



## *“Towards reforming the international financial and monetary systems”*

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I am grateful to the London School of Economics and Political Science for inviting me to contribute to the Forum on Religion. The Forum effectively embodies the conviction of L.S.E. that religion both can and must inform public affairs.

Indeed, the II Vatican Council recommended that the Church enter into dialogue with the world about all its different problems, as an expression of her solidarity and respectful affection for the human family to which she belongs.<sup>1</sup> That is what the Pontifical Council for Justice and Peace was set up to carry out. Pope Benedict XVI specified the “fruitful dialogue between faith and reason,”<sup>2</sup> between faith and economic reason, faith and political reason, faith and social reason.

Accordingly, writing his social encyclical *Caritas in Veritate* for 2007, Pope Benedict delayed its publication for two years in order to treat the financial and monetary crisis which had just broken open upon the world. He identified “the roots of a crisis that is not only economic and financial but above all moral in nature... To function correctly the economy needs ethics; and not just of any kind but one that is people centred.”<sup>3</sup>

After clarifying why the Church would want to talk about international financial and monetary systems, I shall take you through the Pontifical Council’s 2011 publication on the topic. This will lead me to consider the key notion of the common good as central to our reflection. The way forward, then, depends on both leadership and committed inquiry. Finally, I very much look forward to our discussion.

### **I. THE NOTE AND ITS MAIN POINTS**

In October 2011, on the eve of the G20 meeting in Cannes, the Pontifical Council published its *Note* entitled *Towards reforming the international financial and monetary systems in the context of global public authority*.<sup>4</sup> I call it a “Note” to indicate the nature of the text. It is a discussion document meant

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<sup>1</sup> *Gaudium et Spes*, § 3.

<sup>2</sup> Benedict XVI, *Caritas in Veritate*, § 57.

<sup>3</sup> *Caritas in Veritate*, § 45.

<sup>4</sup> Revised Edition, Libreria Editrice Vaticana, 2011, pp. 42.

to stimulate international reflection and discussion about the financial markets still in the grip of the crisis which burst open in 2007.<sup>5</sup>

*Towards reforming...* is a 42-page *Note*. The text is in four chapters of roughly equal length.<sup>6</sup>

The first chapter, *Economic Development and Inequalities*, aptly **describes** the multiple causes of the crisis and the disastrous effects of erroneous policies, flawed institutions and ethical breakdowns (10). “Since the 1990s, we have seen that money and credit instruments worldwide have grown more rapidly than the accumulation of wealth in the economy, even adjusting for inflation. From this came the formation of pockets of excessive liquidity and speculative bubbles which later turned into a series of solvency and confidence crises that have spread and followed one another over the years” (11).

The second chapter **analyses** three ideologies which are at the roots of the crisis. Economic liberalism spurns rules and controls over the market. Utilitarian thinking claims that what is useful for the individual by and of itself leads to the good of the community. The rule or supremacy of technology sees everything, including human values, as technical variables, plus ethical and cultural shortcomings which exacerbate the damage “such as selfishness, collective greed and the hoarding of goods on a mammoth scale” (19). Even when economies are recovering, the distribution of wealth has not become fairer.

The third chapter, *An Authority over Globalization*, makes a **proposal** grounded in the common good and oriented by solidarity and subsidiarity. “The creation of a world public Authority at the service of the common good” is “the only horizon compatible with the new realities of our time” (41): this is what one can read in the *Note* by which the Pontifical Council for Justice and Peace wants to offer a contribution to the “world leaders and all people of good will” (7), in the face of the present world economic and financial crisis which “has exposed behaviours such as selfishness, collective greed and the hoarding of goods on a mammoth scale” (19). The *Note* underlines that “What is at stake is the common good of humanity and the future itself” (41): more than one billion of people live with barely a dollar a day, “the inequalities within and between various countries have also grown significantly” (13), “giving rise to tensions and to massive migratory movements” (15). As the text underlines “No one can in good conscience accept the development of some countries to the detriment of others” ... “No one can be content with seeing man live like *a wolf to his fellow man*, according to the concept discussed by Hobbes” ... “If no solutions are found to the various forms of injustice, the negative effects that follow on the social, political and economic level are destined to create a climate of growing hostility and even violence, and ultimately undermine the very foundations of democratic institutions, even the ones considered most solid” (19).

The *Note* urges the world community to recognize that the global common good is seriously compromised by the failings of the international financial and monetary systems, and accordingly to exercise proportional responsibility for it. This call for a supra-national or global approach would implement what the G20 leaders themselves acknowledged in the *Statement* they adopted at their

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<sup>5</sup> Earlier publications on economic and financial issues include *Social and Ethical Aspects of Economics – A Colloquium in the Vatican* (1992), Antoine de Salins and François Villeroy de Galhau, *The modern development of financial activities in the light of the ethical demands of Christianity* (1994), and *A New International Financial Pact* prepared for the International Conference on Financing for Development in Doha (2008).

<sup>6</sup> For an excellent explanatory summary of the *Note*, see Paolo Foglizzo, “Nuovi orizzonti per la finanza internazionale,” *Aggiornamenti Sociali*, 31.01.2012.

Pittsburgh Summit in 2009: “The economic crisis demonstrates the importance of ushering in a new era of sustainable global economic activity grounded in responsibility.”<sup>7</sup>

The fourth chapter considers **implementation**. It calls for reforms that respond to the needs of all people. It elaborates what the 2009 Pittsburgh Summit itself generated: a proposal “to reform the global architecture to meet the needs of the 21st century,” and later a proposal “to launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth.”<sup>8</sup> To function properly, the economy needs a primacy of ethics over behaviour, and a primacy of politics exercising responsibility over economy and finance for the common good. For example, to fill “the gap between ethical training and technical preparation” (36); taxation measures on financial transactions in order to support the economies hardest hit by crisis; recapitalization of banks with public funds, making the support conditional on “virtuous” behaviours aimed at developing the “real economy”; the definition of the two domains of ordinary credit and of investment banking (35-36).

The *Note* concludes with a historical **reflection** on globalization and nation states: “The time has come to conceive of institutions with universal competence, now that vital goods shared by the entire human family are at stake, goods which individual States cannot promote and protect by themselves. The conditions exist for going definitively beyond a ‘Westphalian’ international order in which States feel the need for cooperation but do not seize the opportunity to integrate their respective sovereignties for the common good of peoples” (40).

Thus, some six years of crisis have shown that attempts to achieve great gains for so few, while ignoring the needs of very many, is no longer intelligent, productive or justifiable. Instead, while pursuing their proper goods, business, banking and finance have to effectively orient their core activities towards the common good, towards an inclusive economic growth.

Millions upon millions of “have-nots” make up much of humanity; their portion of the world’s wealth was (and is) diminishing; and the crisis was hurting them – and is still hurting them – far more than the wealthy and powerful. For example, according to a recent Oxfam report, almost half of the world’s wealth is now owned by just one percent of the population, and their wealth amounts to about \$110 trillion. That is 65 times the total wealth of the bottom half of the world’s population, which owns the same as the richest 85 people on earth. Seven out of ten people live in countries where economic inequality has increased in the last 30 years.<sup>9</sup> Some markets might now be up, but many people are still very down, and the crisis is making inequality worse.

To this Pope Francis has vigorously said no: “No to an economy of exclusion, no to the new idolatry of money, no to a financial system which rules rather than serves, no to the inequality which spawns violence.”<sup>10</sup> For as Church we believe it is our right and, even more, our most urgent duty, to urge insistently that people be put first and so to advocate for a reformed international and monetary system. And it was the Church’s concern for humanity – for the common good of all, and especially for those who most severely suffer – that led us into this subject.

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<sup>7</sup> *Leaders’ Statement*, The Pittsburgh Summit, 24-25 September 2009, Annex, 1.

<sup>8</sup> *Leaders’ Statement*, The Pittsburgh Summit, 24-25 September 2009, *Preamble*, nos. 18, 13.

<sup>9</sup> Moreover, the richest one percent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012. In the U.S.A., the wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer. <http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-summ-en.pdf>

<sup>10</sup> Cf. Pope Francis, *Evangelii Gaudium*, §§ 53-60.

### III. THE COMMON GOOD

To situate the above considerations, we can now ground them in Catholic Social Teaching about the common good. The *Compendium of the Social Doctrine of the Church* provides the basic presentation:

*The principle of the common good, to which every aspect of social life must be related if it is to attain its fullest meaning, stems from the dignity, unity and equality of all people. 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>11</sup>

A powerful synonym for the common good is what Popes Paul VI and Benedict XVI call integral human development, that is, the spiritual, moral, and material flourishing of each and every human being as free, responsible and social persons.<sup>12</sup>

*The common good does not consist in the simple sum of the particular goods of each subject of a social entity. Belonging to everyone and to each person, it is and remains “common”, because it is indivisible and because only together is it possible to attain it, increase it and safeguard its effectiveness, with regard also to the future.*<sup>13</sup>

And going on to link the personal and the social:

Just as the moral actions of an individual are accomplished in doing what is good, so too the actions of a society attain their full stature when they bring about the common good. The common good, in fact, can be understood as the social and community dimension of the moral good.<sup>14</sup>

So the common good, the goal of all human striving, is personal and social and universal. A most important corollary is that persons and communities who are economic actors are also moral actors. The same point can be made in another way: all economic choices, whether as consumers, business-leaders, bankers, or policy-makers, inescapably have a moral dimension. The economy is no more a morality-free zone than politics, civil society, or the family. Economics, like all sciences, contains its own truths, which are studied and furthered by economic historians, philosophers, mathematicians and other specialists. To this, the Church offers the dialogue of faith. It does so by situating the truths of economics within the full truth about the human person – the only creature created “in the image and likeness of God” (Genesis 1:27). “Economy, as the very word [from Greek: *oikos nomos*] indicates, should be the art of achieving a fitting management of our common home, which is the world as a whole.”<sup>15</sup> In this original spirit, economy needs to recover its sense of responsibility for the welfare of all denizens of the global household.

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<sup>11</sup> Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Libreria Editrice Vaticana, 2004, § 164 (italics in original).

<sup>12</sup> Especially in Paul VI, *Populorum Progressio*, and Benedict XVI, *Caritas in Veritate*.

<sup>13</sup> *Compendium*, § 164 (italics in original).

<sup>14</sup> *Compendium*, § 164.

<sup>15</sup> *Evangelii Gaudium*, § 204.

Now our relatively new context is globalisation. What we experience, increasingly, is the complex interdependence of many human realities that we used to think of as separate from one another. In his message to the World Economic Forum at Davos, Pope Francis gave alarming examples of globalised problematics: “It is intolerable that thousands of people continue to die every day from hunger, even though substantial quantities of food are available, and often simply wasted. Likewise, we cannot but be moved by the many refugees seeking minimally dignified living conditions, who not only fail to find hospitality, but often, tragically, perish in moving from place to place.”<sup>16</sup> Such tragedies are what the Holy Father denounced, at Lampedusa, as “the globalization of indifference”.<sup>17</sup>

On the contrary, globalisation should finally also mean the globalisation of the common good, e.g., fair wages, decent work, etc. “A fair globalization ... reduces inequalities and expands opportunities for people worldwide.”<sup>18</sup> This is the presupposition of the *Note*: “Every individual and every community shares in promoting and preserving the common good” (p. 9).

At the national level, the final arbiter of the common good in each country is the State. But “to reap the full benefits of good national governance, we [also] need good global governance.”<sup>19</sup> The *Note* suggests that corresponding authority needs to be exercised at regional levels and finally at the global level in order to discern competing values, to help various goods to stay in harmony or come into harmony, and to orient competing or unrelated interests toward the common good. The *Note* acknowledges that establishing such authority is not without its potential risks, which is why it invokes the principle of subsidiarity<sup>20</sup> to limit the sway of any such “higher” instance.

As to who should step up to these challenges, Pope Francis gave this response at the World Economic Forum: “I wish to emphasize the importance that the various political and economic sectors have in promoting an inclusive approach which takes into consideration the dignity of every human person and the common good. I am referring to a concern that ought to shape every political and economic decision, but which at times seems to be little more than an afterthought.”

Fundamental principles like human dignity, the common good and inclusivity cannot be a mere addendum or afterthought. How then can we as *homo economicus* authentically taken them into account?

#### IV. THE COMMON GOOD IN THEORY AND PRACTICE

The world needs both theory and practice, and I am confident that both practical and theoretical interests are represented here this evening. Let me give an example of each. To illustrate what the Church can best do to promote sound reform of the economic, financial and monetary systems, let me first give a practical example regarding leadership, and then a proposal to encourage good thinking, good theory.

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<sup>16</sup> Pope Francis, *Message* to the World Economic Forum, Davos, 17.01.2014.

<sup>17</sup> Pope Francis, *Homily*, “Arena” sports camp, Salina Quarter, Lampedusa, 8.07.2013

<sup>18</sup> Juan Somavía and Renato Martino, *The challenge of a fair globalization*, International Labour Organization, 2005, p. 33.

<sup>19</sup> Somavía and Martino, *The challenge...*, p. 41.

<sup>20</sup> Subsidiarity respects autonomy. It requires respect for the autonomy of the more local unit in a hierarchy of institutions, and the offer of support or *subsidiuum* when needed. But in common speech, a **subsidiary** is a component, lesser or partial entity. Combining the two terms, one can say that *subsidiarity* requires a larger entity to respect and support its *subsidiary*. Toyota is well-known for applying this principle among its personnel at all levels.

## *A Practice of True Leadership*

Last September the Pontifical Council for Justice and Peace hosted a gathering of chief executives and other key leaders of the global mining industry. These executives recognized that, while the negative perception of the industry might be exaggerated, it was not undeserved. They had failed, particularly, to listen to those who are directly affected by their operations. They had not shown respect. They had not thought enough about the common good or about future generations. They wished to reflect on how the mining industry might put its best foot forward with regard to society and the environment.

Accordingly, Justice and Peace designed a day-long program to create dialogue among executives and with stakeholders. The common concern was about the direction the industry should be taking from now on, about the health of each participant's firm, and – first and finally – about what we would call the 'vocation' of every individual present. We hoped that the combined listening and self-examination would lead to new approaches which I called "mining towards the common good".

The day required deft and careful planning to achieve dialogue among stakeholders who are used to being competitors or opponents of each other. The following elements were found to be critical to success:

- Participants needed to come with a commitment to be open to new ideas and values. Their attitude would be one of **learning**.
- Encourage **personal reflection** as a gateway to *innovation*, to an enriched understanding of *business as vocation*, and to *personal grounding*. That comes from introspection, from honest reflection on one's personal beliefs, values and history.
  - First, for the dialogue to be new rather than entrenched, participants needed to reach beyond their usual thinking and corporate stances.
  - The second reason for such personal reflection is to embrace one's own reality beyond the individual firm and to discover one's sense of vocation. Business people have the honour and responsibility to be co-creators with God in the continuing, unfolding work of creation. Pope Francis affirms business as a vocation, "a noble vocation, provided that those engaged in it see themselves challenged by a greater meaning in life; this will enable them truly to serve the common good by striving to increase the goods of this world and to make them more accessible to all."<sup>21</sup>
  - Third, as persons too, business leaders may also suffer in heart and soul. It may be due to the demands of their position, too little time for family, guilt over harms resulting from business decisions and so on. The Church's practice of healing requires one to admit, "I am in pain, I have done wrong, I am in need."
- To engage in soul-searching and to listen respectfully to formerly-antagonistic interests, requires a safe time and safe space, what we traditionally call **sanctuary** or **retreat**.
- Promote **friendship** among participants, which makes it so much easier to be open and to trust others. The growth of friendship is helped by opportunities for informal mingling and by group activities that are disconnected from the controversial subject matter.
- Include direct personal **testimony** from those who are directly involved in the situation.

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<sup>21</sup> *Evangelii Gaudium*, § 203. Cf. also Pontifical Council for Justice and Peace, *Vocation of the Business Leader*, 3<sup>rd</sup> ed., 2012. [www.iustitiaetpax.va/content/giustiziaepace/it/archivio/pubblicazioni/vocation-of-the-business-leader--a-reflection-.html](http://www.iustitiaetpax.va/content/giustiziaepace/it/archivio/pubblicazioni/vocation-of-the-business-leader--a-reflection-.html)

- Develop a shared **language**. Dialogue requires sensitivity to differences of understanding and to miscommunication; there should be a commitment to speak a common language.

I have offered you this illustration of dialogue between faith and “mining reason” as a fresh example of practical action. It came about by bringing industry and church together: on the one hand, the practice of leadership in one of the largest and most basic industries in the world; on the other, church practice (or ministry) which accompanies, questions, supports and challenges the men and women involved. The Chairmen and CEOs, the colleagues and stakeholder-representatives, came with their practical questions. The Church, through the Pontifical Council, offered the space, guided the dynamic, and provided the accompaniment of faith. Everyone agreed the day of reflection was such a solid first step that a recent follow -up meeting looked to further and replicate the process regionally and even locally.

In a similar spirit, two weeks ago at the World Economic Forum in Davos, the Archbishop of Westminster’s own *Blueprint for Better Business* was presented. The so-called BBB works on “uniting corporate purpose and personal values to serve society.” “The aim of the initiative is to rally business leaders to explore the business need for change and how a rediscovery of corporate purpose and a focus on personal values might best be brought together in the service of society.”<sup>22</sup>

### *Leading in Research, Thinking and Proposals*

I promised to talk about theory as well as practice. I look to theoretical research to guide new policies: “Of course, the technology driving globalization is irreversible, but the policies that underlie the process are not a force of nature [are not irreversible]. They are established by policy-makers and they can be changed by policy-makers to ensure fairness, equity, and dignity.”<sup>23</sup>

At the beginning of this week, the Managing Director of the International Monetary Fund delivered the 2014 Dimpleby Lecture. Christine Lagarde warned that “economists have underestimated the importance of inequality. They have focused on economic growth, on the size of the pie rather than its distribution. Today, we are more keenly aware of the damage done by inequality. Put simply, a severely skewed income distribution harms the pace and sustainability of growth over the longer term. It leads to an economy of exclusion, and a wasteland of discarded potential.”<sup>24</sup> Last May, at the University of Chicago, I said that if the economy is to recover and develop more soundly, the movement that underpins our work, that over-arches it, that oversees it, must aim at and concentrate upon the common good; for the economy must fulfil potential in an inclusive and sustainable manner. We must set aside familiar nostrums about invisible hands and unseen forces<sup>25</sup> that largely leave out the vast majority, ignore the natural environment, and support the status quo.

Pope Francis proposes taking hold of the crisis proactively: “A crisis can become a time of purification and a time to rethink our socio-economic models and of a certain understanding of progress that fed

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<sup>22</sup> The Davos briefing summarized the Blueprint’s Five Principles of a Purpose Driven Business as follows: Honest and fair with customers & suppliers; A responsible and responsive employer; A good citizen; A guardian for future generations; Has a purpose which delivers long-term sustainable performance. See [www.blueprintforbusiness.org](http://www.blueprintforbusiness.org)

<sup>23</sup> Somavía and Martino, *The challenge..*, p. 39

<sup>24</sup> Christine Lagarde, *A New Multilateralism for the 21st Century: the Richard Dimpleby Lecture*, London, 3.02.2014. <http://www.imf.org/external/np/speeches/2014/020314.htm>

<sup>25</sup> *Evangelii Gaudium*, § 204.

illusions, in order to recover what is most fully human.”<sup>26</sup> This is the spirit of the Pontifical Council’s call for reform .

The challenge is to take up a programme of theoretical work such as:

- to consider key features of the world’s international financial and monetary systems, economic and business systems;
- to both appreciate and then critique them in the light of deep human values and principles which we identify in Catholic social thought;
- to make sound proposals for research, strategy, and re-organization (e.g., the I.M.F.); and finally
- to resolve on continued coordinated efforts that would move us, as the *Note*’s title clearly suggests, *Towards reforming...*

So just as I suggested earlier that real solutions to the global economic crisis require reoriented and reinforced leadership, may I now add the complementary suggestion, that a new, inclusive and sustainable economy needs to be designed. Such enormous innovation will not emerge spontaneously, as the product of multiple pursuits of growth and profit. Instead, it demands visionary research – research undertaken with the greatest competence and guided by a vision of the common good.

To this end,

- Our thinking needs to be *radical* in order to penetrate to the real roots (*radix*) of the current crisis, and also to identify the deepest foundations for lasting solutions.
- Secondly, our proposals need to be *ambitious* in constructing proposals to reform the system and establish order at the global level. Being the economic, social and political creatures we are, this is our responsibility to one another in the global human family.
- Thirdly, our 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.

Our ultimate objective, of course, is a “financial reform along ethical lines that would produce in its turn an economic reform to benefit everyone.”<sup>27</sup>

This is what I would like to propose to the London School of Economics: accepting these challenges, to please design an *economy of inclusion*. It will require the full breadth of your many disciplines: “It is not realistic to deal with the integrated phenomenon of globalization with separate sectoral approaches. A fair globalization will not come about only through disjointed decisions on trade, or finance, or labour, or education or health policies, conceived and applied independently. It is an integrated phenomenon: it takes integrated solutions and, obviously, integrated policies.”<sup>28</sup> It requires great reach and generous welcome to have quite different voices heard: banking, finance, business, politics ... as well as workers, the unemployed and migrants, youth and the old.

At the recent World Economic Forum, Pope Francis challenged the economic elite to put their proven ingenuity, competencies, know-how and expertise to work for the betterment of those still in great need. This would mean further “decisions, programmes, mechanisms and processes specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of

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<sup>26</sup> Pope Francis, *Address to the Pontifical Theological Faculty of Sardinia*, Cagliari, 22.09.2013.

<sup>27</sup> Pope Francis, *Address to new non-resident Ambassadors...* 16.05.13.

<sup>28</sup> Somavía and Martino, *The challenge...*, p. 41

the poor which goes beyond a simple welfare mentality.”<sup>29</sup> Can the L.S.E. research and design the policies, processes and mechanisms needed to establish a more inclusive economy?

## V. CONCLUSION

It is unhelpful to be naïve about the challenges of constructing an economy of inclusion. As Madame Christine Lagarde said this week: “The risk is of a world that is more integrated— economically, financially, and technologically— but more fragmented in terms of power, influence, and decision-making. This can lead to more indecision, impasse, and insecurity— the temptations of extremism— and it requires new solutions.”

Let us not yield to despair. For as Pope Benedict prophetically encourages us to give our very best to such efforts:

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>30</sup>

Thank you for gathering this evening with real willingness to consider the modest, radical, and ambitious programme of the *Note*. Let us throw ourselves wholeheartedly into the challenge of the dialogue that truly seeks the common good and integral development of all people! In the words of Pope Francis, “may hope be the light that ever illumines your study and commitment. And may courage be the musical tempo for keeping going! May the Lord bless you!”<sup>31</sup>

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<sup>29</sup> *Evangelii Gaudium*, § 204.

<sup>30</sup> *Caritas in Veritate*, § 21.

<sup>31</sup> Pope Francis, *Address to the Pontifical Theological Faculty of Sardinia, Cagliari*, 22.09.2013.