. Today's title and programme are inquiring how – in the context of globalization – financial markets, financial institutions and global financial governance can better serve the common good.

Today's colloquium does not consider and elaborate the central notion of common good. Rather, our discussion assumes or postulates the common good as both foundation and goal of everything we shall speak about. So let us take for granted that the *common good* indicates "the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfilment more fully and more easily."<sup>2</sup> This always means "the good of the whole person and of all people."<sup>3</sup> Therefore the reflection *Towards reforming...* opens with the presupposition that "every individual and every community shares in promoting and preserving the common good."<sup>4</sup>

More than five years of crisis have shown that attempts to achieve great gains for some few, while ignoring the needs of others, is no longer intelligent, productive or justifiable. Instead, while pursuing their proper goods, banking and finance have to effectively orient their core activities towards the common good, and effective governance is needed to help make sure that they do so. [C.3. *The plan, aim and strategy for acting together*]

Today's title begins with "**Banking** on the Common Good". The expression "to bank on" means to count on (*contare su*), to trust in (*fare affidamento su*); it reminds us that, among all

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<sup>1</sup> Pontifical Council for Justice and Peace, *Towards reforming the international financial and monetary systems in the context of global public authority*, revised edition, Libreria Editrice Vaticana, 2011.

<sup>2</sup> Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Libreria Editrice Vaticana, 2005, § 164.

<sup>3</sup> *Catechism of the Catholic Church*, § 1912.

<sup>4</sup> "Towards reforming...", *Presupposition*, p. 9.

the damages caused by the crisis, public trust has been severely damaged. People want to believe again that their well-being matters to the banking sector and is a real goal of that business. So “banking on the common good” means that the world’s people are counting on economic and political leaders to adopt the concern for the well-being of humanity, whole and entire, as the decisive horizon for the decisions they make. As the components of the international system show that they are functioning on this solid foundation, they will win back the public’s trust. [C.1. *The basis or foundations of acting together*]

What guarantee do we have that the crisis will be overcome in an enduring manner? The only guarantee is, simply put, the shared exercise of responsibility or, in one word, **governance**. Therefore, we shall also examine how governance must exercise vigilance to make sure that banking, finance and other basic global functions are really founded on the common good and do really aim for the common good. It is up to governance to assure that financial markets and institutions are properly oriented and solidly founded or, in other words, are purposeful and trustworthy. [C.2. *The constitution, the constituents that act together*]

Today’s programme has divided the crisis down into the three components or dimensions of financial markets, financial institutions and global financial governance, and you have been invited as experts in one or more of these. During each of the three panels, as you listen, I invite you to keep in mind the aim/goal, the fundament/foundation, the guiding viewpoint of the common good. And all day long, please be alert to discover what kind of global public authority is needed in order to reform the international financial and monetary systems, and what radical, ambitious yet modest steps ought to be taken towards that goal.

## **B. Globalisation is the most important factor affecting the “common” of common good**

Now I remind us briefly of some aspects of globalization, as this is doubtless the context which has made the current crisis different from previous ones. Globalisation has opened up great opportunities but also generated new dangers and worsening inequalities. Like natural forces, it can have good or bad consequences; but unlike natural forces, it is under human control. In his great social encyclical *Caritas in Veritate*, Pope Benedict XVI encourages us “not [to] be the victims [of globalization], but rather its protagonists, acting in the light of reason, guided by charity and truth.”<sup>5</sup>

Our world is more and more globalized – environmentally, from weather patterns to pollution; socio-politically, projections of force and migrations of people; instantaneous information-sharing and export of ideologies; and in commercial, financial and monetary terms, which is our focus today.

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<sup>5</sup> Benedict XVI, *Caritas in Veritate*, 2009, § 42.



For a few decades already, poor countries, growing more than rich ones,<sup>6</sup> are slowly converging towards a higher standard of living. Massive movements of money, capital and migrants are fuelling this global process.

At the same time, there are massive inequalities and severe gaps. There are horrible failures such as the recent tragedy in Dhaka. And of course, there is stubborn unemployment in some European countries, perceived instability of financial systems, mistrust in the banks and in politics, and cynicism about the state. Globalization is responsible for the severity and the prolongation of the crisis. Knowing that, let us go on, not as victims but as protagonists, and let us live the crisis proactively as “an opportunity for discernment, in which to shape a new vision for the future.”<sup>7</sup>

### **C. Viewing a globalizing panorama, here are some filters, screens, lenses ...**

The challenge for today is how financial markets, financial institutions and global financial governance can contribute to the long term success of all stakeholders, including the environment and future generations. To each of you speakers and participants, for coming together to take up this challenge, for making your competence available, and for contributing to our common inquiry, let me express my heartfelt thanks in the name of the Pontifical Council for Justice and Peace.

Having already invoked the common good as our common point of departure and arrival, what I can contribute in this keynote are some ideas to help us to work together, aiming at what is really important; ideas that, when technical details become many, help us return to the true issues; ideas that we can use to appreciate or judge the quality of our proposals and recommendations at the end of the day. The ideas are called filters because they may help filter out (viruses like) prejudice or even ideology; they are called lenses because they can help to focus on the complex reality under discussion as well as keep the broad horizon in view.

1. a foundational filter or lens concerning the human person, organizations and values [banking-on, trust];
2. a constitutive filter or lens about the state, the corporate sphere and civil society [governance]; and
3. a strategic filter or lens to focus on actions that are radical and ambitious yet modest [towards the aim/goal of the common good].

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<sup>6</sup> UNDP, *Human Development Report*, 2012. According to one commentator, emerging countries are growing faster than already industrialized ones, but neither China nor other South-East Asian economies follow the *doxa* of globalization, the laissez-faire doctrine; the last round of WTO negotiations remains a failure.

<sup>7</sup> *Caritas in veritate*, § 21. Experience, rules and commitment echo the familiar framework in Catholic social thought of *see, judge, act*.

### C.1. The foundations of acting together

A spiritual reading of economic reality tells us that the ongoing transformation of social and economic systems is not predetermined. No invisible hands will drive us automatically toward the common good or reconcile the self-interest of economic actors into a socially optimal outcome. Since 2008 we have learned many lessons; let me mention four of them:

i) If unregulated market forces are left to themselves, we have learned, they do not produce an ideal competitive outcome. Quite to the contrary, they tend towards concentration, to the predominance of a few actors that are “too big to fail” and too big to bail out. We saw them take too many risks; we saw the anarchy of high-frequency speculative trading. Domestic and international financial institutions are now aware that this is a problem which exposes the world to new forms of risk.

ii) Unregulated securitization, we have learned, can lead to a lethal concentration and misallocation of credit risks.

iii) Thirdly, we have learned that the leverage cycle may lead to speculative bubbles, whose bursting destroys some of the real wealth of nations – unless a counter-cyclical policy is put into practice by public authorities.

iv) Finally, we have seen the rapid growth of the shadow banking system, which is even more dangerous than the “enlightened” banking system and therefore calls all the more urgently for regulation.

The world in which we now live and will live in tomorrow is produced by choices. The choices must be made more responsibly. The foundations of such socially-responsible cooperation, I believe, lie in a positive understanding of our nature as human beings and the nature of organizations and of values.

First, the human being is imbued with human dignity and transcendence and is ultimately relational. We must vigorously contest the reduction of the human to *homo economicus*. A human being is more than a unit of production or a unit of consumption or a unit of debt. Human experience repudiates the ideological notion that money is the only measure of gain, and that the only productive motive for action is greed and selfishness. Indeed, modern economics and game theory show that social and economic life is enriched by investments which yield dividends irreducible to cash, and marked by dilemmas which are solved thanks to high levels of trust, fraternity and fair exchange.

Second, all organizations produce more than outputs. They affect the wellbeing of their stakeholders and of the environment in which they operate. But some popular economic thought has narrowed their purpose to the unique goal of profit maximization. Further, it claims that, if the common good even exists, it will be ensured by three external mechanisms – perfect competition, competent and independent agencies that correct negative social and environmental externalities, and the danger of loss of reputation. Unfortunately, we know that these three mechanisms are chronically imperfect and often ineffective. This is why *Caritas in Veritate* applauds “corporate biodiversity” where corporations of different kinds – non-



profit, multi-stakeholder – participate alongside traditional profit-oriented ones in a more “civilized” market. Conversely, businesses are entirely capable of embracing a wide range of virtues and values, as we explored in our handbook *Vocation of the Business Leader*.<sup>8</sup> They do so for the sake of the common good; they often find that such holism is more sustainable and more advantageous for the bottom line than the maximization of short-term profit.

Third, we need to be clear that values are not reducible to the marketplace. Whether or not every human being has innate dignity and deserves respect – this is not subject to marketplace competition. Whether or not all humans today and future generations have a share in the common good – this is not the theme of an election or a reality television contest. Values guide choices; therefore they cannot be reducible to evaluations or choices. With Catholic social teaching, we have a grand wealth of solid values to guide choices and profound knowledge of their divine sources.

## **C.2. The constituents that act together**

To bring about a financial system truly oriented toward the common good, the three stakeholders – the corporate sector, civil society and the state – must act together and exercise a common *social responsibility* that is imbued with *solidarity* and *subsidiarity*. Without this partnership and these virtues, the world will lack the cultural strength to implement changes for the common good, no matter how technically sound they might be.

Let me offer a few illustrations.

One of the main challenges of globalization is the confrontation between domestic institutions and rules on one side, and global corporations and investors on the other. This scenario has rapidly created the paradox of “wealth without nations and nations without wealth”. This must change, and it will take joint effort of all the constituents.

Interconnectedness and the ease of transmission mean that shocks in one jurisdiction spread to other economic areas with lightning speed. Domino effects appear in distant parts of the world. To avoid beggar-thy-neighbour effects, a culture of solidarity must enter into relations among corporate actors, spokesmen of civil society, and political or state representatives.

Mismanagement of the financial framework can have profound consequences in non-financial areas. We observe that European solidarity is sadly declining. Myopic nationalistic behaviour is on the rise and threatens to tear apart the whole project of European Union. European politicians must realize the urgent need to restore contact with citizens and regain their trust.

The crisis that began in 2008 showed the hazards of inadequate equity holdings in lending institutions and of incautious loans. Corporations must avoid providing incentives to their executives that encourage rash behaviour and then release them from accountability for their actions. Citizens individually and collectively need access to sufficient resources to live a

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<sup>8</sup> Pontifical Council for Justice and Peace, *Vocation of the Business Leader: A Reflection*, 3<sup>rd</sup> edition, Pontifical Council for Justice and Peace, 2012.

dignified life, and must exercise prudence in their behaviour. The state should encourage sound judgment and healthy behaviour in all spheres, and ensure that both citizens and businesses have a fair chance to access the resources they need.

As this and the other examples show, I have illustrated the urgent need for the main constituent actors – the state, the corporate sector and civil society – to work together.

### **C.3. The plan for acting together**

Today's Colloquium should recommend ways to overcome the crisis. So the final filter for our call to action is the strategic suggestion that the next steps be *radical*, *ambitious* and *modest*:

- These efforts need to be *radical* in order to penetrate to the real roots (*radix*) of the current crisis, and also to identify the deepest foundations on which to build lasting solutions.
- Secondly, proposals to reform the system and establish order at the global level need to be *ambitious*. Being the economic, social and political creatures we are, our responsibility to one another in the global human family is to do our very best.
- Thirdly, any strategy ought to be *modest* in suggesting small first steps in the right direction. One cannot reform everything at once; it is better to have a series of limited, achievable goals, mapping each step so that it points toward the long-term goal.

On this last quality, I understand that the work to establish a Single Supervisory Mechanism for banks in the European Union has assumed a slower pace after the first attempt proved too ambitious. It was too much to start with all the banks. Not only is a more limited start a good prescription for testing and fine-tuning; it also allows time to pay attention to the deeper and broader issues raised by the other two qualities of *radical* and *ambitious*. And let me go further. In all our efforts to pursue *the common good*, I call for constant attention to *solidarity* among all stakeholders and actors so that none are excluded; and profound observance of *subsidiarity* so that the dignity and competence of every party is respected.

### **D. Conclusion**

After the coffee break, the three panels will present, one after the other, on financial markets, financial institutions, and global financial governance. As you listen, I hope my three filters will be of assistance. Each has three elements: the foundations of the human person, organizations and values; the state, the corporate sector and civil society as constituents; and the strategic advice to be radical and ambitious yet modest in our recommendations. I hope you find this a fruitful approach.

Please notice how Pope Benedict challenged us to give our very best:

The current crisis obliges us to re-plan our journey, to set ourselves new rules and to discover new forms of commitment, to build on positive experiences and to reject negative ones. The crisis thus becomes an opportunity for discernment, in which to

shape a new vision for the future. In this spirit, with confidence rather than resignation, it is appropriate to address the difficulties of the present time.<sup>9</sup>

Open, honest, courageous discernment about experience can lead to new vision and rules, inviting new forms of commitment. To this let me add the basic concerns that our present Holy Father identified to explain his choice of the name Francis: for the poor, for peace, and for the natural world.<sup>10</sup> Surely the best way to fill out the idea of *the common good* for which the world yearns!

May God bless the foundations on which we will be working, the constituents we represent and speak about, and the next steps which emerge as strategic ... all this aiming toward full common good, our human and eternal destiny.

Cardinal Peter K.A. Turkson

President

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<sup>9</sup> *Caritas in veritate*, § 21. Experience, rules and commitment echo the familiar framework in Catholic social thought of *see, judge, act*.

<sup>10</sup> Pope Francis, Audience with the Diplomatic Corps Accredited to the Holy See, 22 March 2013.  
[http://www.vatican.va/holy\\_father/francesco/speeches/2013/march/documents/papa-francesco\\_20130322\\_corpo-diplomatico\\_en.html](http://www.vatican.va/holy_father/francesco/speeches/2013/march/documents/papa-francesco_20130322_corpo-diplomatico_en.html)