

Towards Reforming the International Financial and Monetary Systems in the Context of Global Public Authority (Section 4 and Conclusion)

Pontifical Council for Justice and Peace

4. Towards Reforming the International Financial and Monetary Systems in a way that Responds to the Needs of all Peoples

In economic and financial matters, the most significant difficulties come from the lack of an effective set of structures that can guarantee, in addition to a system of governance, a system of government for the economy and international finance.

What can be said about this prospect? What steps can be taken concretely?

With regard to the current global economic and financial systems, two decisive factors should be stressed. The first is the gradual decline in efficacy of the Bretton Woods institutions beginning in the early 1970s. In particular, the International Monetary Fund has lost an essential element for stabilizing world finance, that of regulating the overall money supply and vigilance over the amount of credit risk taken on by the system. To sum it up, stabilizing the world monetary system is no longer a “universal public good” within its reach.

The second factor is the need for a minimum, shared body of rules to manage the global financial market which has grown much more rapidly than the real economy. This situation of rapid, uneven growth has come about, on the one hand, because of the overall abrogation of controls on capital movements and the tendency to deregulate banking and financial activities; and on the other, because of advances in financial technology, due largely to information technology.

On the structural level, in the latter part of the last century, monetary and financial activities worldwide grew much more rapidly than the production of goods and services. In this context, the quality of credit tended to decrease to the point that it exposed the credit institutions to more risk than was reasonably sustainable. It is sufficient to look at the fate of large and small credit institutions during the crises that broke out in the 1980s and 1990s, and finally in the 2008 crisis.

Again in the last part of the twentieth century, there was a growing tendency to define the strategic directions of economic and financial policy in terms of ‘clubs’ and of larger or smaller groups of more developed countries. While not denying the positive aspects of this approach, it is impossible to overlook that it did not appear to respect the representative principle fully, in particular of the less developed or emerging countries.

The need to heed the voices of a greater number of countries has led to expanding the relevant groups; for instance, there is now a G20 where there was once just a G7. This has been a positive development because it became possible to include developing and emerging countries with larger populations in shaping the economy and global finance.

In the area of the G20, concrete tendencies can thus mature which, when worked out properly in the appropriate technical centres, will be able to guide the competent bodies on the national and

regional level towards consolidating existing institutions and creating new ones with appropriate and effective instruments on the international level.

Moreover, the G20 leaders themselves said in their final Statement in Pittsburgh 2009: “The economic crisis demonstrates the importance of ushering in a new era of sustainable global economic activity grounded in responsibility”. To tackle the crisis and open up a new era “of responsibility”, in addition to technical and short-term measures, the leaders put forth the proposal “to reform the global architecture to meet the needs of the 21st century,” and later the proposal “to launch a framework that lays out the policies and the way we act together to generate strong, sustainable and balanced global growth”.

Therefore, a process of reflection and reforms needs to be launched that will explore creative and realistic avenues for taking advantage of the positive aspects of already existing forums. Specific attention should be paid to the reform of the international monetary system and, in particular, the commitment to create some form of global monetary management, something that is already implicit in the Statutes of the International Monetary Fund. It is obvious that to some extent this is equivalent to putting the existing exchange systems up for discussion in order to find effective means of coordination and supervision. This process must also involve the emerging and developing countries in defining the stages of a gradual adaptation of the existing instruments.

In fact, one can see an emerging requirement for a body that will carry out the functions of a kind of “central world bank” that regulates the flow and system of monetary exchanges similar to the national central banks. The underlying logic of peace, coordination and common vision which led to the Bretton Woods Agreements needs to be dusted off in order to provide adequate answers to the current questions. On the regional level, this process could begin by strengthening the existing institutions, such as the European Central Bank. However, this would require not only a reflection on the economic and financial level, but also and first of all on the political level, so as to create the set of public institutions that will guarantee the unity and consistency of the common decisions.

These measures ought to be conceived of as some of the first steps in view of a public Authority with universal jurisdiction; as a first stage in a longer effort by the global community to steer its institutions towards achieving the common good. Other stages will have to follow in which the dynamics familiar to us may become more marked, but they may also be accompanied by changes which would be useless to try to predict today.

In this process, the primacy of the spiritual and of ethics needs to be restored and, with them, the primacy of politics – which is responsible for the common good – over the economy and finance. These latter need to be brought back within the boundaries of their real vocation and function, including their social function, in consideration of their obvious responsibilities to society, in order to nourish markets and financial institutions which are really at the service of the person, which are capable of responding to the needs of the common good and universal brotherhood, and which transcend all forms of economist stagnation and performative mercantilism.

On the basis of this sort of ethical approach, it seems advisable to reflect, for example, on:

- a) taxation measures on financial transactions through fair but modulated rates with charges proportionate to the complexity of the operations, especially those made on the “secondary” market. Such taxation would be very useful in promoting global development and sustainability according to the principles of social justice and solidarity. It could also contribute to the creation of a world reserve fund to support the economies of the countries hit by crisis as well as the recovery of their monetary and financial system;
- b) forms of recapitalization of banks with public funds making the support conditional on “virtuous” behaviours aimed at developing the “real economy”;
- c) the definition of the domains of ordinary credit and of Investment Banking. This distinction would allow a more effective management of the “shadow markets” which have no controls and limits.

It is sensible and realistic to allow the necessary time to build up broad consensus, but the goal of the universal common good with its inescapable demands is waiting on the horizon. Moreover, it is hoped that those in universities and other institutions who educate tomorrow's leadership will work hard to prepare them for their responsibilities to discern the global public good and serve it in a constantly changing world. The gap between ethical training and technical preparation needs to be filled by highlighting in a particular way the inescapable synergy between the two levels of practical doing (praxis) and of boundless human striving (poiesis).

The same effort is required from all those who are in a position to enlighten world public opinion in order to help it to brave this new world, no longer with anxiety but in hope and solidarity.

Conclusions

Under the current uncertainties, in a society capable of mobilizing immense means but whose cultural and moral reflection is still inadequate with regard to their use in achieving the appropriate ends, we are invited to not give in and to build above all a meaningful future for the generations to come. We should not be afraid to propose new ideas, even if they might destabilize pre-existing balances of power that prevail over the weakest. They are a seed thrown to the ground that will sprout and hurry towards bearing fruit.

As Benedict XVI exhorts us, agents on all levels – social, political, economic, professional – are urgently needed who have the courage to serve and to promote the common good through an upright life. Only they will succeed in living and seeing beyond the appearances of things and perceiving the gap between existing reality and untried possibilities.

Paul VI emphasized the revolutionary power of “forward-looking imagination” that can perceive the possibilities inscribed in the present and guide people towards a new future. By freeing his imagination, man frees his existence. Through an effort of community imagination, it is possible to transform not only institutions but also lifestyles and encourage a better future for all peoples.

Modern States became structured wholes over time and reinforced sovereignty within their own territory. But social, cultural and political conditions have gradually changed. Their interdependence has grown – so it has become natural to think of an international community

that is integrated and increasingly ruled by a shared system – but a worse form of nationalism has lingered on, according to which the State feels it can achieve the good of its own citizens in a self-sufficient way.

Today all of this seems anachronistic and surreal, and all the nations, great or small, together with their governments, are called to go beyond the “state of nature” which would keep States in a never-ending struggle with one another. Globalization, despite some of its negative aspects, is unifying peoples more and prompting them to move towards a new “rule of law” on the supranational level, supported by a more intense and fruitful collaboration. With dynamics similar to those that put an end in the past to the “anarchical” struggle between rival clans and kingdoms with regard to the creation of national states, today humanity needs to be committed to the transition from a situation of archaic struggles between national entities, to a new model of a more cohesive, polyarchic international society that respects every people's identity within the multifaceted riches of a single humanity. Such a passage, which is already timidly under way, would ensure the citizens of all countries – regardless of their size or power – peace and security, development, and free, stable and transparent markets. As John Paul II warns us, “Just as the time has finally come when in individual States a system of private vendetta and reprisal has given way to the rule of law, so too a similar step forward is now urgently needed in the international community.”

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 the individual States cannot promote and protect by themselves.

So conditions exist for definitively going beyond a ‘Westphalian’ international order in which the States feel the need for cooperation but do not seize the opportunity to integrate their respective sovereignties for the common good of peoples.

It is the task of today's generation to recognize and consciously to accept these new world dynamics for the achievement of a universal common good. Of course, this transformation will be made at the cost of a gradual, balanced transfer of a part of each nation's powers to a world Authority and to regional Authorities, but this is necessary at a time when the dynamism of human society and the economy and the progress of technology are transcending borders, which are in fact already very eroded in a globalized world.

The birth of a new society and the building of new institutions with a universal vocation and competence are a prerogative and a duty for everyone, with no distinction. What is at stake is the common good of humanity and the future itself.

In this context, for every Christian there is a special call of the Spirit to become committed decisively and generously so that the many dynamics under way will be channelled towards prospects of fraternity and the common good. An immense amount of work is to be done towards the integral development of peoples and of every person. As the Fathers said at the Second Vatican Council, this is a mission that is both social and spiritual, which “to the extent that the former can contribute to the better ordering of human society, it is of vital concern to the Kingdom of God.”

In a world on its way to rapid globalization, the reference to a world Authority becomes the only horizon compatible with the new realities of our time and the needs of humankind. However, it should not be forgotten that this development, given wounded human nature, will not come about without anguish and suffering.

Through the account of the Tower of Babel (Genesis 11:1-9), the Bible warns us how the “diversity” of peoples can turn into a vehicle for selfishness and an instrument of division. In humanity there is a real risk that peoples will end up not understanding each other and that cultural diversities will lead to irremediable oppositions. The image of the Tower of Babel also warns us that we must avoid a “unity” that is only apparent, where selfishness and divisions endure because the foundations of the society are not stable. In both cases, Babel is the image of what peoples and individuals can become when they do not recognize their intrinsic transcendent dignity and brotherhood.

The spirit of Babel is the antithesis of the Spirit of Pentecost (Acts 2:1-12), of God’s design for the whole of humanity: that is, unity in truth. Only a spirit of concord that rises above divisions and conflicts will allow humanity to be authentically one family and to conceive of a new world with the creation of a world public Authority at the service of the common good.