

Study Day Caritas in Veritate

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Transcript Mike Adam

My name is Mike Adam and my professional background is in banking. I have spent most of my career arranging the financing of large infrastructure and real estate projects across the UK, Europe and Asia and I think that it is this experience which interested the organisers in inviting me to lead this session. I have also been a local Councillor in the London Borough of Hammersmith and Fulham since 2002 which gives me some perspective on social and public policy matters. I should say upfront and probably uniquely among you today, I am not a Catholic. So please excuse me in advance if I drop any theological bricks as I promise you that no offence is intended.

Inevitably, I speak with a personal outlook, and one of an outsider, but I think the message of Caritas in Veritate offers hope and guidance to all of us whatever our personal belief. I should stress that I am speaking in a personal capacity and my views are my own. I don't represent either my clients or any political party. I don't attend to speak for a great length, I hope the session sparks into a dialog and I would like to leave as much time as possible for your questions. The subject of the session I called "the economy and its moral structure".

In the first part of my talk, I would like to spend a few minutes discussing recent developments in the world economy and in particular the origins of the current crisis, both its narrow financial causes and the underlying social and cultural backdrop. Then, I would like to discuss the Church's outlook on the market economy, especially the thinking and policy ideas in the Encyclical. Finally, I would like to leave you with some of the choices and dilemmas that we face in making the vision of Caritas in Veritate a reality.

As with so many issues we have discussed today, the modern economy is defined by globalisation and fault lines exposed by globalised financial markets are a principal cause of the current crisis. It is appropriate that we are holding this conference today a mile or two from Manchester city centre because Manchester was at the heart of an earlier, 19th century globalisation based on free trade and British commercial dominance. Indeed when I grew up in this city I knew the phrase "what Manchester does today, the rest of the world does tomorrow." Now, no disrespect, but that seemed an unlikely claim in the 1980s when the city was coming to grips with its post industrial future. But 19th century Manchester was at the heart of a world which in many political, economic and financial respects was as globalised as the one we live in now. I think it is certainly useful to remember that profound economic, political and technical development has characterised many generations other than our own and yet societies have adapted and come to terms with that change.

If we define globalisation as the integration of economic, social and cultural activities across borders, then the principal drivers of recent developments are the political consequences of the end of Communism, the economic consequences of tariff reductions, deregulation and especially the adoption of free market policies by China and India, combined with a huge technological leap forward in the fields of computing, mobile telecommunications and the invention of the internet. Undeniably these factors have coincided with economic growth on an unprecedented scale. In the

19th century, the UK, which was the leading global industrial power, had an average growth rate of around 1.5 % per annum. Today, countries like China or India are growing at rates between 5 and 10% per annum. The growth that these countries experience in a decade would have taken a century in Victorian times. Just to put that into context, the quantum of global trade 50 years ago was around \$95 billion per year and it is now \$12 trillion per year. China's trade with Africa has increased sevenfold in the period between 2000 and 2007 alone.

This progress has certainly led to a decline in levels of absolute poverty and in infant mortality, a growth in life expectancy, and increasing demands in many parts of the world for personal freedom and representative government. At the same time, as the Encyclical reminds us, we are living in an age of increasing inequalities in both developing countries as well as in developed nations. The benefits of growth have not been equally shared. Many workers have seen job security and working conditions decline. The sheer rapidity of economic growth has accentuated concerns regarding environmental sustainability and the dangers of climate change. In 2007, a global economy which had seemed in good health fell victim to what former US Federal Reserve Chairman Alan Greenspan has called a "once in a century tsunami". Since then, we have seen boom turn to bust and in the process a whole new vocabulary has entered our dictionary; credit crunch, subprime loans, collateralised debt obligations, Ponzi schemes, quantitative easing, fiscal stimulus. These are terms which were unheard of outside economists' circles only a few years ago.

Fundamental instability in the global financial system played a key role in the coming of the economic crisis. Massive flows of capital from savings rich Asia and oil-rich Middle Eastern economies contributed to an overheating of the US economy, especially in the housing market. When this bubble burst in 2007, the fallout was global. The massive interdependence of the world's banks and financial institutions threatened to trigger a total systemic breakdown. And whilst the very real threat of a meltdown was averted, thanks to coordinated government action in the form of bailouts, guarantees and frankly the printing of money, we will certainly not see a speedy return to business as usual. States themselves are now at risk of default as we have seen in the case of Dubai and recently of Greece. The Euro zone is facing sustained pressure and the UK faces a particularly difficult dilemma. Unless the UK takes urgent steps to cut its huge government deficit, the financial markets will lose confidence with disastrous consequences. However, to cut spending and raise taxes too quickly risks tipping the economy into a double-dip recession, or even a period of Japanese style deflation. At any rate, we can predict that for most of the developed world the next decade will see relative austerity, cuts in government spending and sadly the possibility of social unrest. The narrow causes and consequences of the financial crisis are therefore fairly well understood and if you are interested to know more, I would recommend you read a new book by John Lanchester with the very populist title - "Oops, Why Everybody Owes Everyone and No One Can Pay" - which sums up the problem.

However, I think that any discussion of the crisis must also dwell on its social and cultural context. I don't think it is any accident that this crisis evolved in the period after the Cold War. In an earlier age when capitalism was in mortal combat with Communism, its proponents had to demonstrate that free markets not only produced better results but also that this was a morally superior system. Arguably, that sense of restraint has disappeared since the end of the Cold War, giving added impetus to a culture of materialism, although ironically it is Russian oligarchs who are now a byword for conspicuous consumption. This process has been compounded by a media, which relentlessly

promotes the superficial culture of celebrity, by a banking system which extended credit on inappropriately easy terms and by successive governments which have relaxed the rules relating to personal bankruptcy.

I certainly do not want to defend some of the bankers' bonuses paid in recent years. In many cases these have been inexcusable and a direct cause of subsequent problems but I do think that this issue has been used as a lightning rod to divert attention from the failure of politicians, regulators and even the public ourselves. Many banks were well run and have been relatively unaffected by the crisis. In my experience, bankers themselves are typically honest and highly professional and many are extensively involved in charitable and voluntary activity. Financial services still makes up a massive part of our economy. It is a sector where London retains a significant edge in a globalised world. Much of this industry could relocate overseas and I suggest that we literally cannot afford that to happen.

But we must acknowledge the degree of public anger and incomprehension about the practices of the banking sector. Matt Taibbi, a correspondent of Rolling Stone magazine recently and memorably described Goldman Sachs as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money". This is striking and ugly language. However, it is in exactly this context of upheaval, distrust and financial distress that we should read Caritas in Veritate and its comments on an economic system which is in profound need of redirection.

My reading of the Encyclical is that it is certainly not opposed to a market based economy. As a history graduate, one of the fascinating aspects of preparing this talk was learning how the Church itself laid the foundation of our modern economic system. It did this in early modern Europe principally by regulating law and bureaucracy. Moreover, religious orders such as the Benedictines, the Cistercians and the Franciscans played a leading role in trade and agriculture.

The great economic achievements of western civilisation are built on key religious factors: the joy in discovery that arises from each individual being an imago Dei and called to be a creator, the religious value accorded to hard work, the separation of Creator from creature, the idea that nature is subordinated to man, and the Judaeo-Christian notion of time as a linear and not a cyclical process, which allows us the notion of progress.

However, in the Church's eyes, the key division is between an economic system based on the Common Good and one where the profit motive is all powerful. The Encyclical reminds us that businesses cannot act as if only answerable to investors and not to workers, consumers, suppliers, the environment and society. Businesses should not focus on short term profit and ignore long term sustainability. For instance, it is unacceptable for a business to relocate its production to an emerging economy without making a real and genuine contribution to improving the condition of that local economy and its society.

Caritas in Veritate is clear that the financial system should refocus itself on creating wealth and especially promoting development rather than on speculation and other activities of questionable social usefulness. To borrow a Hollywood metaphor, the archetypal banker should remind us more of Jimmy Stewart in that great film "It's a Wonderful Life" and less of Gordon Gekko in "Wall Street". Caritas in Veritate stresses the role that credit unions can play in promoting access to financial

services amongst poorer sections of society and the importance of microfinance in the developing world as a source of capital for farmers and small businessmen.

The Pope reminds us throughout the Encyclical of the inadequacy of an economic outlook based solely on material prosperity and the law of contract. In a critical section we are taught that the market must be informed by notions of social justice and the “spirit of gift” to bring all parties together in stronger communities. What does this mean in practical terms? The Encyclical champions the role of “not for profit” organisations and social enterprises as a means of “civilising the market” and concludes that a binary model of the market and the state is an insufficient platform for development. The Pope emphasises that we cannot separate politics and economics. One must inform the other. This is a very challenging idea since we live in a time when politicians “don’t do God” and many individuals feel that by paying tax they absolve themselves from a wider social and economic responsibility to their fellow citizens.

Can we see the Pope’s ideas gaining traction and what challenges do they face? I think there are some interesting developments in the financial services sector where institutions are now subject to a much stricter regulatory regime. At board level we are seeing executives attempt to demonstrate restraint in matters of personal compensation. Staff bonuses will increasingly be paid out over a number of years in the form of share options in an attempt to better align the long term interest of employees and employers. New institutions may soon emerge in the consumer banking sector with a radically different service ethos. You may have heard of a new bank called Metrobank which is due to launch shortly and players such as Virgin and Tesco are looking to expand their financial services capability. There is also a renewed interest in the role of mutual and friendly societies.

There is recognition at a macro level that globalised markets must be subject to a greater degree of coordinated international supervision and political scrutiny. Personally, I think it is a challenge to understand how we define that level of political scrutiny. I was interested to read in the Encyclical about a greater role for the United Nations but I think in practice that may be difficult to achieve.

As power increasingly shifts to emerging economies we can expect to hear less about the G8 and more about the G20, giving a voice to countries such as China, India, Brazil, Indonesia and Mexico.

The success of not for profit organisations such as John Lewis, Waitrose and Cafe Direct certainly gives grounds for optimism that the Encyclical’s vision of a greater role for social enterprise could materialise, although it is fair to say that this business model is still relatively marginal in terms of the economy as a whole.

Growth and consumer power and the viral nature of internet based networking can act as a powerful influence on business behaviour. Changing public attitudes to an issue such as smoking tell us that profound change can be effected in a short period of time. However, we should no doubt be discriminating in evaluating businesses which use the language of ethics and social responsibility as a clever marketing package.

As ever, the opportunities and potential achievement of redefining our economic model are limited as much as anything by self-interest and will be determined by consumers’ willingness to change their own behaviour. There are no easy answers to these hard choices.

Will people be willing to pay more to support food producers in the developing world?

Will we support the opening of agricultural markets to the developing world if it is our farmers who are put out of business?

Will we forgo the convenience of supermarkets and shopping centres to support local shops?

Will we promote a culture of philanthropy and local empowerment, or sneer at the “return of paternalism”?

Will we support a greater role for charitable and not for profit organisations if they encroach on areas currently met by the State?

Is it feasible to radically increase higher rates of tax in a globalised world where people can relocate across borders?

Will we tolerate the loss of highly skilled jobs by enforcing strict anti-corruption policies only to see our commercial rivals wilfully ignore such a principled stance?

How do we justify to developing nations that they should accept a lower standard of material wellbeing in the interest of sustainable development?

And are we willing to accept an absolute or relative reduction in our own economic growth?

There is one final reason why Caritas in Veritate is so relevant in its call for recognition between economics, politics and morality. Looking at the global geopolitical picture, it is clear that “Western” interests will come under greater pressure in the years ahead. Power is shifting in the world from West to East. The relative power of the US is in decline and the rising world power is China, a country which is currently characterised by an atheist, one party government with a very different understanding of human development and personal freedom. Faced with these strategic challenges, Caritas in Veritate makes a loud and clear call for a renewal of Western values.

I would like to draw a line here and open this discussion to you.

The great lesson of Caritas in Veritate to me is the statement that authentic human development concerns the whole of the person in every single dimension. Economic activity must be seen in this context as we strive to define and build a society based on the common good.