

# The fair money

By Markus Vogt

(Translated from German by Mrs. A. Elmendorff-Pfeifer, Düsseldorf)

*The actual financial crisis is not yet overcome. Future-capable financial policy must at the same time save wisely and invest wisely. Theological ethics contributes to formulate rules in order that money serves a globally understood prosperity.*

The so-called crisis of Euro is more than a problem of heavily indebted financial budgets of states such as Greece, Ireland, Spain and Portugal. The crisis is a crisis of confidence in the stability of our economic and monetary system. It is foreseeable that the European rescue umbrella which amounts hitherto to 750 milliards of Euro must be enlarged. Also in the United States the Minister of Finance Timothy Geithner has brought to discussion the possibility of state bankruptcy. There the indebtedness amounts to 10, 7 billions of Euro, an amount scarcely imaginable. In Germany the indebtedness of the state has increased at the beginning of 2011 to almost 1, 9 billions Euro that means 23.100 Euro pro person. According to the information of the (German) Federation of Taxpayers the new indebtedness increases for the time being to 3.500 Euro per second.

We clearly live about our financial resources. The raising of debts which according to the theory of the renowned economist John Maynard Keynes (1883-1946) is justified for overcoming cyclical weaknesses and to make rebound the economy, has become for us a permanent situation. That this cannot continue infinitely and that at any time howsoever a breach of the system will occur is without any doubt. We are living on credit, transfer cost and risks to the future and with the help of the cheap money we make possible a prosperity which other people must pay.

## **On tick**

Despite all worries about the budgetary deficits one should not ignore that in Germany the worst effects of the financial crisis have been overcome very well by quick and resolute acting. A systemic collapse did not occur. The economy has recovered remarkably quickly. The labour market increases. Many a person talks already of a new German economic miracle. Greece has also a comparably strict path of saving. Within the EU are more often heard voices which require a stronger budgetary discipline and a new architecture of the financial market.

There is no easy answer to the question which ethical conclusions shall be drawn from the indebtedness. It certainly is hardly possible to leave abruptly the kind of monetary policy as it is practised since decades throughout the world. This would trouble the conjuncture business cycle, possibly only increase still a posteriori the debts and in no way guarantee better chances of reimbursement of the debts. Despite and partially because of the crisis investments are necessary - for example in new technologies, in climate protection, education, health or social integration. At the same time we must save wisely and invest wisely. A good financial policy in time of crisis seems to equal the quadrature of the circle.

The financial crisis has revived the ancient discussion on the prohibition of interests. The scepticism concerning the interests and banking system is founded in the Bible, in the book Deuteronomy (23, 20) of the Old Testament: "You shall not take interest from your brother, neither for money, nor for food, nor for all things for which you may take interest". In the

Catholic Church the prohibition of interest was effective till 1830. Similarly it is included also in the Koran V (sure 2) and in some Muslim communities it is practised partially up to now.

A monetary system exempted from interests would be a counter-model to the constraint of growth which is inherent to the present system and which is considered as contradiction to a long term sustainable economy and thus to a generation conform to economy. Thus, for example, the theologian Thomas Ruster is in favour of a negative interest. According to him possessing money should be taxed by a fee. This would motivate to bring money into circulation. Some regional currencies wishing to support the local economy, such as for example "the Chiemgauer", transform this in practice.

### **Why interests?**

However the cause of the actual crisis is not the system of interests as such, but the introduction of new finance products uncouple to a high degree profit chances from the entrepreneurial creation of values. Here are required rules which control the money offered in such a way that inflation as well as deflation is avoided and that by real economic innovations money is put to value. The abolition of the prohibition of interests can be justified impartially by the modified function in a modern economy. Normally are not concerned consumption credits and fees exploiting an emergency situation which is referred to by the prohibition dealt with in the Bible, but investment credits and a compensation for the flexible provisioning of money to actors without whom modern economy could not exist. Today the interest has a threefold function: It is the compensation for the risk that the debtor does not reimburse the money borrowed; interest permits the participation in profits and the indemnity for renouncing to other chances of using money, and finally a minimum interest fixed by the central banks and with the help of which they can compensate fluctuation of the business cycle is guiding the economy.

A general scepticism vis-à-vis the system of interest and thereto related monetary policy is ethically not reasonable against this background. Money serves saving for future possibilities to act. Money is coined freedom as it was stressed by Georg Simmel, philosopher and sociologist (1858-1918). Theological critique is only suitable if money becomes a mind-building medium and the logic of arbitrary exchangeability becomes the image of the world. Then money becomes mammon that we cannot serve at the same time as God (Mt 6, 24). It would, however, be a fault of category if one deduces from the cultural critique of the "dance around the golden calf" (Ex 32) a definite judgement on all monetary operations. Theology does not liberate from the right to a materially differentiated discussion.

Political shifting of points strengthening the financial sector begun end of the seventies in Great Britain and the USA. Aimed at were incentives of growth in order to overcome indebtedness and inflation. By lack of coordination and by the due to the new communication techniques concentrated internationalization of the markets national regulations came more and more under pressure. Since the years ninety the regulations of the financial market were loosened step by step. The banking business became the finance industry which commercializes money like merchandise, having in view different profit expectations. The economy was educated to quickly maximize profits. Between 1980 and 2007 the daily global financial transfers increased from 62 to nearly 3.500 milliards US-dollars. A significant overweight of the monetary business over the so-called real economy arose. This becomes problematic when the monetary markets, instead of serving the dynamic entrepreneurial creating assets compel them inversely to the quick, partially quite different, abstract, high-speed "virtual" logic of the shareholder values.

## **Reforming the financial markets**

The enormous monetary flows with daily circulate around the globe impress specifically since mid of the nineties the economy and thus the living chances of numerous human beings. The high speed of worldwide innovations was made possible by these flows. Simultaneously the risks of the system increased. Because of this positive feed-back between the expectations of the actors the system tends to an unstable dynamic of boom and bust, thus of rise and economic crisis. The actual financial crisis has been prepared since long time by several predecessors, thus for example 1992/93 in Scandinavia, 1994/95 in Mexico, 1997/98 in Asia, but also by the New-Economy-crisis 2000 and the US-real estate crisis 2008 which widened to a worldwide financial and economic crisis. The lacking stability of the financial markets and thus also of the economy is the result of structures which have been created systematically during the two past decades. It therefore is not simply fate, but must be responded on the ethical-political level. A fundamental reform of the financial-economic regulative systems is necessary if we do not want to come soon in a similar crisis. Up to now the reform was only promised, but has not become effective.

Representatives of the Christian social ethics have since long drawn the attention on risks inherent to the financial sector. The social Encyclical "Quadragesimo Anno" (1931), written in reaction to the at the time world economic crisis, has already put out the finger in the wound. One of the main authors was the Jesuit Oswald von Nell-Breuning (1890-1991) who has published in 1928 his dissertation "Fundamental features of the stock exchange ethics". "Most remarkable is today the enormous accumulation of capital not only of capital, but of power and economic hegemony in the hands of several individuals who often are not owners but trustees or administrators of the assets entrusted to them which are to their disposal with almost unrestricted and might perfection... With credits they control the circulation of blood of the whole economic body; the vital component of the economy is in such a way under their control that nobody can dare even to breath without their instruction" ("Quadragesimo anno", no. 105sq.). This diagnosis of a lacking balance of the power in the political-economic structure is today actual as ever.

## **Equality in giving and taking**

Money is not a value impartial dimension, but because of its impressing influence on almost all sectors of life is linked with a high degree of responsibility. Within the church and the society there is a high want of creating consciousness with regard to the ethical dimensions of money which because of, its "anonymous character" are often ignored.

Under the aspect of the theory of justice the ethical problems of the financial crisis as well criteria of its overcoming can be analysed by means of the three fundamental dimensions which are *legal justice*, *justice of distribution* as well as *justice of exchange*: In order to understand the financial crisis the moral failure of certain persons - avidity and corruption - has, as compared with the regulative deficit of the superior institutions, a less strong importance. *Legal justice* requires a strong state permitting transparency and controlling efficiently financial transactions. Financial products and financial markets for which such a control cannot be guaranteed are ethically not admissible. It will be a predominant task of economic policy of the next years to create a new global legal framework for securing the common welfare.

In the shadow of the financial crisis in Germany and in many other countries have taken place and take place enormous redistributions. Profits have been made private, risks are made collective. System relevant banks have been secured with public resources and now are realizing record profits whilst the state feels forced to spare in the social sector supra-proportionally because of the generated deficits. Developing and emerging countries with

weak creditworthiness suffer very much. *Justice of distribution* requires within the financial system that the redistribution effects thereof are critically analyzed and if possible limited. This applies on the national as well on the international level and must also be brought in relation to the distribution of chances and risks.

Systematically considered, the financial crisis is above all a problem of *justice of exchange*, because payment systems have collapsed and the equality of giving and taking in economic interactions is not longer guaranteed. The enormous loss of value of securities destroys employment and paralyses big parts of the economy. Many developing countries have lost the participation in global exchange markets and relations of cooperation. In the generated emergency situations real estate, enterprises, banks, arable land and raw materials are sold much under value. Justice of exchange, thus the equality of giving and taking, requires a stable and transparent financial system.

### **What is justice to the generations?**

Financial policy fair to generations must prove in all three dimensions. First of all is required a stable legal framework. It is not permitted to charge future generations by indebtedness or the weakening of social and nature' capital. As a central medium of exchange it shall make possible the economic development, cooperation and participation of the most possible persons and thus shall become a dynamic factor of justice.

The financial crisis affects fundamental questions as to our guiding image of prosperity. It is closely related with the economic understanding unilaterally orientated towards quantities of goods and profits, so that the social and ecological dimensions of quality of life which often cannot directly be expressed in monetary values are lost from view. Moreover, in this way the costs of managing are displaced at the time above all to subsequent generations. Economic success must be measured by a comprehensive and long term understanding of prosperity of the interested actors. The traditional standard, the gross inland index, which prefers unilaterally values measurable in money, must be at least completed by the so-called *Index of Sustainable Economic Welfare* which includes factors of permanence such as quality of resources or education. The specific contribution of the Churches in overcoming the financial crisis consists above all in having drawn the attention on such fundamental ethical-cultural contexts. "Without a cultural change we have no chance of a durably positive development", has summarized the German Catholic Alois Glück, Chairman of the Central Committee of the German Catholics.

### **Golden Rules**

It would be false to interpret the financial crisis exclusively as an example of shortage and to wish to overcome the crisis by draconic sparing measures. The concern is to give the investments a new direction and a measure able to control, so that the finance business serves the real economy instead of drawing it in the ban of speculations. An important step in the direction of administration fair to generations are the "golden rules on budgetary consolidation" which in 2009 has been included in the coalition treaty of the Federal Government (p. 19-21). Moreover, the financial system must be structured more pleasant to faults, above all the measures of refinancing. These include also to reduce the risk by increasing the proprietary capital even if in this way the yield of the proprietary capital which determines the profitability of the enterprise is sinking. Independent rating agencies which judge the creditworthiness as well as a kind of TÜV (association of technical control) for new financial products are nearby measures.

Besides of the measures limiting the risks we need reforms of economic and financial policy serving the protection of the climate, security of alimentation as well as education, labour and health so that the shortages of today become the innovation markets of tomorrow. In this

context the several measures must be embedded in a long term conception, coordinated and transformed consequently into practice. A guiding image can be seen in the introduction of an "eco-social market economy" on the worldwide level. Without this system a financial and economic policy doing justice to the generations is finally not possible.

### **Growth capable of future**

The financial markets are part of a complicated economic event which as a whole creates and destroys values and prosperity. Therefore the income realized on the capital markets is not a private matter, not alone creation of values, but withdrawal of profits and therefore due to the common welfare. Thus even the successful speculator Warren Buffet calls for a higher taxation of capital, because capital is not only created by individual performance, but also by chance and certain possibilities of withdrawal of profits. The requirement to introduce for the financial markets a transaction tax, favoured in the beginning not only by many representatives of the Church, but also by the Minister of Finance Wolfgang Schäuble and Federal Chancellor Angela Merkel, a requirement subsequently not sustained, should definitely not be abolished. The factors labour, energy (raw materials) and capital should be used for the financing of the public tasks, in a weighted manner and according to their capacities of creating assets.

The skill to handle money consists in the linking of discipline in saving and the courage to invest - to the benefit of human beings and processes opening the future. The unilateral dominance of the capital market logic has in many areas resulted in the fact that since decades despite high growth rates we operate business at the expense of the future. If the financial crisis serves as cause of overcoming this wrong situation it will prove *à posteriori* as healthy "dis-illusion", as end of the illusion that a business community which borrows money and other forms of capital from future generations can be durably stable. The financial crisis has impressively demonstrated that a big part of that what we apparently call materially-solid "capital" is something very immaterial and fragile. The most important form of the capital is confidence.