

# DOES FINANCE HAVE A SOUL?

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To frame in this way the question of relating the Christian and financial worlds can seem provocative, since the Christian world and the financial one look to each other with suspicion, and since we are still molded by a culture where the money world is considered by definition one of immorality : « No one can serve two masters ; God and Mammon », the Scriptures tell us. I believe we must move beyond this attitude of distrust or instinctive rejection in order to attempt to understand the functioning of this new economic world in which we all live to varying degrees, the world of globalization, marked notably by the development of the financial sphere. But understanding also means bringing to light the underlying ethical stakes created by this new world's emergence. The growing awareness is that financial development does not happen without posing ethical and moral questions, no doubt because the financial markets have shown their influence in devaluing currencies, as we've seen in Europe and in South America in recent years or in Southeast Asia these last weeks or because we have realized that an isolated « trader » has the power by modern finance techniques to ruin a financial institution, as seen in Singapore two years ago with the « Barings scandal ».

This growing awareness explains why we need to find some criteria of individual and collective judgment that can guide behaviors.

I would thus frame my speech around three stages : I would try to show firstly that modern finance must not be subject to global condemnation but that, secondly, we must have a sharply sensitive conscience of the ethical risks associated with the modern financial world. I would propose to you, finally, and thirdly, some elements to answer the most difficult part of the question : what must we and can we do, as individuals, in the capacity of our different levels of responsibility, whether in finance or not ?

## **A. UNDERSTANDING THE ROLE OF FINANCE**

I should begin with a comment on methodology : finance and money are two different realities. It is clear that when one speaks of finance one immediately thinks of money and of the relation we all have with money. The two subjects are not without a tie, money being the raw material of finance, but modern finance presents recent characteristics that have greatly changed its nature and its influence.

The traditional role of finance is rather simple : imagine a kind of black box that allows the intermediation of, on one side the savings, that is the disposable capital, and on the

other side the investments, that is, the needs of the same capital. The role of finance is thus to ensure that the savings resources go to needs of investment. What has happened in the past twenty years?

First, the size of the box has completely changed since the capital movements have greatly increased, notably at the international level.

Second, the composition of the box has also changed. It went the way of what happened previously in commerce. We went from retail commerce, with complicated networks (wholesaler, partial wholesaler, retailer), to the hypermarket. A whole series of intermediaries have been suppressed. In finance, we have been following the same process to a financial system without intermediaries. Savings and investment are face-to-face more directly through what we call the « markets ». Before, it took place essentially through the banks. Of course finance intermediaries remain, but the weight of markets has greatly increased.

**1. Finance is a technique, one must know how to apply it and not display an attitude of rejection.**

Modern finance, with all its developed mechanisms of financial markets among others, has an extremely important advantage which is to permit economic actors, and notably the corporations, **to take into account the economic value of time**. Everyone knows that the Roman Catholic Church has long held a rather radical attitude of condemnation of the basic financial mechanism consisting of loaning money against a fee ( the interest rate), ignoring that the interest rate is nothing but the price of time . We must be conscious of the fact that, since 1971, we have been living in an economic world where the parameters of economic life that are the exchange and interest rates move on a daily basis. Every minute and every second these two essential parameters fluctuate. It is thus essential for a firm to have at its disposal those means that can keep these fluctuations from damaging the company.

The modern financial sphere has as its primary goal to ensure in some way this service.

Therefore, one must not forget the advantages that the modern financial sphere and the financial markets bring to the investments at the core of companies competitiveness and to growth and employment. One of the French specialists of these financial questions, Father Perrot, is therefore right to affirm that « the producer must today use the same means as the financial speculator ». If a company did not do so, it could, in a certain way, put in jeopardy its competitiveness and thus its employees.

**2. Finance is not the completely anarchic world that is often described or that one can easily imagine**

For the non-specialist, finance is a completely opaque world, a world where one does not know very much about what goes on, where insider dealing and money laundering are current practices The Roman Catholic culture has greatly participated in this warning

about the financial world. Of course, all of this exists, unfortunately. But it exists today much less than in the past. In most countries, public authorities have passed laws of disclosure in matters of the functioning of financial markets and have created market authorities to assure they are enforced. It is clear, also, that the ethical behavior of the actors of the financial sphere has itself also greatly evolved, if one judges it by what we hear from the historians and great novelists on the practices of 19th century financial capitalism, be it in The United States or in Europe.

It is fair to say that the financial sphere functions today in a more transparent way than in the past. Much progress has been made to improve the international rules and the cooperation among the different authorities that monitor market functions.

**3. Modern finance plays, finally, an extremely useful role in serving as a kind of guide or « red light » for the economic policies set by countries.**

Today when a country decides to embark on a financial and economic policy that could re-trigger inflation or increase national debt, the verdict is pronounced immediately and it can be extremely severe. Markets collapse; interest rates go up and the country's currency is devalued. Modern finance has in fact allowed the financial markets to become the « Justice of the Peace » of economic policies. This does not appear to me as open to criticism. Monetary stability guarantees that loans will be paid back at the same value that they were contracted. This stability seems to be in line with ethical action. Nicolas d'Oresme, Bishop of Lisieux, and financial advisor to Charles the fifth, King of France in the middle of the fourteenth century, talked about the value of money in these terms, « one should not obfuscate things that must remain very clear ». In the same manner, the increase of public debt brings about a transfer of wealth between generations because it increases the debt that future generations will have to pay off. It is fair to say that it is often very irresponsible to pass on to others the consequences of one's own actions.

## **B. EVALUATING THE UNDERLYING ETHICAL STAKES**

**1. First, what guide marks does the Church's social teaching give us?**

One must admit they are rather few. The only precise mention of finance is from Pious XI in *Quadragesimo Anno* (1931). Pious XI speaks of the « discretionary » economic power of finance, « this power is above all very great for those who, as owners and absolute masters of money, manage credit and give it as they please. In doing so, they distribute blood, in a manner of speaking, to the economic organism and hold its life in their hands so much that without their consent no one can breathe ». It is rare to see such strong language in an encyclical ; and that language is directed towards bankers. One can also think of the condemnation of the practice of interest-bearing loans, already mentioned, and which dates back to Saint Thomas Aquinas. Overall, there is a feeling that the Church is weary or distrustful of anything that is connected to finance ; once more, « No one can serve two masters, God and money ».

Since the publication of *Quadragesimo Anno*, there has been no mention of the words « financial , credit, market » in the financial publications of the Church. There is only one document of the commission «Justice and Peace » of 1986 that discusses the running into debt of developing countries in these words, « And so the financial and monetary issue imposes itself today with a renewed urgency ». But in fact, Roman texts went no further.

The explanation is that the social doctrine of the Church is often dated; that is to say, either contemporary to or slightly behind the identification of a particular method of economic organisation. Therefore, most of the economic publications of the Church still remain dominated by an economic vision that has changed a lot over the past few years, one that we could call the « industrial vision » where industry is the most important economic sector. However, we now live in societies that are services economies.

**2. Consequently, if we want to determine whether the traditional values of the social doctrine of the Church could help to analyse the development of modern finance we must look further the Church's texts and publications themselves. Two general principles are particularly interesting in this context.**

\* The first element is the **demand for solidarity** which is also reaffirmed by the social doctrine of the Church -solidarity with the poorest and, more broadly, solidarity with everyone. The human person only becomes so in a society. There is, therefore, a very strong condemnation, in the social doctrine, of liberalism as individualism. If one looks at the characteristics of modern finance, this call for solidarity can take a double dimension. The first dimension is the call for an international discussion and management of problems. That is a constant of the social doctrine, and, notably so, since John XXIII and *Pacem in Terris* (1963) : problems must be dealt with at an international level. Also, directly connected to the solidarity element, is the thought that each of us or each financial institution executive is called upon to reflect on the use of power and wealth associated with the financial world. Without doubt, finance manages an allocation of resources that can endanger what the Church's social doctrine calls the « universal destination of goods » which means everyone must have a part to the different kind of resources it exists. There is always a social limit to private property and one must reflect upon his wealth and his power as they relate to the common good.

\* The second element is affirmed very strongly by John Paul II in *Laborem Exercens* (1981) which stated **the moral priority of work over capital**. « Property is first acquired through work and is to be used for work ». This is a double link of origin and destination : capital comes from work and must return to work. One may conclude that there is an answer there : capital is finance, work is all of us and therefore one must give preference to the traditional salary-based organization over financial developments. However, we should not interpret this as a rigid economic principle ; all executives know that they have to choose daily between investments on the capital side and difficult downsizing decisions. One must find the right balance between the two so businesses can survive. By prioritizing work over capital, the Church insists on the ultimate goal ; work is a mean through which mankind achieves self-expression and thus has primacy and priority over things.

**3. If modern finance should not be « satanised », I would like to stress the risks that its development presents in the view of the principles of social ethic I just mentioned.**

\* First there is a **risk for corruption** that can be described at several levels. The first level, which is very simple, is the temptation that all of us can experience in our professional or personal lives - the temptation to bribe or to accept a bribe. This temptation does not need to be illustrated ; it is very present for all of us.

The second level is the one called by John Paul II « a structure of a sin ». It is a state of mind, an implicit rule of behavior, that draw us into perverse processes without our even asking ourselves any moral or ethical questions. John Paul II mentions two examples in *Sollicitudo Rei Socialis* : first, the pursuit of money and the pursuit of power. Often, these two pursuits are closely linked. Let me give you on this subject a quote from a powerful international figure, Mr. Georges SOROS, who among other things made a billion dollars by speculating against the pound five years ago. He said, « I am sure that speculative activities have negative consequences but I never think about them and cannot afford to think about them. If I stopped doing some things because of moral scruples, I would have to stop being a speculator. I feel no remorse whatsoever about having won money when the pound was devaluated ; I did not speculate against the pound to help England or to hurt her ; I did it to earn money ». This brutal and frank quote needs no comments.

However, I would like to stress that it is an argument often used by financial people. This argument states that there are, on one side, natural laws of economics that cannot be bypassed and that there are, on the other side, moral principles. These two sides would be different worlds that could not be reconciled. One can wonder whether this type of reasoning which tries to absolve human behaviors is or is not typical of « a structure of sin ».

\* The second risk, maybe more subtle, is **the « risk of disintegration of economic goals »**. Finance has a natural tendency to dissolve the goals mentioned previously (solidarity, priority of work over capital), to have a sort of corrosive effect. I will use one example to support this argument. In the last ten years, it has become clear that the structure of capitalism in industrialized countries undergoes rapid transformations because of globalisation and technological changes. This means that not a week goes by without mergers, take-overs, and leveraged buy-outs. These operations often have painful social consequences. What does the priority of work over capital mean in this context ?. Maybe that a firm should not only consider only the interests of its shareholders and customers but also those of its workers. A company is also a community that gathers people around a common goal and a set of values which goes far beyond a balance-sheet or an annual report. Are we sure that these restructuring or downsizing measures, which are not condemnable in themselves, are designed and implemented not only to « bring value to the shareholders » ?.

\* The third risk that can be isolated is **the risk of anesthesia of the economic leaders**. This risk manifests itself in a simple manner : first by the admission of total

powerlessness in front of the problems we face. For instance, it is clear that the international monetary cooperation has been broken down for a few years, and one can feel that governments are leery of confronting the financial markets and trying to enforce a certain number of rules.

Next to the admission of powerlessness, governments do not necessarily ask themselves any moral questions about the functioning of modern finance. I will describe only one example ; modern finance has resulted in the freedom of the movement of capital and that freedom itself has resulted in a significant decrease of the taxes imposed on savings versus the taxes imposed on work income, i.e., salaries. There is, therefore, a problem of social justice due to the fact that the poorer you are, the less income from saving you have. This translates into a true tension between the sphere of modern finance and the demand for solidarity and social justice. This tension can be explained by the fact that liberalization and globalization naturally favor capital which is more mobile. The traditional policies for redistribution are made less efficient.

### **C. FINDING AN INDIVIDUAL AND COMMON PATH**

What should we and what can we do ?. The strongest idea in this matter is that we will collectively have the financial structure we deserve. I would like to try to illustrate this thought with three examples dealing with the parties or actors concerned : private citizens, professionals, and public authorities.

#### **1. As private citizens we all have been either owners of savings or borrowers.**

##### **\* Two questions present themselves to us as the owner of savings.**

The first one is, **what do we do with the money we have saved ?**. There are investments that we should avoid ; for instance, in a democratic society, everything that is illegal on the custom and tax fronts. We must also try to avoid investments that are not productive. This is a little bit more difficult to judge from an economic standpoint. But there is a simple example, gold, an investment which has been very popular in France and that stems from sheer economic hoarding of money.

Are there, looking at it the other way, investments that should be recommended ?. That question is more difficult to answer. The bishops in France had, in a 1982 text titled *For New Ways of Life*, advised that Christians select investment that were socially useful, even if they were less advantageous. They specifically recommended investments such as « ethical funds and associative funds » that used their profit either to help the unemployed, the environment, or the third world...It is an interesting selection but that today still remains marginally used.

The second question is, **what do we do with the income generated by our investments ?**. One is not always very clear on what to do with the results generated by one's investments. On the other hand, the use of investment income is one way to try to solve

the demand for solidarity by rediscovering the traditional issues of sharing income and giving donations.

\* **As a borrower, we have two requirements.** One is simply that of responsibility ; that is to say, you should only borrow the amount you know you can pay back. That requirement may seem rather obvious for private citizens, but can be less evident for countries who have, in effect, a tendency to push back the problem on future generations under conditions that are not well managed.

The other requirement is the one we could call « efficiency » or « final goal ». The two are very close. Getting into debt allows you to get done what you want to get one faster. It accelerates the economic time frame. This acceleration only has a meaning if it corresponds to a personal development - in the case of a private citizen - to a real choice, a real project. Therefore, at a private citizen level, the financing of an investment is probably preferable to the financing of material consumption which is over immediately. It works the same way for countries ; it is well-known that a part of the debt of the third world served to finance what is often called « white elephants ».

2. **For professionals, two points need to be made.** Professionals have one main requirement: risk management. Being a professional is first being a good technician. A professional is someone who does not jeopardises himself or herself ; knows technique management and is in synchronisation with the goal of the entity to which he or she belongs. What is required is risk management in the service of the company's mission.

Professionals are also responsible for maintaining a **collective deontology**. The financial sector, in most countries, is a still relatively well organized sector that has a capability to reflect on its own professional practices. One can find there what the Church's social doctrine says about the « intermediary bodies ». Between the State, « at the top », and the individual or business, « at the bottom », there must exist a platform of associations, trade unions, etc..., that take their own responsibilities. And, it is better, according to the subsidiarity principle, well known in a federal nation-state, to fulfill responsibilities at the lowest possible level. Ethical codes have been developed, but the professional deontology does not solve all problems. There is still a need for collective legislation and there will always be a need for individual conscience.

3. **Last actor is public authorities.** They must be active participants in the modern development of the financial sphere. They must not abdicate their responsibility and be present to guarantee social justice.

The General Director of the International Monetary Fund, Michel CAMDESSUS, often says that a culture, a nation, to be truly human, must be a little like a Hindu deity : it must have three hands. There is a solidarity hand that reaches out, and that is the private citizens ; there is the invisible hand of the market, and that is the professionals ; and then there is the justice hand of the State. It is a powerful and beautiful image we can keep in mind when we confront the development of the financial world. Finance that has become

extremely internationalized, calls for a very strong international cooperation. Political cooperation is lagging behind in this race. It's true at the European level, it's true, also, at the world level. We must go from an economic interdependence between countries to a solidarity achieved through political cooperation.

The basic point goes beyond this however. **In a christian perspective interdependence must lead to a more profound solidarity.** The Church also tells us that when interdependence is recognised as "a necessary system of relations and raised to the level of a moral standard" (Sollicitudo Rei Socialis-38), the corresponding response as a moral and social attitude, and even as a virtue, is that of "solidarity" itself. This means not only "a feeling of vague compassion or superficial tenderness for the misfortune suffered by so many people those are far from us" but the firm and continuing determination to work for the common good, that is "for the good of all and of each because we are all truly responsible for all" (ibid).

This move from interdependence to solidarity involves the heart of the response which our societies should give to the development of the financial sector. The financial sector acts on the essence of social relations. It raises a grave temptation of "economism" in the relationship between capital and labour. It can considerably reinforce the desire for profit and thirst for power in individuals, and by changing the equitable distribution of wealth it can also influence overall economic objectives.

**The second responsibility of the public powers, after international solidarity, is the concern for the long term.** We are all aware that markets are near-sighted and that they have a very short vision, a « short termism » vision. Given this near-sightedness, it is the responsibility of nation leaders to provide more vision. The markets need that ; they ask to be given guide marks. This near-sightedness of markets is more than one of their characteristics ; it's also the sign of a deep-rooted trend in our modern society to favor the short term. This is what is called in the United States, very prettily, the « nowism ». Things must happen faster and faster with a strong preference for the present rather than the future.

We are in this way brought back to a very fundamental question. We all have a preference for the present. Nations also all have a preference for the present and go into debt to finance their deficits. The markets encourage that practice because of their short-term vision. And we are all brought back to the lack of goals. Individuals, nations, families all have a hard time projecting themselves into the future because none of them have clear goals. It is fundamentally an examination of the goals of man that this concern for the long term brings us to. And this concern for the long term must be possessed by all parties or actors : private citizens, professionals, and governments. When we are confronted by the choices brought upon by the financial world, the answer, the decision cannot only be financial and economic.

So it is fundamentally the issue of the ultimate goals of man which should underline the concern of those authorities and of all of us for the long term. Faced with the choices

involved in finance and in economics, there can be no purely financial and economic response : we must look higher.

If in particular our goal is to reach "the integrated development of man and of all men" according to Popes Paul VI and Jean-Paul II, the response to these challenges must go beyond the simple management of change however efficient this may be. Since social relations also have a spiritual dimension the true response must be both moral and spiritual. It must pass by a conversion implying a new faith to the Gospel and by an extreme determination to do nothing which could undermine the divine calling of man.

To respect this openness to conversion political action should be both more modest - since it can never replace the discernment of each conscience ; and more ambitious - it should propose some baselines in the field of action and of speech. Here we can refer to the call which Jesus makes to conversion and to discernment which St Luke reminds us of in chapter 14, 25-33.

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Individuals, financial specialists, managers of companies, political and administration members are each in very different situations. But each one has a necessary moral commitment to make in economic life. The development of the financial sector has made this more complicated but since it also helps to produce economic development process it can create new possibilities for justice and for personal security. To make these reality of these positive possibilities Christians must be active and not passive, seeking to give a wider sense to their economic action. This is also what it means to be "the salt of the earth".

Property can be read as capital