

GLOBAL FINANCIAL GOVERNANCE SERVING THE COMMON GOOD

+ Mario Toso

Moving along the same lines of *Caritas in veritate* (see particularly n. 67), the Pontifical Council for Justice and Peace has developed some *Reflections*,¹ aimed at foreshadowing the path in view of the financial and monetary markets at the service of the common good of the human family: that is *free, stable, transparent, “democratic”* and not oligarchic markets, *well-functioning* in support of the real economy, companies, workers, families, and local communities. In these *Reflections*, one can find several recommendations: the reform of the UN; the reform of the World Bank and of the International Monetary Fund, whose original vocation and mandate was to govern finance, but which failed in its objective of monetary stability and significant reduction of poverty; to innovate in respect to the G8 and G20; and to proceed to the institution of *regional* central banks, supported by corresponding political bodies.

Besides, in the brief text edited by the Pontifical Council, three topics for reflection are proposed – without any will of imposing them on anyone, but only with the intent of fostering a fruitful discussion – in view of the need to preside particularly over the derivatives shadow market, to dispose of banking institutions capable offering credit to companies and achieve social justice in the financial context, at the national and international level. Twelve months after their publication, these topics for reflection remain present, as the problems to which they refer are real. They concern:

- a) *taxation* measures on financial transactions with fair rates adjusted in proportion to the complexity of operations, especially those made on the secondary market;
- b) forms of *recapitalization* of banks with public funds, making the support conditional on “virtuous” behaviours aimed at developing the real economy;
- c) the *distinction* between ordinary credit and investment banking.

Through the proposal of recovering the primacy of politics over economics and to live the latter in ethical terms, the *Reflections* aim at *universalizing* monetary and financial markets as “public goods” – it is then not intended to lessen the importance of markets –, without depriving them of their autonomy, which however is not absolute.

¹ Cf PONTIFICAL COUNCIL FOR JUSTICE AND PEACE, *Towards reforming the international financial and monetary systems in the context of global public authority*, Libreria Editrice Vaticana, Vatican City 2011 (second reprint).

Regarding the proposals of the *Reflections*, at what point are we?

Concerning the reform of the *major international institutions*, so far there hasn't been any significant change, except Barack Obama's bland Wall Street reform and the emergence and gradual strengthening of the European Central Bank and the related the relevant bailout Fund- the European Stability Mechanism (ESM), whose functioning should be improved, in order to help the real economy of the supported countries. Besides, one should recall the efforts to reform, within the International Monetary Fund, the balance of voting rights, in order to give greater weight to emerging economies. In 2010 a first agreement among IMF Member States was reached. But the reform could not progress without the green light of the US, which holds 16.7% of voting rights. Exactly in the first days of last March, Obama's Administration asked Congress the authority to proceed with the reform of these rights within the IMF.

Regarding the detailed recommendations contained in the *Reflections* of the Pontifical Council, lately some measures, contributing to modify the markets' outlook were taken. Among them some decisions leading to the distinction between speculative financial activities and ordinary banking are:

- a) On 7 February 2013, Chancellor Angela Merkel's Government approved a bill, imposing this distinction on banks. The bill also increases the penalties against those bank officials who jeopardize the survival of banks through inappropriate speculations.
- b) Last December 2012, the French executive planned a discussion to be held in the French Parliament in February 2013 concerning a similar bill and, besides, has foreseen the ban on high frequency trading and speculation on agricultural products prices.
- c) The British Government adopted a plan aiming at the complete distinction between commercial and investment banking, which should enter into force in the next twelve months.

Along these lines, one can recall some decisions concerning financial transactions taxation for reasons of social justice. Many Catholic associations are promoting such measures far-back. It is also well-known that in Europe, some months ago, 11 States agreed to such a project.² Certainly, not to be counter-productive, this taxation has to be regulated with moderation and wisdom and used above-all to dissuade highly

² Germany, France, Austria, Belgium, Portugal, Slovenia, Greece, Italy, Spain, Estonia and Slovakia.

speculative short-term financial operations, in order to support *another* finance, giving credit to the real economy. Regarding the so-called *Tobin Tax*, it is constantly objected that it can't be effective if it's not introduced simultaneously all over the world, because if not it would then provoke capital outflow. The falsity of these public places has to be denounced. The most entrenched myth – that financial transactions tax to be fruitful must be applied world-wide – is contradicted by the fact that such taxation is already in force in about forty States, without any international agreement and has not lead to capital overflow towards other States. Great Britain, which far-back opposes the Tobin Tax, actually applies in its national law something similar, the *stamp-duty*, which is in force for years and has not prevented the London Stock Exchange from being, together with *Wall Street*, the main financial centre of the world.

Another myth to dispel is that which would bear the consequences of this tax. In this regard, according to a 2011 study conducted by the International Monetary Fund, the tax would be progressive, with a major impact on the enormous transactions carried out in a very short time. The tax, then, would aim at hitting above-all huge speculative operations and not small savers or long-terms investments, which would be only marginally affected. It must not be forgotten that the *Reflections* on markets serving the common good insist on the spiritual and professional formation of the financial actors. In the context of the present observations, a perspective to be highlighted is without doubt the elimination of the various *tax havens*.