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# **Just Finance and Fair Play**

## **The Recent Financial and Economic Crises from a Protestant Perspective**

**sek·feps**

Federation of Swiss Protestant Churches



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Publisher: Federation of Swiss Protestant Churches FSPC

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# *Preface*

The Protestant Swiss theologian and social ethicist, Arthur Rich, whose 100th birthday we will celebrate in 2010, astutely remarked: “That which is not economically rational cannot really be humanly just, and that which conflicts with human justice cannot really be economically rational.” Economic rationality and human justice are not a mutually exclusive choice of alternative guiding principles, but are indeed interlinked.

In line with its responsibility for all of society, the Council of the Federation of Swiss Protestant Churches has time and again issued statements on economic topics, whether on Switzerland’s social and economic future or on the salaries of top executives. The FSPC is active in this way through its hosting of the Open Forum Davos and its involvement in the Discourse Group on Church and the Economy.

In the present publication, the FSPC takes a position on the current financial and economic crisis, with the aim of bringing together the perspectives of economic rationality and human justice. This includes the issue of human responsibility, whether individually or collectively, and the values of the social market economy. The church is of the firm view that economic justice is fully necessary for social stability, that the financial sector must exist to serve the real economy, and that the market economy has a strong future as long as it is ecologically sustainable and socially active.

These recommendations are anchored in the gospel, which states that all people should “have life and have it abundantly” (John 10:10). This presents an ever changing challenge to people and institutions who would seek to play a role in shaping our society.

Rev. Thomas Wipf,  
President of the FSPC Council





# 1 *Of houses and games: Fundamental questions on a just economy*<sup>1</sup>

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“Executive morals’ are inseparably linked to underlying conditions that motivate people in one way or another. We can, however, hardly deny that companies and those who make corporate decisions have plenty of room to take on ethical responsibility.”

Heinrich Bedford-Strohm, 2009<sup>2</sup>

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The consequences of the recent financial and economic crises have been, for countless people around the world, just as real as our inability, on the whole, to understand how this could have happened and indeed what exactly happened in the first place. We also remain at a loss when it comes to how the financial crises of 2008 and 2010 will continue to develop and what we need to learn from them. Was this all caused by individuals in particular areas of the economy, or by the financial markets and their often opaque means of operation, or does it reflect political failures or fundamental flaws in the economic system itself? We do not pose questions such

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<sup>1</sup> A draft of this study was presented to numerous experts and published on the FSPC website in the framework of the Open Forum. Detailed commentaries on specific matters and on individual sections provided invaluable information and inspiration, which was taken into account in the process of writing this final version. Extensive input was received from numerous Protestant ethicists (Stefan Grotefeld, Helmut Kaiser, Georg Pfleiderer, Tobias Braune-Krickau, and Christoph Stükelberger) as well as from the BFA aid agency (Beat Dietschy and Yvan Maillard Ardent in particular). Denis Müller, Hans Ruh, and the Praeses of the Evangelical Church in the Rhineland and Chairperson of the EKD Council, Nikolaus Schneider, also provided their feedback for the consultation. Financial experts also submitted two extensive position papers that were included into the process of writing the present version, including one by Hugo Bohny. We would like to express our great appreciation to the authors of these papers for their ever constructive criticism and invaluable information.

<sup>2</sup> Bedford-Strohm, Heinrich: Menschenwürde und Mammon, in: Herder Korrespondenz, 2/2009, no. 63, p. 75.

as these for their own sake, but as a way of reaching the goal of effectively and sustainably mitigating the risks and – often existential – dangers entailed in our globally active and interlinked economies.

People are all economic actors by necessity, and fundamental economic issues are thus questions that affect and are relevant to everyone. With this understanding, Christian churches around the world have spoken out time and again on issues related to economic ethics.

The global economy indeed has much in common with the efforts of Christians to speak with one voice across confessional and national boundaries. The words “ecumenical” and “economy” both derive from the same Greek word, *oikos*, meaning “house”. While the terms may refer to different types of households, the ethical standards that permit a common dialogue or a common economy, i.e. the rules that make it possible to live and act together, must play a role in both contexts.<sup>3</sup>

This global “building” and its various apartments presents the challenge of making it possible for all of its residents to live a life in dignity and prosperity. Our global house is, however, still far from reaching this goal, and the recent crises have only exacerbated the situation further. There is indeed little point in discussing whether the right people live in this house together; we cannot choose as there are no others. It is therefore all the more urgent that we call into question the suitability and effectiveness of the house order that rules how the people now live.

Another image that emerges in this context is that of a game. It would appear that a “casino mentality” has been prevalent throughout the financial markets: a pursuit of fast and sizable profits, anchored in passions and a competitive spirit. Large sums are often invested in financial products that beckon with apparently incredible profits. Vast fortunes are transferred to tax oases, as if disappearing into the pockets of cunning gamblers. Looking at pictures of the floors of financial markets, we may have an impression similar to that of children playing with their Gameboys or teenag-

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<sup>3</sup> Smith, Adam: *The Theory of Moral Sentiments*. New York: Dover 2006 [1759]. It is crucial that Smith's market economic system is, in itself, free from value judgment. Values enter into the economy through ethically predisposed actors. Cf. also the writings of the first general secretary of the World Council of Churches (WCC): Visser't Hooft, Willem A.: *Geschichte und Sinn des Wortes 'Ökumene'*, in: Visser't Hooft, W. A., *Ökumenischer Aufbruch* (Hauptschriften II), Stuttgart, Berlin 1967, pp. 11–28.

ers who cannot pry themselves from their computer games. As frivolous this comparison may at first seem – it is in the end a question of recognized professional abilities and major effects on real life – they indeed share a frantic quality in their actions and a certain gaze of passion, forgetting all that goes on around them. Are they not all indeed far away in their own world, in a virtual universe of networked players?

What can we do, however, if the entire financial system seems to be turning into a game among players who risk large sums with countless people unwillingly being sucked or forced into the game? These people often only have a basic account at banks that make risky investments that most of their customers never hear about or could ever even understand. Or the only mistake they might make is to live in a town or country whose financial leaders speculate with the funds that are their responsibility. Or they are taxpayers who, sooner or later, must make up for the vast financial bailouts needed to keep their national bank systems from collapse. Not to mention those yet to be born who will live under a vastly heavier public burden of debt, or the hundreds of millions of people struggling with rising food prices while receiving less public support. They are all involuntary and forced participants in a vast game of profit and risk, one in which they have more at stake than those who are playing the game themselves.

Neither the rules nor the conditions of such a game can be deemed to be acceptable. It is not the sense of play involved that is the problem *per se*, but rather the very corruption of this game. The game is no longer limited to any particular place but instead affects the entire globalized world. And the game has no boundaries but determines the welfare and suffering of people's entire lives. It no longer distinguishes between those who play and those who do not, but forces everyone to play along, whether they wish to or not. It is the expression of a system that has made itself independent of the real world while at the same time subjugating the real world to its activities. The international financial system's manner of play is revealed to be particularly corrupt when, instead of clear rules of fair play, a sense of unpredictability prevails, an unpredictability that verges toward chaos but also toward force. We need only think of the unmitigated systemic constraints (such as in the invention of successively new, increasingly abstract

and complex derivatives,<sup>4</sup> which in the end lead to the creation of new money). Behavioral constraints also, however, play a role in this, as has been investigated, for example, in “market psychology” – all in a subculture that continues to be dominated by men.

In his 1938 book, *Homo Ludens*, Dutch historian Johan Huizinga described the significance of the element of play in the development and formation of systems of human culture, from art and science to economics and religion. *Homo ludens* (“man as a player”) improves the world around him with the creativity of play within the sphere and rules of the game. And *homo ludens* transfers these games to the serious aspects of life in all their dimensions. Huizinga emphasized the importance of rules of play in that they make it possible for a game to be played in the first place. It is not so much cheaters (who only try to circumvent the rules) as game spoilers (who systemically flout the rules or make use of loopholes in the rules) who render games unplayable. It is indeed the common creation and observance of game rules that explain how games serve to form culture and institutions. Huizinga’s ideas continue to be of great interest today. It is not at all far-fetched to view the monetary economy, from an anthropological point of view, as a creation of *homo ludens*.<sup>5</sup> This, however, leads us to the conclusion that this game requires rules for it to be fair.

The game loses its character, however, when it is misappropriated to serve other purposes. It is no longer a game if it merely looks like a game. Especially in the aftermath of the ideological dictatorships of the 20th century (and we must take note that his book appeared in 1938) Huizinga pointed out how sports but also other kinds of games and entertainment can lose their playful quality. They may seem like games but are in fact “social techniques”, i.e. means of controlling society on behalf of a political system. In a similar vein, we may be able to identify similar phenomena in today’s international financial system despite all fundamental differences

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<sup>4</sup> Derivatives are financial instruments whose values depend on the prices of other traded goods, securities, market indices, or the occurrence of certain events (e.g. state or corporate insolvency).

<sup>5</sup> Of particular interest in this regard are the game-theory studies on experimental economics (“prisoner’s dilemma”, “ultimatum games”, “public good game”) reported by Jörg Hübner in *Macht euch Freunde mit dem ungerechten Mammon! Grundsatzüberlegungen zu einer Ethik der Finanzmärkte*, Stuttgart 2009, pp. 30ff.

of time, ideology, and structure. The “casino mentality” does not of course entail a true passion for play. It indeed reflects a financial system that has departed from the real economy and which only serves to boost individual fortunes. The casino and its players play their games and yet continue to serve this system. The game is not really a game; it is real life in the form of a corrupted game.

Not only financial traders, however, succumb to this “casino mentality”. The great success of Timothy Ferriss’ 2007 book, *The 4-Hour Workweek: Escape 9-5, Live Anywhere, and Join the New Rich*, proves that masses of people have been pouring into this “casino”. In his book, Ferriss promoted his lifestyle as an Internet entrepreneur with a large amount of free time and virtual assistants in India and other countries with low wages. Despite the virtuality of this network, which serves as a communications medium and market, these assistants are indeed real people working hard for little money, providing essential services such as following the financial markets and acting at the right moment. As we can see, Ferriss’ method of lucrative earning makes use both of the opportunities for profit in a well developed financial market as well as cheap labor in a world of immense discrepancies of wealth – all of which can be available to average people in our society! We cannot talk about improving financial markets without talking about a sustainable economy anchored in basic humanitarian values and with social, economic, and ecological aims.

Economics must be viewed as a fair pursuit with fair rules. Play is allowed, but only according to rules that afford all players the same rights. Creating and examining these rules is a necessary step in ethical reflection. As a service to the public welfare, this is indeed a task for the churches as well.

A number of churches and church organizations have thus already established positions on the 2008 financial and economic crisis. The present text expands on these positions in two ways. It provides a detailed overview and analysis of the economic causes, connections, and consequences of the 2008 crisis, while also focusing on the specific situation in Switzerland, including an extensive look into the issue of bank secrecy and its significance, consequences, rationales, and limitations. The financial crisis of 2010, triggered by the Greek debt crisis, is examined with its many parallels and links to the 2008 crisis in Chapter 2. This particular situation is then tied into specific, theological-ethical reflections in Chapter 3. Chapter

4 concludes with principles for an ethics of financial markets and with new outlooks and points of orientation for action, addressing the structure and practice of today's globalized markets and offering ethically grounded solutions to the problems at hand.

While this study has been written in particular for the member churches of the FSPC and their parishes as well as political, economic, and other public decision-makers in the Swiss context, it may also serve as a basis for an exchange of ideas with church partners at the international level.

## 2 *Crisis causes, consequences, and connections*

### 2.1 *Parallels between the 2008 and 2010 financial crises*

The global economy has been hit by a financial crisis for the second time in only twenty months. The severity of the situation was described well by the otherwise quite moderate president of the European Central Bank, Jean-Claude Trichet, when he said that we are undoubtedly still caught in “the most difficult situation since the Second World War, perhaps even since the First.”<sup>6</sup> Many parallels, indeed, can be seen between the financial crises of 2008 and 2010.

*Threat to the international financial system:* The first crisis was set off by the collapse of the real estate bubble in the United States in 2008, which expanded globally due to speculative financial instruments, driving the international financial system to the edge of collapse. The current crisis emerged from southern Europe and has the potential to develop as dramatically as the 2008 crisis. According to the spring 2010 “Global Financial Stability Report” of the International Monetary Fund (IMF), the crisis in Europe is again threatening international financial stability. The danger now looms of the old crisis entering into a “new phase” if the structural problems in Europe are not solved.<sup>7</sup>

*Debt as a crisis cause:* Whereas the 2008 financial crisis emerged from the collapse of the real estate bubble and from the excessive debt of American households, in 2010, it was triggered by the high level of new and accumulated debt in the countries of Southern Europe. In both crises,

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<sup>6</sup> Trichet was quoted in: N.N.: “Schwierigste Situation nach dem Zweiten Weltkrieg”, in: Handelsblatt online, 15 May 2010; cf. also ECB Monthly Bulletin June, Frankfurt a.M. 2010, p. 73.

<sup>7</sup> Rowe, James: Government Borrowing is Rising Risk to World Financial System, in: IMF Survey online, 20 April 2010.

structural economic problems at the national level featured prominently in the development of debt.

*Toxic securities and bonds:* In the 2008 financial crisis, globally traded toxic securities were covered solely by the expectation of rising real estate prices. In the 2010 crisis, we are faced with the toxic bonds of Southern European countries that are deep in debt, which are “covered” only by confidence in the euro and the Monetary Union of the European Union.

*Banking crisis:* During the 2008 financial crisis, the uncertainty over which banks held how many toxic securities led to a near standstill in trading among banks and thus to the collapse of the international financial system. The 2010 financial crisis has also begun to see the first signs of confidence dwindling among banks.<sup>8</sup> There is once again uncertainty as to which banks hold how many toxic bonds from Greece and other southern European countries.

*A crisis expanding through speculation:* Innovative financial instruments such as short selling and speculation with credit default swaps have, in both crises, exacerbated the situation and led to their worsening.

*Major state interventions:* In both crises, it took major state interventions to prevent the collapse of the international financial system. In September 2008, in the aftermath of the first crisis, the U.S. Federal Reserve and the U.S. Department of the Treasury pieced together a 700-billion-dollar package to restore confidence among the banks. In May 2010, it was again necessary to make it politically clear that countries such as Greece, Spain, and Portugal could not be allowed to go bankrupt. This led to the creation of 750-billion-euro aid package on the part of the countries of Europe and the International Monetary Fund (IMF), as well as an active intervention by the ECB.<sup>9</sup>

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<sup>8</sup> ECB Monthly Bulletin June.

<sup>9</sup> Niederberger, Walter: Die EU kopiert die amerikanische Rettungsaktion, in: Tagesanzeiger, 11 May 2010, p. 6; Hickel, Rudolf: Drakonische Disziplinierung und Hilfspakte: Keine nachhaltige Lösung für Griechenland - Eine Umschuldung wird unvermeidbar, 5 May 2010 ([http://www.iaw.uni-bremen.de/rhickel/pdf\\_dateien/Hickel-GriechenlandUmschuldungergaenzt-NEU.pdf](http://www.iaw.uni-bremen.de/rhickel/pdf_dateien/Hickel-GriechenlandUmschuldungergaenzt-NEU.pdf)).



## 2.2 *The 2010 financial crisis*

### 2.2.1 Greece on the brink of insolvency

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“Without a doubt, the Greek crisis is a struggle between politics and the financial markets. The financial industry, which has just been saved from ruin by the governments, now wants to be protected again from losing billions through state action. First it was Lehman, now Greece.”

Dirk Heilmann, Chief Economist for the Handelsblatt newspaper, 2010<sup>10</sup>

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Greece was on the brink of insolvency in May 2010, a state of affairs that triggered the current financial crisis. How could this have happened? Greece's economy had been bogged down by structural problems that had, over the years, led to considerable budgetary deficits and an extremely high level of national debt. Greece, in order to keep this quiet, manipulated the statistics it reported to the European Commission, including shadow economy activities into its gross domestic product (GDP) such as prostitution, money laundering, and cigarette smuggling. This led to a rise in the GDP of over 10 percent, while deficit and debt rates fell.<sup>11</sup> These manipulations became public in November 2009 along with the revelation that Greece's national debt clearly exceeded 120 percent of its GDP, and rising. A maximum total debt of 60 percent is, however, permitted within the framework

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<sup>10</sup> Heilmann cited in: N.N.: Griechen-Gau – kommt die D-Mark wieder?, in: Handelsblatt online, 7 May 2010.

<sup>11</sup> Höhler, Gerd: Griechenland wachsen die Schulden über den Kopf, in: Handelsblatt online, 8 December 2008

of the EU convergence criteria as established in the 1992 Maastricht Treaty on the European Union.<sup>12</sup>

As a reaction to the manipulations and the country's poor economic situation, Greece's ratings according to the international agencies fell dramatically between November 2009 and May 2010. This led to a mixture of panic and speculation. The ECB's June 2010 monthly report spoke, for example, of "massive investor flight towards secure bonds"<sup>13</sup> within the euro zone and the United States. Important long-term investors such as the Pimco investment company subsequently sold, at a considerable loss, their Greek bonds to purchase bonds from countries with emerging economies or to take out expensive insurance on their remaining safe Greek bonds.

At the same time, hedge funds increased their activity in Greece and against the euro, which included short selling (see box). This in turn led to a greater loss of confidence on the part of "real money" investors in Greece.<sup>14</sup> Even if the Greek debt crisis was not ultimately caused by speculation, speculation did exacerbate and increase the danger of the crisis spreading as it was indeed not a matter of an attack of speculation on

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<sup>12</sup> In February 1992, the Treaty on the European Union was signed by the governments of Europe in Maastricht. The treaty regulates, among other things, the economic, currency, and social union. The Maastricht convergence criteria provided the basis for the introduction of the euro currency, as they needed to be fulfilled by any state that wished to participate. The criterion of public debt was crucial in this regard, while the new net debt of a country was not permitted to be more than 3 percent, the total debt was not permitted to exceed 60 percent of the GDP. In the end, however, only four countries fulfilled these criteria or the deadline to introduce the euro, and Germany was not one of them. The convergence criteria were therefore interpreted loosely, especially that of public debt. The European Monetary Union rulebook does not, however, foresee any measures for states faced with insolvency. The other euro countries have no legal footing to exclude such countries from the Monetary Union nor do they have the ability to depreciate their own currencies as a countermeasure. The situation shows just how difficult it is to combine a supranational centralized monetary policy with a financial policy that continues to be run at the national level. The crisis reveals, at the same time, another problem central to the European Union. The Maastricht Treaty helped to usher in a monetary union, but without being able to rely on a sufficient political union. Cf. Böckenförde, Ernst-Wolfgang: *Kennt die europäische Not kein Gebot?*, in: NZZ online, 21 June 2010; Basseler, Ulrich / Heinrich, Jürgen / Koch, Walter A. S.: *Grundlagen und Probleme der Volkswirtschaft*, Köln 1999 (15th ed.), p. 558.

<sup>13</sup> ECB Monthly Bulletin June.

<sup>14</sup> The term "real money" investor is used here to refer to someone who invests their own funds. This includes pension funds, insurance firms, and the financial departments of companies. Hedge funds and other investors of external funds operate with mostly borrowed funds. Cf. *Was erklärt den steilen Umsatzanstieg an den Devisenmärkten? Anmerkungen zur Zentralbankerhebung 2004*, in: BIZ Quartalsbericht December 2004, p. 77.

Greece alone. There was also a large amount of speculation on the decline of the euro so that the crisis can be seen as an onslaught of speculation on the European Monetary Union and the euro in general. In addition to the euro's weakening, the speculation was geared toward separating out southern countries including Greece, Spain, and Portugal. If individual countries had to leave the Monetary Union and reintroduce their own currencies, they would be much more open to speculative attack in the future than if they were still in a monetary union.<sup>15</sup> Michael Maisch, London correspondent of the *Handelsblatt* wrote on the influence of this speculation:

"Banks, investment funds, insurers, state funds from emerging economies – all of these are currently betting on the fall of the euro. Hedge funds, however, have been playing a particular role in the attack on the union's currency. Data provided by the U.S. Commodity Futures Trading Commission show that, in early May, speculators bet against the euro to a degree hitherto unseen with regard to a currency."<sup>16</sup>

The financial markets' loss of confidence in Greece's solvency drove the yield on Greek state bonds into double digits by May 2010. This meant that Greece would have to pay very high interest rates to be able to find buyers for its bonds and the "fresh" money it would need to refinance bonds as they came to maturity.<sup>17</sup> Greek bond yields fell in spring 2010, in part by several percentage points more than those of German and French state bonds, something that is quite out of the ordinary within a currency union.<sup>18</sup> This led Greece to the brink of insolvency during this period.

Why did the latest financial crisis, however, erupt in Greece and the euro zone and not, for example, in the debt-laden United States? It could be because the markets saw Europe as less able to solve its problems such as

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<sup>15</sup> Cf. the interview with Rudolf Hickel in: Thomas, Georg: "Spekulanten versuchen das System zu sprengen", Tagesschau online, 11 May 2010 (<http://www.tagesschau.de/wirtschaft/hickel102.html>); N.N.: "Der IMF geht in Athen ein Risiko ein", in: NZZ online, 12 May 2010.

<sup>16</sup> Maisch, Michael: Griechen-Gau – kommt die D-Mark wieder? in: Handelsblatt online, 7 May 2010.

<sup>17</sup> Institut für Makroökonomie und Konjunkturforschung (IMK): Absicherung griechischer Staatsanleihen fast doppelt so teuer wie von argentinischen Papieren, 3 May 2010 ([http://www.boeckler.de/320\\_104474.html](http://www.boeckler.de/320_104474.html)).

<sup>18</sup> Jackisch, Klaus-Rainer: Wer Athen in die Knie zwang – und wer bezahlt, in: Tagesschau online, 23 April 2010 (<http://www.tagesschau.de/wirtschaft/griechenland520.html>).

lags in structural reform and overtaxed institutions.<sup>19</sup> At the same time, Europe has been fighting budgetary deficits, which emerged in part from the very financial measures that became necessary to soften the blow of the 2008 financial crisis and to prevent the financial system from collapse. “In this situation of extraordinarily high deficits around the world, the markets discovered one particularly weak link: Greece.”<sup>20</sup>

### 2.2.2 Spain and Portugal in the maelstrom of the crisis of confidence

The financial markets’ uncertainty and loss of confidence in Greece began, in spring 2010, to affect other structurally challenged countries such as Spain and Portugal.<sup>21</sup> The risk premiums for bonds from Greece and other southern European countries reveals how the financial markets no longer view the euro zone as a single currency area.<sup>22</sup>

#### *Instruments of speculation on the euro*

Speculation on the euro and state bonds occurs through futures markets.<sup>23</sup> Hedge funds use financial instruments with a leverage effect, i.e. for which only a small portion of the nominal value of the underlying business is required. Figures provided by the U.S. Commodity Futures Trading Commission show that a large amount was staked on a falling euro and selling it short in early 2010.<sup>24</sup>

Successful short sales can be illustrated by the following mechanism: Person A borrows books from Person B and sells them on an online platform. Just before the return date, Person A purchases the same books second-hand on the Internet platform at a lower price and then returns them to Person B.

<sup>19</sup> Ferrari, Luciano: Weshalb die EU ins Elend stürzt, p. 8.

<sup>20</sup> ECB President Jean-Claude Trichet cited in: Ferrari, Luciano: Weshalb die EU ins Elend stürzt, in: Tagesanzeiger, 20 May 2010, p. 8.

<sup>21</sup> Hoffmann, Catherine / Koch, Moritz: Sie legen gerne den Finger in die Wunde – und verdienen daran, in: Tagesanzeiger, 12 May 2010, p. 41; Buchter, Heike / Jungbluth, Rüdiger: Was hat das Monster diesmal getan?», in: Die Zeit, no. 10, 6 May 2010, p. 24.

<sup>22</sup> Höhler, Gerd: Griechenland wachsen die Schulden über den Kopf.

<sup>23</sup> Futures are contracts with fixed conditions that are to be fulfilled at a particular point of time in the future. They are derived from the underlying asset of the contract, and can thus be described as derivatives.

<sup>24</sup> Rettberg, Udo: Die Spekulation gegen den Euro läuft langsam heiß, in Handelsblatt online, 9 February 2010.

Person A thus profits from the difference between the higher purchase price and the lower resale price.<sup>25</sup> Stocks, currencies, and bonds can all be sold short. In a currency swap, investors borrow money in Currency A, and sell and invest the yield in Currency B. If Currency A declines, the investors can return the money at a lower price.<sup>26</sup> In the particular case of Greece, hedge funds carried out both currency swaps and short sales of state bonds, borrowing them for a predetermined period of time before reselling them. At the return date, they purchased state bonds from the same country, expecting that the prices would fall (and yields rise), thus turning the difference into a profit.

Swaps are, however, not always speculative. Credit Default Swaps (CDS) were in fact created in part to insure state bonds from default. CDS are only speculative if they are not covered, i.e. are purchased to a great extent by a hedge fund without it owning any bonds. In spring 2010, unsecured or “naked” CDS for Greek bonds were purchased with the expectation that the default risk – and with it the CDS price – would rise as the markets lost confidence. This is indeed what happened: In April 2010, the cost of insuring Greek bonds soared. For one-year bonds, for example, 129,000 euros in insurance were required for a million euros in nominal value. At the same time, payment risk premiums also rose for other financially weak euro countries such as Spain and Portugal.<sup>27</sup>

### 2.2.3 Dangers of the Greek crisis

Although Article 125 of the Treaty on the Functioning of the European Union, the “no bailout” clause, establishes that the European Monetary Union does not share liabilities and that no country is therefore required to cover the debts of another, EU finance ministers have been ignoring the clause in light of the current crisis. They have instead been

<sup>25</sup> Buchter, Heike / Jungbluth, Rüdiger: Was hat das Monster diesmal getan?», p. 24; Storbeck, Olaf: Das Geheimnis der Leerverkäufe, in: Handelsblatt online, 6 May 2010.

<sup>26</sup> Other instruments: Forwards are agreements in which two parties agree on a fixed price for the purchase and sale of a currency at a particular time in the future. Futures are standardized contracts that can be traded on a public exchange in which two parties agree on the purchase and sale of a currency at a fixed time in the future and at a fixed price in a fixed quantity. Translated from Rettberg, Udo: Die Spekulation gegen den Euro läuft langsam heiß, in: Handelsblatt online, 9 February 2010.

<sup>27</sup> IMK: Absicherung griechischer Staatsanleihen fast doppelt so teuer wie von argentinischen Papieren, 3 May 2010.

looking to Article 122, which regulates support in the case of extraordinary events that are beyond all state control.<sup>28</sup>

In early May 2010, the EU finance ministers agreed on an assistance package for euro states in severe debt. The package included 60 billion euros to be raised on the capital markets by the EU Commission, and to be passed on as loans within the EU, alongside a 440-billion-euro loan guarantee program, and a total of 250 billion euros in IMF credit. The ECB also played an active role in the process, in providing additional liquidity and in its ability to purchase state bonds from crisis countries, something that the ECB has already previously done. The aim of the package was to reestablish confidence in the markets of the European Monetary Union, as any exacerbation or expansion of the debt crisis could endanger the Monetary Union itself.<sup>29</sup> It is indeed an untypically large amount that the IMF has provided during the crisis, with 30 billion euros in credit assigned to Greece as part of a 110-billion-euro total package for that country alone.

The bailout package will make it possible for countries like Greece to be independent, in the short-term, of international capital markets, and to be protected from speculative attacks. Greece can now repay mature bonds or take out new refinancing credit, using the assistance package credit. This has eliminated the danger of Greek insolvency, at least in the short term.<sup>30</sup>

The extensive combined political efforts of the EU states, the ECB, and IMF reflect the view that the Greek debt crisis could trigger a financial crisis that might endanger the very existence of the euro and that could thus present a threat to the international financial system in general. This is reflected in concerns over the following possible developments:

*Insolvency of other southern European countries:* There is a considerable danger of the crisis infecting other European countries such as Spain and Portugal as well. If they were to also be drawn down into the mael-

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<sup>28</sup> European Union: Consolidated Version of the Treaty on the Functioning of the European Union, 2008; Niederberger, Walter: Die EU kopiert die amerikanische Rettungsaktion, in: Tagesanzeiger, 11 May 2010, p. 6; cf. also the interview with Rudolf Hickel in: Thomas, Georg: "Spekulanten versuchen das System zu sprengen", Tagesschau online, 11 May 2010.

<sup>29</sup> Europa rüstet sich gegen "Wolfsrudel" an Finanzmärkten, in: Financial Times Deutschland online, 9 May 2010.

<sup>30</sup> Niederberger, Walter: Die EU kopiert die amerikanische Rettungsaktion, p. 6; cf. also das Interview mit Rudolf Hickel in: Thomas, Georg: "Spekulanten versuchen das System zu sprengen".

strom of the crisis of confidence and speculation, including all the dangers of insolvency, such a situation could demand particularly extensive assistance measures on the part of the other EU countries. Up to a trillion euros could subsequently be needed as a means of saving countries from bankruptcy and to deal with the consequences for the entire European economy and beyond. It would indeed be very difficult to raise the funds for such a scheme, and this would entail the creation of even more massive debt to be added to the historically high levels of debt accumulated in 2008 and 2009 to save banks and stimulate the economy – and could even lead to the dissolution of the Monetary Union.

*Writing off toxic bonds:* If the bailout package of the European countries and the IMF were not to suffice, and Greece and other EU states were to become insolvent, we could be faced with considerable payment defaults on the part of governments, banks, and insurance companies in other (EU) countries, reflecting the interwoven economy of the euro zone. European banks, for example, now hold some 190 billion dollars in Greek bonds, 240 billion dollars in Portuguese bonds, and 850 billion dollars in Spanish bonds. In light of the uncertainty as to who holds what and who might have to write off toxic bonds, the economist Barry Eichengreen wrote that “Greece is your Lehman Brothers”.<sup>31</sup> Even Angel Gurría, general secretary of the OECD,<sup>32</sup> took a dramatic tone in late April 2010 to emphasize the dangers of the situation in southern Europe: “It’s not a question of the danger of contagion; contagion has already taken place. [...] This is like Ebola. When you realize you have it you have to cut your leg off in order to survive.”<sup>33</sup>

*Bank crisis redux:* The uncertain situation in spring 2010 led to the banks again becoming hesitant when it comes to extending short-term loans to each other, fearing payment defaults on the part of banks that are strongly invested in southern Europe. The 2008 global financial crisis dem-

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<sup>31</sup> Eichengreen cited in: N.N.: Und in zwei Jahren?, in: Die Zeit online, 6 May 2010.

<sup>32</sup> Organization for Economic Cooperation and Development

<sup>33</sup> Gurría cited in: Parkin, Brian / Tweed, David: Greek Crisis Is Spreading “Like Ebola” OECD Says (Update 1), in: Bloomberg BusinessWeek online, 28 April 2010.

onstrated the great dangers of a banking sector that no longer works as it should.<sup>34</sup>

*Market volatility:* The stock markets reacted very nervously to the crisis in southern Europe.<sup>35</sup> This volatility is expected to increase further.

*Balkan destabilization:* Greek banks are very active in the Balkan region. The insolvency of Greek banks could destabilize the region both economically and politically.

*Endangering the international financial system:* The breakdown of the European Monetary Union, the insolvency of several EU countries, a new bank crisis and its connected effects on the real economy would all endanger the international financial system considerably.

Two direct effects of the 2010 financial crisis have had noticeable effects on Switzerland itself:

Switzerland contributes indirectly to tackling the crisis through its financial support of the IMF. The IMF has committed itself to offering up to 250 billion euros in credit within the framework of the European assistance package. This includes 110 billion euros for Greece alone.<sup>36</sup> It is difficult to ascertain how much of this is being provided by Switzerland, but in accordance with this Swiss IMF quota, this could be estimated at just under 700 million Swiss francs, to be paid from the foreign currency reserves of the Swiss National Bank (SNB).<sup>37</sup>

The franc, moreover, has risen strongly against the euro since the crisis began, and was up nearly six percent from January to its close at just under 1.40 francs per euro at the end of May 2010.<sup>38</sup> SNB President Philipp Hildebrand has taken a critical view of this euro flight, which endangers

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<sup>34</sup> Mayer, Robert: Die Angst kriecht wieder hoch, in: Tagesanzeiger, 8. Mai 2010, p. 53; Fierschermann, Thomas / Schieritz, Mark: Und in zwei Jahren?, in: Die Zeit, no. 19, 6 Mai 2010, p. 23.

<sup>35</sup> ECB Monthly Bulletin June.

<sup>36</sup> Switzerland, which joined the IMF in 1992, forms a constituency there together with Poland, Serbia, Azerbaijan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan, with one seat on the Executive Council. This represents an overall voting share of 2.79% within the IMF, while Switzerland alone accounts for 1.57%. Cf. also N.N.: Auch die Schweiz zahlt für Griechenland – via IMF, in NZZ online, 3 May 2010.

<sup>37</sup> N.N.: Auch die Schweiz zahlt für Griechenland – via IMF, in NZZ online, 3 May 2010

<sup>38</sup> The average had been around 1.55 francs per euro for a number of years.



“price stability and economic recovery in Switzerland.”<sup>39</sup> Since the euro zone is the most important market for Swiss export, the increased value of the franc has also led to a significant rise in the prices of Swiss products abroad. The SNB has thus acted to purchase more euros in order to counteract the rise of the franc. This, however, entails the danger of a domestic rise in inflation.<sup>40</sup>

## 2.3 *The financial and economic crisis of 2008*

### 2.3.1 Triggers and development of the crisis

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“We are in the midst of a once-in-a century credit tsunami.”

Alan Greenspan, October 2008<sup>41</sup>

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The 2008 financial crisis emerged in the United States. Low interest rates, low standards for those seeking credit, and financial incentives in banks all encouraged a considerable increase, beginning in the mid-1990s, in the credit volume in the U.S. real estate sector. Increasing demand for real estate, particularly on the part of individual low-income households, precipitated a dramatic rise in house prices.<sup>42</sup>

Mortgage banks removed these credits from their balance sheets by selling them to investment banks. With the help of rating agencies, investment banks securitized the credits and sold them to investors around the

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<sup>39</sup> Hildebrand cited in: N.N.: SNB/Hildebrand: Schweizer Banken stehen vor grossen Herausforderungen, in: NZZ online, 17 May 2010

<sup>40</sup> N.N.: Anleger fliehen in die Schweiz, in Handelsblatt online, 19 May 2010.

<sup>41</sup> Former Chairman of the U.S. Federal Reserve, Alan Greenspan, before the U.S. House Oversight and Reform Committee on 23 October 2008.

<sup>42</sup> Lechner, Christoph: Einführung: Ursachen der Krise und offene Themen, in: Konsequenzen aus der Finanzmarktkrise. Perspektiven der HSG, Universität St. Gallen (ed.), 2009, pp. 4-5; Nobel, Peter: Konsequenzen für die Regulierung, in: Konsequenzen aus der Finanzmarktkrise. Perspektiven der HSG, Universität St. Gallen (ed.), 2009, p. 13; Schmeiser, Hato: Konsequenzen für das Risikomanagement, in: Konsequenzen aus der Finanzmarktkrise. Perspektiven der HSG, Universität St. Gallen (ed.), 2009, p. 40.

world at a profit.<sup>43</sup> As the credit rating agencies seriously underestimated the likelihood of default, the real risk of the individual securities and who exactly bears this risk has become increasingly unclear.<sup>44</sup>

In contrast to earlier speculation bubbles (such as the dot.com bubble that burst in 2000), the U.S. real estate bubble was also linked to innovative financial products.<sup>45</sup> The extent of the trade with these types of products is plain to see in the development of bundled consumer and real estate credit which has become one of the United States' greatest exports. Between 2001 and 2008, over 27 billion dollars of these securities were sold with further multiplier effects. The Swiss financial market supervisory authority (FINMA) therefore also points in their analysis to the "singular or repeated resecuritization of certain secondary debt sums derived from an initial securitization process have led to an increased leverage effect without this emerging from the respective balance situations."<sup>46</sup> The advent of new financial products led Warren Buffet, a major investor and entrepreneur, to the following words of warning in 2003: "Large amounts of risk have become concentrated in the hands of relatively few derivatives dealers ... which can trigger serious systemic problems". He described the derivatives as "financial weapons of mass destruction".<sup>47</sup> The use of these financial products with leverage in bank compensation systems, further increased the willingness to take risks on the part of investment banks in particular.<sup>48</sup>

As long as real estate prices continued to rise, the securitized loan system continued to perform. Whenever real estate owners were no longer able to pay off their homes, they could sell them at a profit and pay off their

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<sup>43</sup> Thus transforming them into sellable securities. Cf. Bischoff, Joachim: *Globale Finanzkrise. Über Vermögensblasen, Realökonomie und die «neue Fesselung» des Kapitals*, Hamburg 2008, p. 15.

<sup>44</sup> Lechner, Christoph: *Einführung: Ursachen der Krise und offene Themen*, pp. 4–5; Nobel, Peter: *Konsequenzen für die Regulierung*, p. 13; Schmeiser, Hato: *Konsequenzen für das Risikomanagement*, p. 40.

<sup>45</sup> Including for example collateralized debt obligation, credit default swaps, etc.

<sup>46</sup> FINMA: *Finanzmarktkrise und Finanzmarktaufsicht*, Bern 2009, p. 9.

<sup>47</sup> Buffett warns on investment "time bomb", in: BBC news online, 4 March 2010 (<http://news.bbc.co.uk/2/hi/business/2817995.stm>.)

<sup>48</sup> FINMA: *Finanzmarktkrise und Finanzmarktaufsicht*, pp. 13f.

debt, thus avoiding any payment default. U.S. real estate prices began to fall, however, in 2006, and the connected fall in the security prices led numerous banks in the U.S. and around the world to remove these papers from their balance sheets. This led to a particularly dramatic wave of insolvency in the United States, with over 300 home loan companies and over 20 banks going bankrupt. The low point of the crisis was arguably the insolvency of the fourth-largest U.S. investment bank, Lehman Brothers, on 15 September 2008, which led to a panic on the international financial markets, and brought to a near halt the money flow in the U.S. and other OECD countries. In April 2009, the International Monetary Fund estimated that around 4 trillion dollars were erased around the world, a figure that has since been corrected upward.<sup>49</sup>

One consequence of the collapses was that trade among banks nearly came to a standstill, reflecting a lack of mutual confidence and a fear of insolvencies. Drastic measures soon followed on the part of national reserve banks to keep the financial markets running. Some countries created emergency funds for banks in trouble or for state banks tied closely to the system.<sup>50</sup> National banks also lowered interest rates and injected liquidity into the system.<sup>51</sup>

The financial crisis rapidly developed into a global crisis of the real economy. American consumption, which had been a strong driving force

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<sup>49</sup> Klein, Michael: Entwicklungs- und Schwellenländer in der globalen Krise, in: *Die Volkswirtschaft*, 82/2009, no. 6, p. 50; Lechner, Christoph: Einführung: Ursachen der Krise und offene Themen, pp. 4–5; Nobel, Peter: Konsequenzen für die Regulierung, p. 13; Schmeiser, Hato: Konsequenzen für das Risikomanagement, p. 40; FINMA: Finanzmarktkrise und Finanzmarktaufsicht, pp. 10ff.

<sup>50</sup> Lechner, Christoph: Einführung: Ursachen der Krise und offene Themen, pp. 4–5; Nobel, Peter: Konsequenzen für die Regulierung, p. 13; Schmeiser, Hato: Konsequenzen für das Risikomanagement, p. 40.

<sup>51</sup> Bischoff, Joachim: Globale Finanzkrise, p. 8. If the central banks had not pumped liquidity into the financial system, there would have been a danger of “debt deflation”. Debt deflation, in this context, means that banks and funds, in an initial step, speculated with “external” money on stocks, currencies, commodities, and real estate becoming more expensive. Following the collapse of this speculation bubble, it was their goal to reduce this debt as quickly as possible, but reducing the costs and ridding themselves of securities and other assets. As numerous market players did this at the same time, the prices dropped more and more and the crisis intensified with serious real economic consequences. This downward spiral of debt deflation can only be counteracted through market-external state and/or national bank measures. Cf. Flassbeck, Heiner: Wir sind in einer dramatischen Situation, in: TAZ online, 20 March 2009.

behind the global economy over the previous several years, slowed down further with negative consequences for the sales of U.S., European, and Asian companies alike. The automotive sector was hit particularly hard by the drop in demand, and the crisis spread from there to other areas of the economy. With sales and profit projections down in general, the stock markets of the world saw prices tumble. A clear danger emerged of a global depression or at least a deep recession. As a means of preventing this, national economic stimulus programs were introduced at record levels (as of August 2009: EU 200 billion euros; US 850 billion dollars; China 700 billion dollars.)<sup>52</sup>

The collapse of the global financial system could only be prevented through the rapid cooperation of the international community in terms of creating emergency funds and liquidity measures for banks. At least in numerous Western countries, private debt and risk were able to be transformed into public debt.<sup>53</sup> It thus became quite expensive, at the state level, to save the global financial system. The fiscal repercussions of the financial system were indeed comparable with the cost of a major war, one which will continue to burden nations and their political possibilities for decades to come.<sup>54</sup>

We will have to wait to see whether the economic recovery in early 2010 will last long. The OECD has projected 1.9 percent in global GDP growth for the first quarter and 2.3 percent for the second, while the GDP of the OECD countries rose 0.6 percent in the first quarter. The extent to which the improved situation will affect the job market remains to be seen and will depend on the situations in each individual country. The International Labor Organization (ILO) estimated that the number of those unemployed as a result of the crisis rose by 59 million by the end of 2009.<sup>55</sup> In

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<sup>52</sup> Lechner, Christoph: Einführung: Ursachen der Krise und offene Themen, pp. 4–5; Nobel, Peter: Konsequenzen für die Regulierung, p. 13; Schmeiser, Hato: Konsequenzen für das Risikomanagement, p. 40.

<sup>53</sup> Kappeler, Beat: Westliche Staaten haben die privaten Schulden in öffentliche gewandelt, in: NZZ am Sonntag, 23 August 2009, p. 37

<sup>54</sup> Wolf, Martin: This crisis is a moment, but is it a defining one?, in Financial Times online, 19 May 2009.

<sup>55</sup> OECD: News Release: Contributions to GDP growth - First quarter of 2010, 8 July 2010; Global Unions Pittsburgh Declaration, 24-25 September 2009, p. 1 ([http://www.tuac.org/en/public/e-docs/00/00/05/57/document\\_doc.phtml](http://www.tuac.org/en/public/e-docs/00/00/05/57/document_doc.phtml)).

many G-20 countries, youth unemployment will rise to over 20 percent.<sup>56</sup> This increase in joblessness will in turn lead to a further downturn in consumption, thus affecting economic development. Unions and numerous NGOs, including several churches, have consequently asked for the continuation and expansion of state measures as well as the introduction of a global tax on short-term financial transactions (“Tobin Tax”)<sup>57</sup> to refinance at least part of the intervention costs through the financial sector.<sup>58</sup>

At the international level, the near collapse of the financial system has led to new international cooperation dynamics. A number of high-level meetings of political and economic decision-makers have taken place on the subject since autumn 2008. In their first reaction to the severe crisis, the G-20 countries announced a comprehensive reform of the international financial system in November 2008. They agreed on a plan of action including the following points: a) Providers of highly complex financial services and products should present them in a more transparent manner, make them clearly recognizable in balance sheets, and avoid excessive risk; b) without casting doubt upon the market economy system in general, financial markets, products, and actors, and rating agencies in particular, need to be more strongly regulated and supervised; c) the confidence in and integrity of the financial markets need to be reestablished, in part through a rise in the equity capital held by banks, through a long-term compensation system, and improved risk management; d) international cooperation with financial supervisory authorities needs improvement; and e) existing international financial institutions such as the IMF and the Financial Stability Forum (FSF) need to be strengthened and democratized. This final point entails a greater involvement of emerging economies

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<sup>56</sup> Global Unions Pittsburgh Declaration, p. 5.

<sup>57</sup> The Tobin tax refers to a tax on international currency transactions to prevent short-term exchange rate speculation. As currency exchange profits often depend only on the slightest of vacillations and since the profits reflect the volume of the amount exchanged, taxes as low as 0.1 or 0.2 percent would suffice to have the required effect.

<sup>58</sup> SEK (Hella Hoppe / Christoph Stückelberger): *Globalance. Christliche Perspektiven für eine menschengerechte Globalisierung*, SEK Position 5, Bern 2005, p. 70; Global Unions Pittsburgh Declaration, p. 2.

into the decision-making process of these institutions.<sup>59</sup> A follow-up meeting of the G-20 took place in London in April 2009. In addition to the November 2008 plan of action, the participants stressed that they wanted to bolster the tax base for the necessary stimulus programs, and to pursue tax evaders and states that make tax evasion easier.<sup>60</sup> These decisions had direct effects on Switzerland (cf. Chapter 2.3.3). The September 2009 G-20 Summit in Pittsburgh saw further agreement, including institutional changes in the world financial system and the recognition of discrepancies in national economies around the world as a long-term cause of the crisis. The most important result was the development of the G-20 into a global decision-making body for financial and economic matters to involve the development of sustainable economic activity. A financial oversight system is also to be expanded around the world, without, however, the creation of a single new global supervisory board. The IMF and the Financial Stability Board (FSB) were called upon to be particularly active in this process and to develop an early warning system for financial crises. Three new supervisory authorities were also proposed for transnational monitoring within Europe. Greater democratization was also suggested for the IMF to be better able to perform, including greater participation in the decision-making process and more financial backing in general for developing and emerging economies.<sup>61</sup> Stricter capital adequacy regulations were also introduced for banks crucial to the system, so that large, globally active banks no longer require state financial support because the entire financial system would otherwise be endangered. The G-20 also established new compensation regulations, stipulating that bonus payments should be linked to long-term success and the financial stability of the bank. New supervisory authorities will have the mandate to intervene in cases of excessive bonus payments through additional capital adequacy requirements. There was,

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<sup>59</sup> Bundesministerium der Finanzen: Bessere Aufsicht über globale Märkte. Weltfinanzgipfel beschliesst Schritte zur Neuordnung des Finanzsystems, 17 November 2008, pp. 1-3 ([http://www.bundesfinanzministerium.de/nm\\_82/DE/Buergerinnen\\_und\\_Buerger/Gesellschaft\\_und\\_Zukunft/finanzkrise/075\\_Sondergipfel\\_Washington.html](http://www.bundesfinanzministerium.de/nm_82/DE/Buergerinnen_und_Buerger/Gesellschaft_und_Zukunft/finanzkrise/075_Sondergipfel_Washington.html))

<sup>60</sup> Bundesministerium der Finanzen: Weltweite Reform der Finanzarchitektur beschlossen. G-20 einigen sich auf Massnahmen zur Krisenbekämpfung, 6 April 2009 ([http://www.bundesfinanzministerium.de/lang\\_de/nm\\_69116/DE/Wirtschaft\\_und\\_Verwaltung/Finanz\\_und\\_Wirtschaftspolitik/G20\\_London\\_Haupt.html](http://www.bundesfinanzministerium.de/lang_de/nm_69116/DE/Wirtschaft_und_Verwaltung/Finanz_und_Wirtschaftspolitik/G20_London_Haupt.html)).

<sup>61</sup> SEK (Hella Hoppe / Christoph Stückelberger): Globalance, p. 92.

however, no consensus on a limit for the bonus payments of top earners. The G-20 also underscored that countries and regions that refused to participate in the internationally negotiated exchange of tax information would have to face countermeasures.<sup>62</sup>

We will only begin to see in the coming months and years the degree to which the G-20's ambitious goals, established during and following the crisis, will actually be implemented in the end. The 2010 financial crisis does, however, seem to have increased pressure on the political decision-makers to take effective measures and preserve the international financial stability.

### 2.3.2 Long-term causes

The 2008 financial crisis cannot be explained in monocausal terms. It was indeed a combination a number of different errant decisions and poor developments that led to the crisis. Switzerland's FINMA has emphasized that bank-internal risk evaluations did not suffice and that risks were not curtailed through enough capital adequacy requirements. National and international banking supervision bodies such as the Basel Committee on Banking Supervision also did not work independently enough in preparing their own analyses on the dangerous state of the international financial markets, and were thus not effective in providing early crisis warnings. One further factor involved bank compensation systems.<sup>63</sup>

Chairman of the U.S. Federal Reserve, Ben Bernanke, views the great loss of confidence in the markets as the cause for the extent of the financial crisis. This includes structural problems in the current financial system such as: "widespread declines in underwriting standards, breakdowns in lending oversight by investors and rating agencies, increased reliance on complex and opaque credit instruments that proved fragile under stress, and unusually low compensation for risk-taking."<sup>64</sup>

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<sup>62</sup> N.N.: Die bisherigen Ergebnisse des G-20-Gipfels in Pittsburgh, in: Finanztreff online, 25 September 2009 ([http://nachrichten.finanztreff.de/news\\_news,awert,wirtschaftspolitik,id,29957580,sektion,wirtschaft.html](http://nachrichten.finanztreff.de/news_news,awert,wirtschaftspolitik,id,29957580,sektion,wirtschaft.html)).

<sup>63</sup> FINMA: Finanzmarktkrise und Finanzmarktaufsicht, pp. 13f.

<sup>64</sup> Bernanke cited in Tiemstra, John P.: Financial Crisis and the Culture of Risk, in: *Reformed World*, 59/2009, January, p. 31

In the view of the economist Hernando de Soto as well, the loss of confidence was a major catalyst in bringing about the financial crisis, after which the property rights system could no longer function. This loss of confidence resulted from a situation in which “the legal documents that represented value, made it possible for it to be transferred, and signaled risk lost their entire basis. This was caused by the large amount of “toxic papers” [...] which were mostly based on worthless U.S. mortgage market credits. Due to the lack of transparency on how many toxic papers are actually being held by banks, on their values, and their distribution, this lack of confidence has now been spread to other areas.”<sup>65</sup>

In addition to the short-term causes and catalysts of the financial crisis, there have been a number of other serious long-term causes that have gradually emerged in public awareness. The way was ultimately paved for the current financial crisis by the vast global economic imbalances and the separation of the real economy from the financial economy. Both of these phenomena will be briefly discussed in the following.

Beginning in the early 1990s at the very latest, numerous Asian and oil-producing countries had high savings rates which affected their positive economic development and the solidity of the global economy. Since the savings in countries such as China exceeded domestic investment and since, moreover, the export industry was of particular importance to these countries, they were able to build up large sums in foreign currency reserves. These were chiefly U.S. Treasury obligations<sup>66</sup> and bonds for state-supported mortgage financiers in the United States.<sup>67</sup> High demand from emerging economies and oil-producing countries was thus a motivating factor behind the increased use of innovative financial products and the greater securitization of credits, especially in the United States. Novel financial instruments were developed to meet the high demand for interna-

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<sup>65</sup> De Soto, Hernandez: Die gegenwärtige Wirtschaftskrise ist eine Krise des Rechts, in: NZZ, 18 March 2009, no. 64, p. 27; cf. also Bischoff, Joachim: Globale Finanzkrise, p. 8.

<sup>66</sup> Obligations and bonds are debts in the form of securities, which serve to procure outside capital. Purchasers pay the issuers the nominal value and receive this back with interest after a predetermined period. In contrast to stocks, the purchasers of obligations and bonds are not co-owners of a company but merely extend credit to the issuers, which can be either large companies or states..

<sup>67</sup> FINMA: Finanzmarktkrise und Finanzmarktaufsicht, p. 8.



tional capital transfers.<sup>68</sup> Once the real estate bubble had burst, these financial instruments developed the leverage and multiplier effects described by FINMA.

Net capital flow from Asia has also enabled increased major discrepancies in the trade balance between the United States and the rest of the world. The U.S. had, for example, a trade deficit of 730 billion dollars in 2007, while China (alongside Japan and Germany) exported more than is imported, with a trade surplus of 370 billion dollars in 2007.

Stated more simply, the fragile balance has been maintained by China lending money to the United States so that American consumers can purchase Chinese (and other) imports, leading ultimately to the extremely high U.S. foreign debt. While the future of the U.S. debt remains up in the air, the country currently needs to take out roughly 4 billion dollars in credit each day to cover its interest burden. The main Asian credit providers (especially China) have, however, announced that they will not purchase dollar bonds indefinitely, but will mix its currency reserves more in the future.<sup>69</sup>

Another long-term cause of the financial crisis in addition to these global economic imbalances was the disconnection between the real economy and the financial sector. The McKinsey Global Institute calculated, for example, total global financial assets to be at 167 trillion dollars in 2006, up 17 percent from 2005. This represented a considerably more rapid increase than was the case for global GDP growth.<sup>70</sup> The FSPC described this disconnection problem in its “Globalance” study:<sup>71</sup> The global financial markets are extremely high in liquidity with less than five percent of available funds sufficing to finance all trade sales and foreign direct investment around the world.

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<sup>68</sup> Exchange rates should have actually acted to counter this imbalance in the trade and capital flow, but instead did quite the opposite. Cf. also Horn, Gustav / Joebges, Heike / Zwiener, Rudolf: Von der Finanzkrise zur Weltwirtschaftskrise (II), IMK Report no. 40, August 2009, pp. 1, 5–7; FINMA: Finanzmarktkrise und Finanzmarktaufsicht, pp. 8ff.

<sup>69</sup> The U.S. Federal Reserve is currently in process of buying up debt instruments, but also only for a limited period of time. Cf. Boehringer, Simone: Auf Schulden gebaut, in: *Süddeutsche Zeitung*, no. 223, 28 September 2009, p. 22.

<sup>70</sup> Bischoff, Joachim: *Globale Finanzkrise*, p. 49.

<sup>71</sup> SEK (Hella Hoppe / Christoph Stückelberger) *Globalance*, pp. 67f. (Summary available in English.)

There are three major reasons for this disconnection between the real economy and the financial sector: a) the opening of national financial markets, b) the increased imbalance of capital, assets, and earned incomes, and c) the transformation of a number of pension systems into systems based in capital coverage.<sup>72</sup> The points are explained in further detail in the following:

*National financial markets* began to open up the 1970s, when industrialized countries began to deregulate and liberalize, followed by several (debt-laden) developing countries in the 1980s. After 1989, Central and Eastern European countries began to develop market economies as well. Further deregulation in the early 1990s and the rise of new information and communication technologies led to the global financial markets we know today. New players and financial innovations have been developing these in dynamic new ways ever since, departing to a large degree from the real economy.<sup>73</sup>

*The increasing imbalance of capital, assets, and earned income* has also been a prominent development in many capitalistic market economies and an important influence on the separation of the real economy and the financial sector.

Value added by innovation in the production of real goods and services has, in this trend, given way to an “asset-driven economy”.<sup>74</sup> In an asset-driven economy, the market values of assets become the main focus of economic policy and stability. This development has been accompanied by increasing social imbalances, which, since the 1970s, have translated in many industrialized countries into a marked fall in earned income as a portion of the national income, with assets being held by an increasingly small number of people.<sup>75</sup> Fredmund Malik, the president of the administrative council and chairman of the Malik Management Center in St. Gal-

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<sup>72</sup> In funded systems, payments are invested in the capital market, and the insurance payments are in turn covered by the capital. This is the opposite of the PAYGO system in which the insurance payments are paid directly to those receiving the insurance. Cf. also Hufschmid cited in Bischoff, Joachim: *Globale Finanzkrise*, p. 69; Global Unions Pittsburgh Declaration, 24 and 25 September 2009, p. 2.

<sup>73</sup> Deutscher Bundestag: *Globalisierung der Weltwirtschaft*, Berlin 2002, pp. 64ff.

<sup>74</sup> Bischoff, Joachim: *Globale Finanzkrise*, p. 65.

<sup>75</sup> Bischoff, Joachim: *Globale Finanzkrise*, p. 68.

len, Switzerland, described the development of the asset-driven economy in the following terms:

“Until now, it has been said, societies could only grow wealthy gradually since people first needed to save up in order to invest. Today, it is said that we can shorten this process by ensuring continually rising asset prices, which people can then use to take out credit. ... They can then use these credits, from this point of view, as consumers or as a means of purchasing other assets.”<sup>76</sup>

Malik explains that this type of economy, however, is unable to generate long-term wealth. Real wealth can only derive from productive capital such as factories, machines, and education, and not through rising stock and real estate prices.<sup>77</sup> The U.S. financial crisis bore out the theory of an asset-driven economy: Part of the personal consumption that underlies the U.S. trade deficit was only made possible by home owners refinancing their mortgages, and thus making immediate use of the rising value of their property.<sup>78</sup>

*The transformation of a number of pension systems into systems based in capital coverage* is a third development that combined to lead to the disconnection between the real economy and the financial sector. The shift to systems of capital coverage has led to a considerable increase in the demand for long-term investment opportunities on the capital markets.

Criticism of the disconnection between the real economy and the financial sector should not, however, cover up the fact that the financial markets play a crucial role in the real economy. They serve to make illiquid assets (assets that a company does not have at its disposal in a liquid form) useable in operations and to provide that money wherever it is needed.

We must view the significance of listed companies in a similar vein. Selling shares makes it possible to raise the necessary amount of capital and thus to implement large projects that require extensive financing. This is particularly the case in the banking and financial sector since equity

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<sup>76</sup> Malik cited in Bischoff, Joachim: Globale Finanzkrise, p. 65.

<sup>77</sup> Malik cited in Bischoff, Joachim: Globale Finanzkrise, p. 48.

<sup>78</sup> Horn, Gustav / Joeßges, Heike / Zwiener, Rudolf: Von der Finanzkrise zur Weltwirtschaftskrise (II). IMK Report no. 40, August 2009, pp. 1–17; cf. Bischoff, Joachim: Globale Finanzkrise, pp. 25f, 28.

capital is often insufficient as a means of financing extensive transactions. Bonds and obligations serve the same function. Innovative financial products such as derivatives also have their origins in the real economy. Exchange rate futures can be concluded as a means of minimizing currency risk in projects abroad. It is not the financial market itself that has been the main focus of criticism but the instrumentalization of its volatility and the speculative use of the financial products described here for the maximization of profits. It is now necessary to restore the overextended financial situation to normalcy as a service to the real economy. We must also stress here that a functioning economy in general and a social market economy in particular lay the basis of any form of social welfare. The social market economy strives, moreover, to bring about a balance of personal and entrepreneurial freedom and social justice (see also Chapter 3).

### **2.3.3 Switzerland in the maelstrom of the 2008 financial crisis**

#### *2.3.3.1 The current situation*

Many people in Switzerland have also borne the brunt of the 2008 financial and economic crisis. While the Swiss job market remains one of the most stable in the world, this is no longer the case for everyone. The economic situation has an effect on all areas of society. The effects, for example, on tax revenues are complex and losses of revenue are difficult to predict.

The evidence indeed shows that Switzerland's GDP fell 0.3 percent in the second quarter of 2009 after a drop of 0.9 percent in the first quarter. This moved the state secretariat for the economy (SECO) to express cautious optimism, predicting 1.4-percent growth for the Swiss economy in 2010. The moderate nature of the slowdown reflects relatively high levels of individual and state consumption.

It is yet to be seen what will happen to the money that has been channeled into the stabilization fund used to strengthen the Swiss financial system. The Swiss National Bank (SNB) purchased toxic securities from UBS at an early date in order to protect UBS from further major losses and write-offs, and to provide it with additional liquidity during the acute financial crisis. These measures, which several countries have now implemented, were justified with the argument that they would soften the blow

of the financial market crisis and mitigate the crisis of confidence.<sup>79</sup> Whether or not these toxic securities will regain much of their value over the years remains to be seen.

Raising capital adequacy requirements could play a crucial role as a means of avoiding similar SNB interventions in the future. Rudolf Strahm, Switzerland's former federal price regulator, has, for example, pointed out that UBS's equity coverage came to only 1.6 percent of its balance sheet total in 2008.<sup>80</sup> At just five percent, UBS could have compensated for the losses it made on toxic securities, all without the support of the SNB. Since UBS is crucial to Switzerland's financial system, Strahm has asked that UBS and Credit Suisse reach an equity rate of seven to ten percent of their balance sheet totals, to be implemented either through a new law or through a competence committee of the SNB.<sup>81</sup> As a means of bringing about a more stable banking system, it would also be important to disconnect investment banking from depository and credit banks.

### 2.3.3.2 *Bank secrecy and the financial crisis*

The Swiss institution of bank secrecy has come under considerable criticism in the course of the 2008 financial crisis.<sup>82</sup> As it is a problem specific to the Swiss system, we will discuss the topic at greater length in the following, including the institution's significance and consequences, its justification, and its limitations. From a global perspective it forms, to be sure, only a small aspect of the financial and economic crisis. The direct link can be seen in particular, however, in the fact that many OECD countries have been less willing to accept tax revenue losses due to the high costs of state interventions during the financial crisis.

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<sup>79</sup> Strahm, Rudolf: Katastrophenschutz für Banken, in: Tages-Anzeiger, 25 August 2009, p. 23.

<sup>80</sup> Equity here is the opposite of external capital (debt), i.e. funds used to finance a company that derive from the actual owners of the company. Cf. also Strahm, Rudolf: Katastrophenschutz für Banken, p. 23.

<sup>81</sup> Strahm, Rudolf: Katastrophenschutz für Banken, p. 23

<sup>82</sup> Bank secrecy has a long tradition in Switzerland, and was mentioned for the first time in a document in 1713, before being made official with a new bank law in 1935. The system is anchored in both civil and criminal law (Art. 47 BankG), and in supervision law (Art. 4 quinquies BankG). Cf. Kunz, Peter V.: OECD-Musterabkommen und die Schweiz: Wie den Vorbehaltsverzicht umsetzen?, in: Die Volkswirtschaft, 82/2009, no. 6, p. 5

The main point of contention between Switzerland and the United States and some EU countries is thus not the legal standing of bank secrecy in Switzerland, but indeed the exchange of fiscal information, which Switzerland has denied on the basis of Article 3.3 of the Mutual Legal Assistance Act (*Rechtshilfegesetz*, until the March 2009 decision of the Swiss Federal Council, cf. Cap. 2.3.3.2.1).<sup>83</sup>

There are two lines of conflict with regard to the exchange of fiscal information: one between UBS and the U.S. Internal Revenue Service (IRS), and the other between Switzerland and the OECD.

#### 2.3.3.2.1 *The UBS-IRS conflict*

In May 2008, Bradley Birkenfeld, a UBS customer advisor, was sued in the United States for having helped the billionaire Igor Olenicoff with tax evasion, and UBS was seriously implicated in the case. In July 2008, the United States submitted a request to Switzerland to provide information on around 300 UBS customers, who may have also evaded their taxes. The Swiss tax authorities then demanded that UBS provide the data, and UBS informed all of the customers who were involved that their information would be shared. Some of these customers subsequently brought their cases before the Federal Administrative Court. The United States would only increase its pressure, in November 2008, by suing a high-level UBS official, Raoul Weil, and threatening to bring UBS up on criminal charges – something that could affect the bank's very existence. Feeling the great pressure, FINMA, the Swiss financial market supervisory authority, ordered that the information be given to the U.S. by emergency law without taking the Swiss institution of bank secrecy or the pending Administrative Court cases into account. In the view of law professor Rainer Schweizer, this constituted a violation of the constitution and the European Convention on Human Rights.<sup>84</sup> UBS, in any event, agreed to a settlement of 780 million dollars. American pressure would continue, however, with the IRS demanding the data of 52,000 further customers in February 2009. The G-20 and the rest

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<sup>83</sup> Kunz, Peter V.: OECD-Musterabkommen und die Schweiz: Wie den Vorbehaltsverzicht umsetzen?, p. 5; Thielemann, Ulrich: Grundsätze fairen Steuerwettbewerbs im Lichte der aktuellen Entwicklung, in: *Die Volkswirtschaft*, 82/2009, no. 6, p. 14.

<sup>84</sup> N.N.: Doppelter Verfassungsbruch, in: *WOZ online*, 9 July 2009.

of the world also put additional pressure on Switzerland. Subsequently, on March 13, 2009, the Swiss Federal Council decided to end the differentiation between tax fraud and tax evasion with regard to foreign customers, and agreed in principle to an exchange of fiscal information (adopting the OECD Model Convention for the Avoidance of Double Taxation, while giving up reservations over Art. 26; cf. Chapter 2.3.3.2). In June 2009, Switzerland and the United States agreed on a revised double taxation agreement, even as the U.S. continued to pursue its civil case. UBS then froze the accounts of customers with transnational business who did not follow the UBS request to either terminate their relationships with the bank or to submit to an audit under U.S. supervision. The Federal Council, in early July, announced that it would do all that it could to prevent UBS from violating Swiss law by providing its customer data.<sup>85</sup> Only through diplomatic negotiations in early August, led at the national level by State Secretary Michael Ambühl, were the parties able to announce an out-of-court decision to avoid the impending IRS case against UBS. The main question remained how Switzerland could respect its laws while allowing the IRS to receive the data.<sup>86</sup> An out-of-court agreement in a U.S. civil suit against UBS finally ended the dispute on August 12, 2009. The two sides agreed that the IRS would request assistance concerning the data for 4,450 UBS customers, and that Switzerland would make this possible within a year. At the same time, the IRS agreed to retract its civil suit, which would have involved furnishing data on 52,000 UBS customer accounts.

The Swiss Federal Administrative Court announced, however, its approval of a complaint by one UBS customer against the furnishing of her bank data. This once again cast doubt on the agreement. Only the post-hoc approval of the agreement by Parliament in June 2010 finally transformed the negotiated agreement into an actual state treaty.<sup>87</sup>

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<sup>85</sup> US-Steueraffäre der UBS im Zeitraffer, in: NZZ online, 12 July 2009; USA versus UBS: Chronologie der Ereignisse, in: NZZ online, 5 August 2009.

<sup>86</sup> N.N.: Dem Bundesrat gelingt der Befreiungsschlag im Fall UBS, in: NZZ online, 5 August 2009.

<sup>87</sup> N.N.: Die UBS nicht im Regen stehen lassen, in: NZZ online, 13 March 2010; Cottier, Thomas / Matteotti, René: Rückwärtsgewandtes Bundesverwaltungsgericht, in: NZZ online, 26 January 2010; N.N.: Juristische Fragezeichen, in: NZZ online, 28 April 2010; Schöchli, Hansueli: Pokerspiel um Staatsvertrag, in: NZZ online, 14 April 2010.

### 2.3.3.2.2 *The Switzerland-OECD conflict*

As a (founding) member of the OECD, Switzerland is required to recognize the organization's underlying ideals, although it can in fact register reservations on the OECD's individual instruments, without this having any legal effect. "Black" and "grey" lists thus have no actual legal effect. The OECD Model Convention for the Avoidance of Double Taxation is also not legally binding, even as it is a strong political instrument for the OECD states. Until March 13, 2009, Switzerland expressed its unilateral reservation against Article 26 of the Convention, regarding the exchange of information among tax authorities. Switzerland argued that this clashed with its practice of relative freedom from penalties for tax evasion in the country. With this in mind, we see that the decision of the Federal Council to end the country's differentiation between tax fraud and tax evasion with regard to foreign customers marked a watershed in Swiss policy, even though this decision has no legal standing for the time being, and can be rescinded in the Swiss system of direct democracy.<sup>88</sup>

Alongside the OECD, the G-8 increased its political pressure on Switzerland considerably in April 2009, placing the country on a grey tax oasis list along with countries that expressed their willingness to cooperate but which had yet to begin implementation. Switzerland subsequently agreed to renegotiate twelve double taxation treaties to expand cooperation in tax inquiries.<sup>89</sup>

Both conflicts, between Switzerland and OECD and between UBS and the IRS, show that it has been taking massive pressure from abroad during the financial crisis to change Switzerland's position on the exchange of fiscal information.<sup>90</sup> As the Basel-based legal expert Mark Pieth put it:

"Switzerland has a long tradition of tax services for all varieties of shadowy industries. The country kept apartheid alive financially, and administered the fortunes of potentates such as the former Philippine dictator Ferdinand Marcos. Even bribe payments in the oil-for-food program

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<sup>88</sup> Kunz, Peter V.: OECD-Musterabkommen und die Schweiz: Wie den Vorbehaltsverzicht umsetzen?, pp. 5f.

<sup>89</sup> N.N.: Streichung von der «grauen Liste» der OECD in Reichweite, in: NZZ online, 5 August 2009.

<sup>90</sup> Thielemann, Ulrich: Grundsätze fairen Steuerwettbewerbs im Lichte der aktuellen Entwicklung, p. 13.



were channeled in part through accounts here. [...] One thing has remained the same: Switzerland has always changed only under external pressure.”<sup>91</sup>

This resistance to change contrasts with the public awareness of the problem in Switzerland over the past several decades. The churches have been particularly active, from an early date, on the issue of bank secrecy in Switzerland. The Interconfessional Conference Switzerland – Third World in 1970 was one such event of early importance, focusing on developmental policy and capital flight from developing countries.<sup>92</sup> The churches continued to focus on the bank secrecy issue in the years following the Interconfessional Conference as well, as could be seen in its work on the banking initiative of the Social Democratic Party of Switzerland, which was launched on parliamentary initiatives in 1978 only to be rejected by the people in 1984. Many of the church’s statements on theology and social ethics revolve around the need for individual responsibility, anchored in the Christian faith, and the related Christian solidarity with the weakest of the world.<sup>93</sup>

#### 2.3.3.2.3 *Ethical controversies on bank secrecy*

Switzerland’s long-term refusal to provide foreign tax agencies with information necessary in the prosecution of tax evasion has been a matter of great controversy.<sup>94</sup> In 1981, the FSPC Institute for Social Ethics (ISE) already began to speak out in principled depth on ethical issues involving banking. The ISE emphasized, among other things, terminological differences, which could also be useful to look at in today’s discourse, such as the difference between negligent and premeditated tax evasion. The latter can be seen to be closely related to tax fraud and must therefore be prosecuted

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<sup>91</sup> Mark Pieth cited in: N.N.: Service für die Schattenindustrie, in: WOZ online, 26 February 2009.

<sup>92</sup> Biéler, André: Die Bankenfrage – ein christlicher Standpunkt, in: *Reformatio*, 28/1979 (March), p. 136; cf. also Peter, Hans-Balz: *Offene Fragen nach der Interkonfessionellen Konferenz Schweiz und Dritte Welt 1970*, Bern 1971 (Studien und Berichte aus dem ISE/SEK, no. 1).

<sup>93</sup> Biéler, André: *Die Bankenfrage – ein christlicher Standpunkt*, p.139.

<sup>94</sup> Thielemann, Ulrich / Ulrich, Peter: *Brennpunkt Bankenethik: Der Finanzplatz Schweiz in wirtschaftsethischer Perspektive*, Bern, Stuttgart, Vienna 2003, pp. 86–104.

in accordance with the law, entailing a greater obligation for banks to provide the necessary information.<sup>95</sup> While the fortunes of dictators and capital flight from the Global South have, in the past, been at the center of attention, there is now a much wider range of situations at hand.

Supporters of bank secrecy also use ethical arguments such as civil liberty and the right to privacy.<sup>96</sup> Opponents such as the ethicists Ulrich Thielemann and Peter Ulrich argue, in return, that ending bank secrecy will not lead to the publication of private data but will only allow tax-relevant information to be shared with authorized tax authorities that are subject to data protection laws.<sup>97</sup> They argue, moreover, that it runs counter to social ethics when privacy rights are used, within the framework of bank secrecy, to undermine tax obligations as the legal obligations of recipients of capital income (as opposed to earned income).<sup>98</sup>

There is further controversy over the argument that political pressure – as exerted, for example, by the EU – erodes the national sovereignty of Switzerland. The tax system in Switzerland is designed solely by Switzerland to be applied to Swiss citizens and the citizens of other countries alike. Thielemann and Ulrich argue, however, that the principle of residency forms the basis for income tax in democratic states, i.e. that states should be able to tax all those who live on their territories. A violation of national sovereignty would imply, therefore, that a country was taxing residents of Switzerland or forcing their own tax law upon them. Thielemann and Ulrich explain, however, that this is not in fact the case, and that one, on the contrary, could argue that Switzerland violates the tax autonomy of other states in that it “refuses tax-relevant information to the tax authorities whose jurisdiction is in line with the residency principle”, thus “abetting tax evasion”.<sup>99</sup> The Swiss state thus reserves the right to “free people from

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<sup>95</sup> Peter, Hans-Balz / Ruh, Hans / Höhn, Rudolf: Schweizer Bankwesen und Sozialethik, Bern 1981 (ISE-Studien no. 31 [Part I] and 32 [Part II]), here Part II, pp. 184-190 and 194ff. Cf. also Wolf, Walter: Für eine sozial verantwortbare Marktwirtschaft. Der Wirtschaftsethiker Arthur Rich, Zürich 2009, pp. 146f.

<sup>96</sup> Mueller, Peter F.: Wegleitung zum schweizerischen Bankgeheimnis, Grundlagen, Rechtshilfe, Ausblick, Zürich 1998, pp. 41–44.

<sup>97</sup> Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, pp. 98ff.

<sup>98</sup> Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, p. 99.

<sup>99</sup> Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, p. 96.

their tax obligations who are foreigners in terms of tax law.”<sup>100</sup> The consequences are considerable. As Hans Ott wrote in *Reformatio* magazine in 1978:

“Money harbored from taxation nearly always leads to a lack in other places where it is often urgently needed in the interest of a majority of the people. This applies also to tax evasion in our own welfare state; [...]. The funds that are removed from the state are usually, in the end, compensated for in the softest sectors such as education or social services. It is hence often the weakest who bear the brunt of this loss: children, the aged, and those as yet unborn.”<sup>101</sup>

The third controversy involving bank secrecy mentioned by Thielemann and Ulrich has to do with the question of whether the OECD seeks to “put a stop to competition among tax systems and thus support the creation of a worldwide tax cartel.”<sup>102</sup> One can counter this argument by pointing out that bank secrecy does not indeed support the fair competition of services. If this were indeed the case, people would take up residency in Switzerland to make use of tax advantages, which would be unproblematic from the point of view of competition ethics. In reality, however, only their capital is transferred to Switzerland and administered there while the owners make use of tax-supported services in their own countries.<sup>103</sup> Any state that receives untaxed capital could thus be described as a “free rider” inasmuch as it receives capital “without making a contribution to the public infrastructure necessary in bringing about the income involved.”<sup>104</sup>

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<sup>100</sup> Thielemann, Ulrich: Grundsätze fairen Steuerwettbewerbs im Lichte der aktuellen Entwicklung, p. 13.

<sup>101</sup> Ott, Hans: Umstrittenes Bankgeheimnis. Einige sozioethische Überlegungen, in: *Reformatio*, 27/1978 (March), p. 153

<sup>102</sup> Liechtensteinischer Bankenverband zitiert nach Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, p. 92

<sup>103</sup> Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, pp. 92ff.

<sup>104</sup> Thielemann, Ulrich / Ulrich, Peter: Brennpunkt Bankenethik, p. 94.

## 2.4 *The deteriorating human rights situation*

The people of numerous developing countries have been hit hard by the real economic consequences of the 2008 financial crisis without bearing any of the responsibility for the causes of the crisis. As explained in Chapter 1, these people are involuntarily caught up in a colossal game of profit and risk, one in which they are risking more than the actual players themselves. As Jürgen Habermas wrote, it is an “outrageous social injustice that involves the most vulnerable social groups being hit the hardest by the socialized costs of system failure. The mass of those who do not number among the winners of the globalization process will now indeed be asked to pay once again for the real economic consequences of an expected malfunction in the financial system. And this will not hurt them in monetary terms as it would stockholders but indeed in the hard currency of their everyday existence.”<sup>105</sup>

The IMF has classified the different regions of the world according to their vulnerability with the countries of Eastern and Central Europe and Central Asia numbering among the most vulnerable countries, followed by Latin America and the Caribbean, and then Africa. Especially in Africa and in the poorest developing countries, this vulnerability has met an already precarious situation. We can therefore reasonably expect millions of people in these places to fall back into extreme poverty as a result.<sup>106</sup>

### 2.4.1 *The human right to development*

The human right to development has been jeopardized in many countries by the 2008 financial crisis.

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<sup>105</sup> Interview with Jürgen Habermas in Assheuer, Thomas: Nach dem Bankrott [Ein Gespräch mit dem Philosophen Jürgen Habermas], in: Die Zeit online, 6 November 2008

<sup>106</sup> Klein, Michael: Entwicklungs- und Schwellenländer in der globalen Krise, in: Die Volkswirtschaft, 82/2009, no. 6, p. 52

### ***The human right to development***

The human right to development is part of the third generation of human rights<sup>107</sup> following political and civil rights as well as cultural, economic, and social rights. The right to development was defined in the Declaration and Program of Action of the 1993 Vienna World Conference on Human Rights (Paragraph 11) in the following terms: “The right to development should be fulfilled so as to meet equitably the developmental and environmental needs of present and future generations.” While first and second-generation human rights have been anchored in international law since 1966 through the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights, this does not apply to the right to development. The latter has so far been upheld only in the declaration, which acts as a normative statement of intention and will. The right to development is based in cultural, economic, political, and social rights and can indeed be viewed as a synthesis of those.<sup>108</sup>

According to the analyses authored by Jens Martens, Christoph Ernst, and Peter Wahl,<sup>109</sup> the crisis has reached emerging and developing countries in the following ways:

The global recession has led to a fall in demand for raw materials, with *prices for raw materials dropping* by over 40 percent from 2008 to 2009, according to estimates. In more than 90 developing countries, over 50 percent of export revenues derive from the sale of raw materials, however, thus leading to a considerable fall in foreign currency income. This downward trend has directly led to a drastic fall in government revenue

<sup>107</sup> The so-called human rights of the first generation – civil and political rights – focus on the protection of the liberties of individuals, involving, in particular, negatively phrased rights to protect people from the state. The second generation of human rights then included social, economic, and cultural rights – such as the rights to food, education, and health. Both generations of rights were included in the Universal Declaration of Human Rights, which was passed by the U.N. General Assembly in 1948. The first agreements that were legally binding for signatory states were, however, the two 1966 covenants: the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. Collective rights are counted among third-generation human rights – such as the right to development or to a healthy environment. It is, however, not uncontroversial as to whether this category of rights can be listed among human rights per se.

<sup>108</sup> Hamm, Brigitte: Recht auf Entwicklung. Seine Bedeutung für die Zukunft. <http://www.uni-muenster.de/PeaCon/wuf/wf-96/9630210m.htm> (30 June 2010).

<sup>109</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, in: Informationsbrief Weltwirtschaft und Entwicklung, June 2009; Ernst, Christoph / Wahl, Peter: Nur ein Kollateralschaden? Die Finanzkrise und die Entwicklungsländer, Berlin 2010.

and thus to unavoidable expenditure cuts, particularly in the areas of health and education.<sup>110</sup>

The decrease in the demand for processed export goods has led to a *massive downturn in production for the export industry* in numerous developing and emerging countries. Falling global demand has led to decreasing economic growth especially in countries that have opened their markets to the world and have built up their export production for the global market. This in turn has led to considerable job losses. In 2008, for example, over 20 million migrant workers in China lost their jobs, and over 500,000 people lost their livelihoods in the Indian textile industry in the last quarter of 2008 alone.<sup>111</sup>

Large emerging economies such as China have made attempts at *national stimulus programs* similar to those in industrialized countries, compensating for severe drops in global demand by supporting domestic demand. Most developing countries do not, however, have the necessary financial means to react to the social consequences of the crisis with state stimulus programs.<sup>112</sup>

In addition to the real economic consequences, we can now see that the *flow of personal net capital* (personal portfolio investments, direct foreign investment)<sup>113</sup> to developing countries has been slowing. The situation has been exacerbated in the international capital markets in that globally active banks have been hesitant to extend new credit to emerging economies.<sup>114</sup>

The income situation has also worsened as the result of a drop in *money transfers from migrant workers to their home countries*. A large number of these workers have also lost their jobs as the result of the crisis and have returned to their home countries, leading to higher unemployment rates there.<sup>115</sup>

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<sup>110</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 1.

<sup>111</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 1.

<sup>112</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 11.

<sup>113</sup> In portfolio investments, capital is taken abroad, while no ownership rights are purchased (e.g. real estate funds). In direct investment, capital is taken abroad, but with the goal of having a decisive influence on corporate policies (e.g. purchase of a production site).

<sup>114</sup> Ernst, Christoph / Wahl, Peter: Nur ein Kollateralschaden?, p. 16f.

<sup>115</sup> Ernst, Christoph / Wahl, Peter: Nur ein Kollateralschaden?, p. 17f.

The financial and economic crisis has also had serious effects on the *debt of developing countries*. Particularly the poorest countries with high levels of debt are in danger of increased further debt as the result of falls in income from the export industry and more expensive credits. Many developing countries have, at the same time, seen their currencies depreciate, making it all the more difficult for them to repay their debts, which are normally issued in U.S. dollars, and which has edged a number of developing countries closer to insolvency. While the IMF has increased its funding in order to prevent insolvency, this also serves to increase total debt.<sup>116</sup>

While industrial countries and some countries with emerging economies have been working toward mitigating the crisis *with national stimulus programs, precisely the opposite has been occurring in developing countries*. State tax revenues there have been falling as the result of drops in income from the export of raw materials and processed goods, just as the financial burden of interest and repayments of international debt have increased. Developing countries will indeed be forced to reduce their state expenditure as increases in development aid funds are not to be expected, capital flight cannot be stopped in the short term, and there are not enough new credit opportunities available.<sup>117</sup>

Initial analyses have shown that development aid, which could have an anticyclical effect in developing countries, is in fact currently under pressure in countries such as Italy, Ireland, Lithuania, and the United Kingdom.<sup>118</sup>

The *per-capita income* of 60 developing countries has also been estimated to be decreasing – particularly in the CIS countries of the former Soviet Union, Sub-Saharan Africa, and Latin America. The ILO estimates that some 100 million people around the world will lose their jobs through 2010, and that many millions more will be forced into informal work sectors.<sup>119</sup>

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<sup>116</sup> Ernst, Christoph / Wahl, Peter: Nur ein Kollateralschaden?, p. 9.

<sup>117</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 2.

<sup>118</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, pp. 2,3; Ernst, Christoph / Wahl, Peter: Nur ein Kollateralschaden?, pp. 18f.

<sup>119</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 3.

### 2.4.2 The right to food

The current financial and economic crisis has been a particular threat the right to food in particular.

#### *The right to food*

The Universal Declaration of Human Rights of 1948 establishes the right to food in Article 25, stating: "Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services...." The right to food was also reestablished in Article 11 of the 1966 International Covenant on Economic, Social and Cultural Rights, which stipulates an adequate standard of living that includes the right to adequate food, clothing and housing.

Even if the global market prices for agricultural goods have fallen in 2009 along with prices for raw materials, this has in no way helped ameliorate the food crisis; prices for agricultural products still remain very high.<sup>120</sup> The World Bank estimates that, due to the financial and economic crisis, another 53 million people have fallen below the poverty line. In summer 2009, the United Nations Special Rapporteur on the Right to Food, Olivier de Schutter, announced that the number of people living in hunger would soon surpass one billion. For a great many families, the nutrition situation is now turning particularly precarious as family incomes diminish or even disappear due to unemployment. This situation has been exacerbated by the loss of payments from migrant workers to their families in their home countries due to the global crisis, and by a lack of access to credit. There is also little support available from state social security systems. De Schutter also pointed out that many families had to spend nearly their entire income on food. It is also currently impossible to estimate the effects of the current financial and economic crisis on health and education. During the 1997/98 Asian financial crisis, however, child mortality in Indonesia, for example, rose three percent, while the number of school drop-outs in rural areas rose from six to twelve percent, with girls being affected more than boys.<sup>121</sup>

<sup>120</sup> Martens, Jens: Vor einem globalen Entwicklungsnotstand?, p. 1.

<sup>121</sup> Cf. the 2010 "Bread for All" campaign against unfair trade ([www.bfa-ppp.ch](http://www.bfa-ppp.ch)).



### 2.4.3 The right to protection from discrimination

Women were hit particularly hard by the Asian financial crisis. Women were, for example, forced with particular frequency from the formal job market into the informal sector, with a considerable drop in wage levels.<sup>122</sup> Women were also hit particularly hard by state cuts in social services and had little access to credit. Analyses of the Asian financial crisis, furthermore, showed that women either worked more within their own households with no pay as a means of cutting their own costs, or took on poorly paid odd jobs – and often several at once – in order to save their families from poverty and hunger.

Initial analyses of the 2008 financial crisis have led to similar expectations for many developing and emerging countries.<sup>123</sup> Many women have been hit harder than men by the crisis in industrialized countries as well.

*Unemployment:* Women have begun to lose their work in Latin America and Asia, as they have often been involved in the export industries of their countries, which have been reducing their production capacities due to the global drop in demand. But women in industrialized countries have also been losing their jobs. While the crisis in the United States has raised unemployment among men, on average, more than unemployment among women, the subset of single mothers, who are particularly dependent on their employment, have lost their jobs even more rapidly.<sup>124</sup>

*State expenditure:* According to the economist Mascha Madörin the IMF has demanded that eastern European countries hit by the crisis make significant cuts to their social expenditure. Since women are particularly active in the areas of education, health, and social services, these cuts and the related unemployment affect women particularly strongly.<sup>125</sup>

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<sup>122</sup> The informal sector refers to those economic activities that are outside of formally regulated economic life. This includes simple services and the sale of local products, but also to black-market work. The informal sector is often outside state control and characterized by irregular working conditions and poor social and legal standards.

<sup>123</sup> Cf. also the output of the following conferences: 1. The FSPC 2009 women's conference ([www.sek-feeps.ch/organisationen/frauenkonferenz.html](http://www.sek-feeps.ch/organisationen/frauenkonferenz.html)); 2. The 2009 Women in Development Europe (WIDE) annual conference in Basel: "We Care! Feminist Responses to the Care Crises" ([www.wide-network.ch](http://www.wide-network.ch)).

<sup>124</sup> Hartmann, Heidi: Gender Implications of the Financial Crisis in the United Nations, 2009, p. 5. [www.boell.org/web/135-313.html](http://www.boell.org/web/135-313.html).

<sup>125</sup> Cf. the 2010 "Bread for All" campaign against unfair trade ([www.bfa-ppp.ch](http://www.bfa-ppp.ch)).

*Mortgage loans:* Another aspect of the crisis involves subprime mortgages in the United States, which have been shown to be extended to people of color and especially to women of color with a particular frequency. These second-class mortgages involve much higher additional costs in terms of financing.<sup>126</sup>

*Coping strategies:* Just as in the Asian financial crisis, women have now been working to overcome the loss of family income through unemployment with a wide variety of coping strategies. This can take the form of additional work in the household, taking on jobs at poor conditions, or cutting costs. A 2007 study of the Rockefeller Institute demonstrated that economic uncertainty led to one of eight American mothers saving money on pediatric care and that one in five women did not have their prescriptions filled in order to save on costs. One in fourteen women had too little money to purchase enough food. This economic insecurity has only worsened in the course of the financial crises.<sup>127</sup>

*Stimulus programs:* With the introduction of record-sized stimulus packages, particularly in the United States, there has been much discussion and differing points of view about whether these programs disadvantage women. Some women have indeed been quite critical, as these programs have particularly supported areas such as the infrastructure and renewable energies, which are typical male domains often characterized by job segregation. They would instead like to have stimulus programs that also support predominantly female areas of employment.<sup>128</sup> Others, however, have argued that stimulus payments in the fields of medical care and social security have directly benefited women and children.<sup>129</sup>

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<sup>126</sup> Hartmann, Heidi: Gender Implications of the Financial Crisis in the United Nations, 2009, p. 6. [www.boell.org/web/135-313.html](http://www.boell.org/web/135-313.html).

<sup>127</sup> Institute for Women's Policy Research: Women at Greater Risk of Economic Insecurity: A Gender Analysis of the Rockefeller Foundation's American Worker Survey, Washington 2008, p. 5.

<sup>128</sup> Scheele, Alexandra: Hat die Wirtschaftskrise ein Geschlecht?, in: Blätter für deutsche und internationale Politik, 3/2009, pp. 26-28.

<sup>129</sup> Hartmann, Heidi: Gender Implications of the Financial Crisis in the United Nations, 2009. [www.boell.org/web/135-313.html](http://www.boell.org/web/135-313.html).

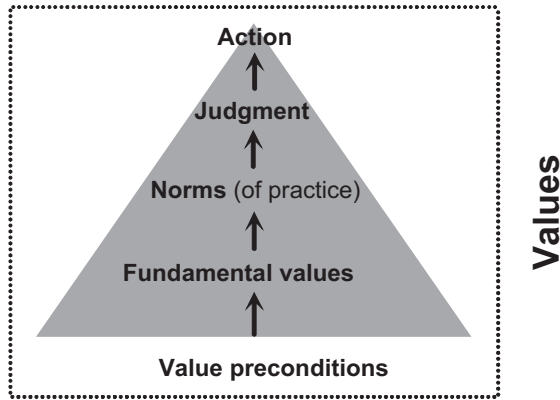
### 3 *Theological-ethical reflections on the financial and economic crises*

#### 3.1 *Criteria of economic rationality and human justice*

According to Arthur Rich, Protestant social ethics must be committed to an understanding anchored in economic rationality and human justice.

*Economic rationality* means that the problem is based in the actual situation at hand. The previous chapter followed this principle in its look into the causes, consequences, and connections of the financial crisis, including a comprehensive discussion of bank secrecy. Alternatives must also be rational as must ethically grounded solutions. Social-ethical reflection is, lastly, rational in that it, in addition to economic matters, touches on ethical and political discourse, and thus represents current opinion at least in those areas that are of particular relevance. In section 3.2, we will provide an overview of church and religious positions on the 2008 financial crisis.

*Human justice* is upheld by ethical judgments, inasmuch as they uphold conditions that support human life, human dignity, human community, and the community of all living creatures. Ethical approaches delve into the basic convictions that support any judgment in an attempt to establish conditions for a good life. Basic convictions of this type are indeed no longer descriptive but “normative” in that they do not entail facts but value judgments. Normative basic convictions are embedded, moreover, into different “deep” levels. These overlapping levels of ethical values were illustrated in the FSPC study on “basic values from a Protestant perspective “Grundwerte aus evangelischer Sicht” using the following diagram:



Source: FSPC (Christoph Stückelberger/Frank Mathwig): Grundwerte aus evangelischer Sicht, SEK-Position 7, Bern 2007, p. 11.

The order of this chapter's sections follows this pyramid diagram. We must, however, admit that the diagram – with its arrows – can create the wrong impression that ethical judgments and their implementation in actions can be derived from self-evident “ultimate justifications” in a strictly hierarchical manner. This idea is, however, problematic from a methodological point of view. It would be much more plausible to anchor ethical judgments in a fluid balance of principles, intuitions, and practical experiences (coherentism). We should thus not overinterpret this pyramid; it does not so much represent a chain of justifications as it does layers of value-based rationality with movement in both directions among the layers of values. This is thus not a one-dimensional ethical system of norms to be followed but instead an ethical approach to establishing norms in a provisional way open to dialogue – especially with regard to the norms in the “maxims” to be discussed later in Section 3.5.<sup>130</sup>

<sup>130</sup> Hübner, Jörg: «Macht euch Freunde mit dem ungerechten Mammon!» Grundsatzüberlegungen zu einer Ethik der Finanzmärkte, Stuttgart 2009, p. 18 (with reference to Karl Homann). Kohl is particularly critical of “*fundamentistisch*” ethical approaches in Kohl, Tim: Holistische Wirtschaftsethik. Grundlegung und Anwendung auf die Managergehälter, Stuttgart 2009, pp. 79ff., especially pp. 86–88.

Section 3.3 begins with most general and “deepest” value level, that of value preconditions. This refers to fundamental existential conditions and experiences, “for example, that we cannot create ourselves but that we always have others to thank for our lives, or that we are dependent on community and cannot live alone.”<sup>131</sup> Value preconditions include, for example, trust – an attitude that is essential to social cohesion, and without which no financial system can function.

Section 3.4 focuses on the next level of values, that of fundamental values. “Fundamental values form culturally specific reference points that are shared by a community and whose acceptance is generally assumed.”<sup>132</sup> Basic values (such as freedom, peace, justice) are general and more or less complex values, just as they remain remarkably stable all across different eras and cultures.

The third highest level of values, norms of practice, is the first to have such a clear significance that ethical decisions can be based directly on it. Norms of practice can take different shapes and take on a variety of status. They can, for example, be expressed as “maxims” in social ethics, i.e. in the terminology of Arthur Rich, social-ethical rules of application that can be linked both the fundamental values and to concretely delineable options of action. One example for this is the principle of “error-friendliness” in the evaluation of technical processes.<sup>133</sup> Norms of practice can, however, also be phrased as legal fundamentals, which are anchored in ethics and applied to controversial issues relating to legislature, to legally conform behavior, and to legitimate claims. Human rights with all the treaties and commentaries that define them are thus a superb example not only for fundamental

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<sup>131</sup> FSPC (Christoph Stückelberger/Frank Mathwig): Grundwerte aus evangelischer Sicht, SEK-Position 7, Bern 2007, p. 11.

<sup>132</sup> FSPC (Christoph Stückelberger/Frank Mathwig): Grundwerte aus evangelischer Sicht, p. 8.

<sup>133</sup> FSPC (Otto Schäfer): Energieethik. Unterwegs in ein neues Energiezeitalter. Nachhaltige Perspektiven für die Zeit nach dem Erdöl, SEK-Studie 1, Bern 2008, p. 79. “Error-friendly” is used to describe processes and plants in which potential errors are easy to avoid and errors that occur can easily be controlled and corrected. Examples include spell checking programs (a perhaps trivial example) and multiple safety barriers in the storage of hazardous products (a somewhat less trivial one).

legal norms but also for ethical norms of practice.<sup>134</sup> The latter are elaborated in Section 3.5 with regard to ethical behavior.

In the final section of the chapter (3.6) we will expand on our conclusions from the preceding discussion on values, which are mostly related to structure, to focus as well on the ethical responsibility both of individuals and groups. We close with approaches on all three levels of actions in terms of individual ethics (personal behavior / micro-level), corporate and professional ethics (institutional behavior / meso-level), and an ethics of order (structural behavior / macro-level).<sup>135</sup> A particular focus is placed on the ethics of order and on the awareness of connections between the various levels, i.e. the “interpersonal” and “social” aspects, as understood in the works of Arthur Rich.<sup>136</sup>

### 3.2 *The church's position on the 2008 financial crisis*

Numerous public statements, including any number of church commentaries and position papers have focused on the individual ethical side of greed and the individual abrogation of responsibility as a means of explanation, even if it is not the sole explanatory factor. These statements have also pointed to structural weaknesses and have made suggestions for solutions.<sup>137</sup>

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<sup>134</sup> On this categorization of human rights on a “level between ethics and law” see Hübner, Jörg: *Ethik der Finanzmärkte*, p. 83

<sup>135</sup> On this differentiation among “levels of economic-ethical responsibility,” see Jähnichen, Traugott: *Wirtschaftsethik. Konstellationen – Verantwortungsebenen – Handlungsfelder*. Stuttgart 2008, pp. 106–108. Above the macro-level, Jähnichen adds the level of the “dominant worldview, which focuses on traditions influenced by history and culture as well as by the ‘style’ of economic behavior.” One classical example for this was the Protestant ethical and religious underpinnings of modern capitalism. See Max Weber’s “Protestant Ethic and the Spirit of Capitalism.” A more modern perspective is given in Boltanski, Luc / Chiapello, Ève: *Der neue Geist des Kapitalismus*, Konstanz 2006.

<sup>136</sup> Jähnichen, Traugott: *Wirtschaftsethik*, pp. 69f.; Wolf, Walter: *Für eine sozial verantwortbare Marktwirtschaft*. Der Wirtschaftsethiker Arthur Rich, Zürich 2009, pp. 80f. A more nuanced differentiation of the levels of behavior can be found in the 1981 study on banks by the FSPC Institute for Social Ethics: Peter, Hans-Balz / Ruh, Hans / Höhn, Rudolf: *Schweizer Bankwesen und Sozialethik*, Part II, pp. 117–119.

<sup>137</sup> *Evangelische Kirche in Deutschland: Wie ein Riss in einer hohen Mauer. Wort des Rates der Evangelischen Kirche in Deutschland zur globalen Finanzmarkt- und Wirtschaftskrise*, Hannover 2008, p. 14.

The *Evangelical Church in Germany (EKD)* published a position paper in July 2009 entitled “Like a Wall, Cracked and Bulging” (“Wie ein Riss in einer hohen Mauer”) on the 2008 financial crisis. The paper delved into the deep-seated causes of the crisis and the ethical basis of our economic lives, including a look into how trust is built up and what we need for people to take responsibility. The origin of the crisis was depicted as lying in a lack of responsibility with regard to risk, both in terms of financial and industrial companies, in state action and individual behavior, and particularly in terms of a “fast-money mentality”. In the words of the EKD Council Chairman at the time, Bishop Wolfgang Huber, a lack of an awareness for one’s responsibility was a significant cause of the crisis. We thus need “not only new regulations for the financial markets, but also new rules for our personal behavior in the economy and society.” Huber, Bishop of the Evangelical Church in Berlin, Brandenburg, and Silesian Upper Lusatia, added that we could learn from the crisis by learning to take on responsibility and to move toward greater sustainability in our economic activity. The EKD thus proposed three ways of overcoming the crisis. The EKD recommended stimulus programs in the short term as a means of stabilizing the economy, without, however, forgetting that such programs can also exacerbate social inequalities as they are financed through taxpayer money and state guarantees, while any later profits remain with the companies involved. In the middle term, the EKD explained that the financial markets required tighter regulations (“Freedom divorced from responsibility, in the end, destroys itself.”)<sup>138</sup> In the longer term it is important to recognize likely and comparable risks and to take the necessary countermeasures. The EKD has identified ten points that will provide a better way forward for future economic policy and action and as a means of reducing risk in a globalized economy. This includes the regulation and monitoring of financial markets, the prevention of tax havens, socially and ecologically sustainable stimulus programs, strengthening the EU as a political force to form the

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<sup>138</sup> Evangelische Kirche in Deutschland: *Wie ein Riss in einer hohen Mauer*, p. 15.

future, reaching the Millennium Development Goals,<sup>139</sup> strengthening social security systems, and the creation of a market economy dedicated to social, ecological, and global aims. The 24-page EKD paper made it clear that “shocks emanating from the crises involving the economy and the financial markets cannot be separated from the challenges of climate change,” as both demand a “fundamental change in thought and action.” It is therefore the right time to create a global framework for a sustainable and socially just economy with all the necessary regulations. If this were not to happen, Huber explained at the introduction of the paper, this could lead to “one economic policy hurricane after another.”

Even before the financial crisis hit, in July 2008, the EKD published a memorandum paper on corporate behavior from a Protestant perspective (*Unternehmerisches Handeln in evangelischer Perspektive*).<sup>140</sup> Without going into the paper in detail, which does not directly involve the financial crisis per se, we should mention the paper’s recommendation that monitoring regulations in the global financial sector need to be made uniform throughout the world in order to raise the level of transparency and to bring about the strong international institutions needed to implement these goals.<sup>141</sup> Or phrased more specifically: “Well regulated capital markets can contribute to considerable improvements in welfare through transparency, efficiency, and a better distribution of risk.”<sup>142</sup> Furthermore: “This behavior on the part of market players, anchored primarily in the short-term maximization of profits, clearly contradicts the principle of sustainable corporate behavior. Banks have thus been able to avoid their responsibility before investors and debtors as well as their social responsibility for the stability of the financial system. Instead of a better distribution

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<sup>139</sup> The Millennium Goals were established with the United Nations Millennium Declaration when representatives of 189 countries met in September 2000 at the organization’s New York headquarters, agreeing to a catalogue of basic, binding goals: Fighting poverty and hunger; elementary schooling for all; gender equality; lowering child mortality; health care for mothers; fighting HIV/AIDS, malaria and other diseases; ecological sustainability; and the development of a global partnership for development.

<sup>140</sup> EKD: *Unternehmerisches Handeln in evangelischer Perspektive*, Hannover/Berlin 2008.

<sup>141</sup> Bedford-Strohm, Heinrich: «Menschenwürde und Mammon. Zur Ethik unternehmerischen Handelns.», p. 77.

<sup>142</sup> EKD cited in Bedford-Strohm, Heinrich: *Menschenwürde und Mammon. Zur Ethik unternehmerischen Handelns*, p. 77.



of risk throughout the economy as a whole, the banks have suffered much of the losses. In view of their great importance for corporate financing, we can only expect grave real economic consequences as a result.”<sup>143</sup>

The *World Council of Churches (WCC)* also prepared its “Statement on just finance and the economy of life” for the meeting of its Central Committee in August 2009.<sup>144</sup> The statement was based on the preparations made in mid-June 2009 by the WCC Advisory Group on Economic Matters “to (1) discern what is at stake in the current financial architecture, (2) propose a process that could lead to a new financial architecture and (3) outline the theological and ethical basis for such a new architecture.”<sup>145</sup> The statement argued that the current global financial crisis points to the moral deficits of a system that glorifies money and dehumanizes in that it upholds profit-oriented individualism. Cultures of greed detract from the value placed on human life, undermine the moral and ecological fabric of human civilization, and intoxicate our psyches through their materialism. The statement argues, furthermore, that greed has begun to be a driving force behind economic growth. “Unfortunately, churches have also been complicit in this system, relying on popular models of finance and economics that prioritize generating money over the progress and well-being of humanity.” In a third point, the statement establishes that the global abuse of trade and finance means major losses in tax revenue for developing countries. The churches are thus faced with two challenges: not retreating from their prophetic role while simultaneously facing their complicity in the speculative financial system. The document defines two structural problems: “First, the economic motive of surplus value, unlimited growth and the irresponsible consumption of goods and natural resources contradict biblical values and make it impossible for societies to practice cooperation, compassion, and love. Second, the system that privatizes produc-

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<sup>143</sup> EKD cited in Bedford-Strohm, Heinrich: *Menschenwürde und Mammon. Zur Ethik unternehmerischen Handelns*, p. 77.

<sup>144</sup> <http://www.oikoumene.org/resources/documents/central-committee/geneva-2009/reports-and-documents/report-on-public-issues/statement-on-just-finance-and-the-economy-of-life.html>

<sup>145</sup> Presented in mid-June 2009 at an Advisory Group Conference, this has now been published. Cf. Brubaker, Pamela / Mshana, Rogate (eds.): *Justice. Not greed*, Geneva 2010. The publication includes the original text of the September 2009 WCC Central Committee statement on just finance and the economy of life on the financial crisis, pp. 219–222.

tive goods and resources, disconnecting them from people's work and needs and denying others access to and use of them is a structural obstacle to an economy of cooperation, sharing, love and dynamic harmony with nature." From a methodological point of view, we can say with certitude that churches argue in this way as an "attempt to give direct answers to economically framed problems and questions with ethical statements."<sup>146</sup> The declaration does, however, conclude with more practical recommendations for economic policy, including the democratic control of financial institutions, tax reform, and the creation of a global reserve system.

The *World Alliance of Reformed Churches* (WARC) dedicated the January 2009 edition of *Reformed World* to the financial crisis, inviting economists from around the world to present their points of view. They discussed the question of the individual and communal treatment of risk. John Tiemstra discussed, for example, in his article how and why the treatment of risk has changed in societies based in Christian traditions.<sup>147</sup>

Pope Benedict XVI published his encyclical *Caritas in veritate* ("Charity in Truth") in July 2009, with Chapters 3 (on fraternity, economic development, and civil society), 4 (on the development of people, rights and duties, and the environment), and 5 (on the cooperation of the human family) relevant in certain parts to the current crisis. Pope Benedict recommended, for example, that people no longer speculate with money and strive for the greatest short-term profits, but instead work toward the long-term use of their investments. In contrast to the rather general ideas on the crisis, Pope Benedict was very specific about the introduction of an international political authority to solve all current global problems.

In the run-up to the 2009 G-8 meeting, the fourth *Summit of Religious Leaders* appealed to the G-8 on the topic of the financial crisis, pleading for a new "financial pact" that would fight the causes of the current crisis, would recognize the need for fundamental moral economic principles, and that would be democratically organized and focused in particular on the financing of sustainable development. The Summit recommended in particular the closure of unregulated off-shore banks and the achievement of the Millennium Goals.

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<sup>146</sup> Jähnichen, Traugott: *Wirtschaftsethik*, p. 104.

<sup>147</sup> Tiemstra, John P.: *Financial Crisis and the Culture of Risk*, pp. 31f.

### 3.3 *Value preconditions in a theological and ethical view of the financial crisis*

The financial crises deteriorated as soon as they developed into “crises of confidence”. Governments subsequently spent immense amounts of money to save endangered banks as a means of stabilizing the international financial system in the short term. These governments would then go on to invest further large amounts to keep the global recession in check and to save troubled sectors such as the automotive industry from collapse. But all of this money was practically useless for lack of a basic attitude of trust and confidence that needed to be restored at all cost. The financial sector is all but doomed without the confidence of customers that their money was soundly invested. Car producers are not able to sell their products unless customers are confident that their new cars will not turn into financial burdens overnight if they lose their jobs. It may sound odd but it is a basic truth that our world of immense monetary sums and solid marble bank buildings all depends, ultimately, on “soft factors”, less reminiscent of stone edifices and more of trusting children cuddling their mothers or running towards the outstretched hands of their fathers.

Of the many gospel parables on households, one in particular, known as the Parable of the Talents (Matt. 25:14-30) speaks in clear, if figurative, terms of the administration and increase of assets. Most interestingly, the parable also focuses on the capital of trust and confidence. Each of the three servants who are entrusted with a portion of their master’s wealth receives, in the end, a sum commensurate with their willingness to trust their master. The last of the three, however, is fearful and bitter and hides his portion in the ground, only to receive precisely the harsh treatment that he fears of his master. The first two invest their money wisely, even if the passage does not say how. Each doubles his money in the end, in other words, precisely the amount that the master trusted them to administer well in the first place – and both get to keep their money. The third servant, however, loses everything that he receives from his master and returns to him with such great reluctance.<sup>148</sup> We must, however, take note

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<sup>148</sup> We must add for full clarity (and to the possible disappointment of those who may have expected a gospel of the credit system) that bankers are not given a high status in the parable by “reaping what one has not sown” (V. 26f.).

that this trust is not only a functional matter, but a personal one as well. The focus of the story is not on the reliability of the terms of exchange but indeed a positive personal relationship between the first two servants and their master. This attitude in turn provides the basis for their confidence in investing the money given to them. Trust begets trust, which we can see translated into “added value” or the “creation of capital”, and reflected in the bottom lines of balance sheets without this trust itself ever being quantifiable.

Even in the most formal of relationships, whenever people interact, we can never fully ignore this personal dimension of trust. This means, for financial markets, that they can never exist simply in terms of a functional operation within a coherent set of rules, but must also exist in terms of a *basic human complex of relations, involving building trust, being willing to trust, being worthy of trust, and losing and regaining trust*. This sort of complex is common to financial markets and to human society in general and the ethical and political sides of society in particular. This understanding applies to many other areas as well, as parents and partners, and between generations<sup>149</sup> but also in general terms: Human communication in all its forms and the pursuit of reason in science and society are all anchored, in the end, in trust and confidence.

It is therefore apparent that not only the free, secular state is founded in “*preconditions that it cannot guarantee itself*” (E.W. Böckenförde) but the market economy and other cultural systems as well.<sup>150</sup> There is indeed a reason for citing the Bible in this connection, as it is one of the strongest cultural traditions of a view of life anchored in a trust with regard to our relationship with God, our understanding of the world, and in human solidarity.<sup>151</sup>

The EKD statement poses the question of how to form a *basis for responsibility* in our society, another question that has much to do with

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<sup>149</sup> This is connected to the widely discussed Diogenes Dilemma often cited by the German jurist Paul Kirchhof. Free democratic states depend on vital preconditions for their continued existence. If everyone lived in a tub like Diogenes and had no offspring, they would not contradict this freedom – but it would in fact destroy the state.

<sup>150</sup> Jähnichen, Traugott, *Wirtschaftsethik*, pp. 14 and 261.

<sup>151</sup> Cf. the inspiring definition in Hebrews 11:1, which states that “faith is the assurance of things hoped for.”

value preconditions. Is such a basis to be found in the experience of love and compassion, the significance of which the WCC has reminded us, and which go lacking in the structures and practice of today's international financial system? Love and compassion would then need to be translated into the fundamental values of solidarity and responsibility when it comes to reshaping the financial system.

We need to address yet another aspect of value preconditions as well. If we are to see the increasing chasm between the real economy and the financial sector as a main cause of the financial crises, and if we thus – more or less expressly – posit the precedence of the real economy, this is in itself a value judgment. Put in stronger terms, finance cannot be a purpose unto itself but must also serve the real economy.<sup>152</sup> We would then have to ask what we mean by the “real economy”, and consider the degree to which we include the work of the “informal sector” into the equation such as the care and education that takes place within families, housework of all kinds, cooking, repairs, home building, as well as the major contribution of volunteer work to society in terms of cultural vibrancy and solidarity. Is subsistence agriculture also part of the real economy? How “real” must the real economy be and why does finance need to serve it in this way?

The great ancient Greek philosophers lived their lives according to the ideals of intellectual contemplation. Their existence was materially possible – without much mention made of it – thanks to an economy supported to a great extent by the work of slaves, women, and children, who were forced into lower, less valued spheres of society. The type of informal work described above was not honored, and the conditions under which it was carried out were looked down upon. Christianity broke, however, from this view, and raising the view of work, including all the “lesser” activities, was one of its most important cultural effects on Late Antiquity and the Middle Ages.<sup>153</sup> The Apostle Paul, for one, financed his life of mys-

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<sup>152</sup> Cf. also the Polish-Swiss Catholic economist Dembinski in: Dembinski, Paul H.: *Finance servante ou finance trompeuse?* Paris 2008.

<sup>153</sup> Cf. Rijkers, Fabian: *Arbeit – ein Weg zum Heil? Vorstellungen und Bewertungen körperlicher Arbeit in der spätantiken und frühmittelalterlichen lateinischen Exegese der Schöpfungsgeschichte*, Beihefte der Mediävistik, Vol. 12. Frankfurt a.M. 2009, pp. 35ff. and 271ff. He writes that people, in their work, build upon God's creation, and further his creation through the volitional effects of providence (with a reference to Augustine, p. 124).

ticism and mission by working with leather. Christian monks worked hard, whether it was with manure, stones to be smashed, watermills, or indeed in the highly skilled preparation of colored inks for book illustrations. Monastery reforms aimed at the reintroduction of Benedict of Nursia's (480 – 554) idea of *ora et labora* ("prayer and work") – in both of its aspects. It was from this tradition that the Reformation's high esteem for professions sprung, which actually took the monastic ideal of work to a new radical level by applying it to the broadest spectrum of worldly professions. In many Protestant congregations, the same tradition also connected intensive piety with lifestyles based on agriculture and technical trades. Emphasis was also placed on diaconal work as "church with a heart and a hand" and on an educational ideal that spanned spirituality, matters of the heart, but also the practical side of life.

We can thus see – in terms of value preconditions – *a particular affinity between a Christian view of life and valuing work and hence the real economy*. Christian theology was indeed quite hesitant in accepting a financial economy.<sup>154</sup> Calvin, who worked extensively on the question of bank interest (referring back in part to Thomas Aquinas), permitted bank loans but only under strict conditions. While he recognized the use of bank loans in the development of the economy, he attempted to cap interest rates (at approx. 5 to 6.6 percent) in order to prevent usury, and distinguished between entrepreneurial investment credits and loans taken out of desperation. In the latter case, Calvin believed that, out of solidarity, one should not charge interest to earn a profit but be content with the repayment of the capital.<sup>155</sup>

These issues are of course embedded in a considerably more complex context in today's world than in the Reformation era. *Calvin's basic idea*, however, of a financial sector that serves the real world in social obligation continues to retain its validity. We will return to this in the discussion of the basic values of "freedom" and "solidarity."

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<sup>154</sup> This is generally seen critically and is compared with the innovative monetary theory of Nicole Oresme (1325–1382) in: Hübner, Jörg, *Ethik der Finanzmärkte*, pp. 45ff, esp. pp. 51ff.

<sup>155</sup> Cf. also Jüngel, Eberhard: *Gewinn im Himmel und auf Erden. Theologische Bemerkungen zum Streben nach Gewinn*, in: Jüngel, Eberhard: *Indikative der Gnade – Imperative der Freiheit*, Tübingen 2000, pp. 231–251, esp. pp. 241ff.

We need to discuss one more point that is connected, to a degree, with these “value preconditions”, that of the human relationship with God, of the *coram deo*, our standing before God, in matters of ethics as well. It is hardly controversial that our relationship to God includes an understanding of values. It is thus the term “precondition” that may be troublesome in this respect. Indeed, counting God and our relationship to him among the basic conditions for values would mean counting God among the factors that make it possible to form values. God would then no longer be God but instead a building block within the world, or in this case, within a complex of values. And values, which, in a pluralistic society, can be discussed and recognized in a free exchange of ideas, are not decided by one’s faith in God. The values do not require God for their validity. Conversely, all thought of values can be valueless “before God” because something else then comes into play, whether grace, blessing, or perhaps some sort of “visitation”, and possibly also radical judgment from another realm, beyond our human grasp. We can only embrace this in our faith and in our spiritual lives. What is crucial is that our relationship to God opens up new avenues in which the world and its money – but also ethics with its reason – cannot deem themselves to be the beginning and end and everything in-between; it can suffice for us to be creatures of God.

In this vein, the World Council of Churches (WCC) has been a particularly strong voice in warning us of the idolatry of money and finance. People, institutions, and entire systems are in danger of not listening to a liberating God but instead to “mammon”, to money as an idol. This is not an ethical argument, but, to be sure, a theological one. It helps to protest when systems – whether one of worldview or religion, technology,<sup>156</sup> or in fact finance – seek to draw our entire lives and all the world’s interwoven relationships into a position of dependency on themselves.

We need to retain a healthy distance to ideas such as the self-regenerative capacities of the market. While there are, within in global markets as in other macrosystems, complex self-regulating qualities, these do not cover every contingency and indeed only come into play when certain lim-

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<sup>156</sup> As in the criticism of technology by Jacques Ellul, one of the most important contributions to this area in the 20th century from the perspective of a Reformed believer, in terms of a clear struggle against the idolatry of a technical system.

its are not exceeded. We must reject any and every excess of sacralization, or as the Swiss writer Roger de Weck stated: “Self-healing: The vocabulary of capitalism has a tendency here toward the religious, as if the market, like faith, had a supernatural power of regeneration. Casino capitalism was able to maintain its indifference as the result of this promise of salvation.”<sup>157</sup> The market is as little able as nature to bring about the best of all possible worlds. As the Genevan economist and theologian François Dermange pointed out, even Adam Smith failed to show how the market could balance itself out (with its famous “invisible hand”) through self-interest to a general improvement of the situation toward a pre-established harmony. Today’s ethics cannot thus just sit back stoically and contemplatively while the market takes care of itself, but needs to take on responsibility as a kind of moral response (“riposte morale”).<sup>158</sup>

Understood correctly and administered sensibly, money and the market are neither godlike nor demonic. From a sober, grateful, and respectful perspective, money can be seen and esteemed as an instrument of creativity. “As an immense cultural achievement and human invention, money is a ‘product of social action,’ when it becomes the basis for a free society and greatly expands the ability to make decisions affecting human life.”<sup>159</sup>

### 3.4 *Basic values in financial system ethics*

The following considerations follow up on the FSPC position paper on basic values, adding to it a number of further points that go beyond the earlier paper, with a particular focus on financial system ethics.

#### 3.4.1 *Freedom and responsibility*

Freedom presupposes that people can choose among different options, and can choose on their own without being manipulated or coerced.

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<sup>157</sup> De Weck, Roger: *Nach der Krise. Gibt es einen anderen Kapitalismus?*, Munich 2009, pp. 28f. Interesting observations on the topic can be found in the following collection of articles: Baecker, Dirk (ed.): *Kapitalismus als Religion*, Berlin 2004.

<sup>158</sup> Dermange, François: *Le Dieu du Marché. Ethique, économie et théologie dans l’œuvre d’Adam Smith*, Geneva 2003, pp. 171ff., 236ff., 279f.

<sup>159</sup> Hübner, Jörg, *Ethik der Finanzmärkte*, pp. 198f.



Preserving freedom means having room to develop, to be creative, and to cooperate. The libertarian democratic state must not only continually support and protect freedoms as an individual value but also as a common social value.

Freedom also entails *being considerate of its own fundamentals*. In a competitive society of pure individualists, our apparent freedom leads to loneliness and social unrest. Freedom is no longer possible when the natural environment is no longer intact. Freedom is also a risk with unacceptable destructive potential within unsecured technical and social systems as well (and when there is great potential for danger, several lines of safety and security measures are required).

Freedom cannot be separated from responsibility, as it would otherwise turn into arbitrariness, cowardice, or puerilism. Responsible freedom, as an ethical value, consists in taking chances and making use of opportunities to leave one's mark on things, but also in saying no and delineating boundaries. In any event, responsible freedom is indeed responsible for both what is done and what is left undone. And this responsibility can take both the form of accordation and representation. The consequences of free decisions are accorded to the actors; while representation comes into play when responsibility is taken on for the interests of others (as best one can) who cannot do so themselves or for those only directly involved.

Christian freedom, *theologically* speaking is always to be understood as a *responsible freedom*. Freedom *from* (external stipulations) is always also a freedom *to* (responsible action). Martin Luther wrote, in his work "On the Freedom of a Christian", that freedom and service to our neighbors are as closely interlinked as faith and love. In Calvin's tradition, driven by the history of salvation, "election" (as a call to freedom) and "testament" (as an obligation to respect the commandments that form the basis of our community) are inseparably connected.

*Ownership rights* are one condition for economic freedom and ultimately for freedom of any kind. While these rights were clearly described in the bourgeois legal philosophy of the 18th and early 19th centuries as the right of free and personal access,<sup>160</sup> the principle of the *social obligation*

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<sup>160</sup> As in Kant's *Foundations of the Metaphysics of Morals* and Hegel's *Elements of the Philosophy of Right*.

*of ownership* took on an increasing importance in the late 19th century – partly as a response to Marx’ criticism of the private ownership of the means of production, and in part under the influence of the Christian social movement. This has now become a recognized part of the practice of democratic states, in part expressly anchored in the countries’ constitutions. The general welfare clause in Article 29.2 of the Universal Declaration of Human Rights, which guarantees the right to property ownership in Article 17, must also be understood in this context. Property rights are thus also to be viewed as *freedoms anchored in social responsibility*.

Even Adam Smith, the father of modern free market theory, was of the view that free markets can only be effective when there are *effective rules of competition*.<sup>161</sup> This criterion of economic efficiency is indeed also one of ethical relevance in that it also involves the credibility of free action. There are, however, serious lacks in this respect with regard to the international financial markets. Many financial products are the result of less than transparent manipulations, making it difficult to access transparent information as a means of making decisions on whether to purchase products or not. Three private American ratings agencies, for example, account for 94 percent of the market for the evaluation of bonds, companies, and countries (and two of them combine for a 40-percent share). Their monopoly and lack of independence have had a serious negative impact.<sup>162</sup>

The following consequences of freedom in responsibility can be viewed in connection with the financial crisis and the reform of the international financial and economic system:

“For 1200 million people living in the greatest poverty, freedom today means, more than anything else, freedom from hardship, that is ensuring their economic existence.”<sup>163</sup> Support and respect for subsistence agriculture and the publicly organized supply of basic needs<sup>164</sup> need to be given the greatest priority under these conditions.

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<sup>161</sup> Jähnichen, Traugott: *Wirtschaftsethik*, p. 21.

<sup>162</sup> Hübner, Jörg: *Ethik der Finanzmärkte*, pp. 137ff.

<sup>163</sup> SEK (Stückelberger, Christoph / Mathwig, Frank): *Grundwerte*, p. 26.

<sup>164</sup> Ecumenical Council of Christian Churches in Brazil CONIC / Brazilian Catholic Bishops’ Conference / Swiss Bishops’ Conference SBK / Federation of Swiss Protestant Churches (FSPC): *Ökumenische Erklärung zum Wasser als Menschenrecht und als öffentliches Gut, Gemeinsamer Text 1*, Bern 2005.

The financial sector has lost much of its original role as the supplier of credit to the real economy, and has grown too large and unstable. The financial crisis showed that variances of regulation among different areas of the financial sector, which make it possible for risky business to be pursued without repercussions, as well as the strong focus on short-term profit do not increase the efficiency of the economy as a whole but instead entail serious systemic risk.<sup>165</sup> The stability of the international financial system is, however, a globally shared good that must be ensured through policy as the expression of a common awareness of responsibility.

The free choice of financial strategies presupposes that investment banking is strictly separated from savings and loan banking.

Both secure reserves and risky investment with a high potential for profit can be economically sensible options, depending on the situation. Mixing the two, without most of the individual customers being able to understand the mix, did, however, in many cases lead to existentially tragic results. Social security systems must especially be set up to protect them from the risks of the financial markets.

The existence of tax havens runs counter to the social obligation of property ownership. This is freedom without responsibility, or more specifically, it now clearly lends itself to abuse as a remnant of a narrowly defined national sovereignty position without any international cooperation to address problems in accordance with democratic principles.

### 3.4.2 Justice

Justice is a complex value with a number of different facets. We can perceive this through our own intuitive sense of injustice alone. While we see injustice in people receiving different wages for the same work, and vice-versa (*justice of labor*), we can also witness injustice in denying people, regardless of their efforts, their basic necessities and that which their human dignity would demand (*justice of needs*); only together do these bring about true justice. And this differentiation is only one of many possible distinctions that can be made within the value complex that is justice.

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<sup>165</sup> Dullien, Sebastian / Herr, Hansjörg: Die EU-Finanzmarktreform. Stand und Perspektiven im Frühjahr 2010, Berlin 2010 (FES-Internationale Politikanalyse); Global Unions Pittsburgh Declaration, 24 and 25 September 2009, p. 8.

“*Equality* (equal value and equal treatment) is the main point of departure for justice. People living under the same conditions should act the same way and be treated the same way. Arbitrary unequal treatment is unjust. [This is] condensed in the Golden Rule: ‘whatever you wish that others would do to you, do also to them’ (Matt. 7:12). [...] The Golden Rule is recognized as an ethical principle in most world religions.”<sup>166</sup> The rule covers both justice of labor and justice of needs. The situation of others has to be applied to one’s own situation even when it comes to needs; one cannot wish that the basic rights and necessities essential to one’s own life should be denied to others.<sup>167</sup>

If justice is, at its core, equality, how much inequality can be justified – in societies with clear social inequalities and in a global community with extreme discrepancies of living standards? Following John Rawls’ classic “Theory of Justice”, *legal equality and equality of opportunity* have especially been upheld as essential principles. Each and every person should have the same access to the global system of basic freedoms and the related legal recourse. Social and economic inequalities can be permitted as long as they offer the greatest advantages to the least advantaged. Even violations of the equality of opportunity can be justified if they act to improve the opportunities of those who are disadvantaged.

In this context, we will discuss, in particular, the questions of just wages and just prices.

*Just wages* must not only not discriminate (justice of labor), it must also ensure a life in dignity (justice of needs). This is not an appeal for mercy and solidarity but a legal demand: basic needs are basic rights. We indeed know that minimum wages prevent people from descending into poverty just as they serve to acknowledge that workers contribute both to the betterment of society and to the economic success of the businesses they work for. Their wages must express a certain personal recognition for the work they do for the collective good. Just minimum wages must therefore be well above the poverty line. Minimum wages must also compare

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<sup>166</sup> SEK (Stückelberger, Christoph, Mathwig, Frank): Grundwerte, p. 19.

<sup>167</sup> One of the most impressive illustrations of this type is the Parable of the Good Samaritan (Lk. 10:25-37). This is an answer to the question of who is my neighbor (and equal before the law)? And conversely: for whom can I be a neighbor? The unspoken answer is: for those who need me.

justly with the highest salaries within a company, a ratio that, however, must in the end be decided in line with pragmatic plausibility. The FSPC study on “fair top salaries”<sup>168</sup> came out in favor of a reduction of the ratio of top salaries to minimum wages from several hundred to around 40 to 1. This is not an unreasonable demand considering that this discrepancy had expanded unchecked, despite the increasing precarious existence of low earners. This tendency has even worsened in areas in which the financial crisis has done away with many low-paying jobs, all while top earners were often reaffirmed in their roles as crisis managers.<sup>169</sup>

There have been similar considerations involving *just prices*. This ethical problem, which has been discussed time and again in theological terms since antiquity, was revisited in the 1970s particularly in connection with developmental policy (e.g. food crises triggered by price hikes for basic foodstuffs, and falls in commodity prices on the international market with serious consequences for developing countries dependent on the export of such resources).<sup>170</sup> Just prices are, however, less a strictly workable construct (for which there cannot be an exact formula), and more the expression of a social ethics aim. We can define it thusly: market exchange conditions cannot be determined by supply and demand alone (with a freely variable *exchange rate* of goods) but must also take into account that people's lives depend on this exchange (for whom the *usage value* of the goods is paramount).<sup>171</sup> The price must thus develop in line with relevant control mechanisms to make it possible for people to afford the goods they need to live lives of dignity. While legal price constraints may be a last resort, democratic states have introduced such regulations when this has be-

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<sup>168</sup> SEK (Hella Hoppe, Christoph Stükelberger): Faire Spitzenlöhne? Für mehr Masshaltung und Mitbestimmung, SEK Impuls Nr. 5, Bern 2007.

<sup>169</sup> As well as the recent study by Kohl, Tim: Holistic economic ethics maintains due to the three types of argument service, motivation/incentive, and free agreement that there is no justification for managers to “earn more than the average employee by a double or even triple-digit factor”. (Translated for this paper, p. 193 in original).

<sup>170</sup> Kaiser, Helmut: Gerechter Preis? Materialien und Erwägungen zu einem entwicklungs- politischen und wirtschaftsethischen Problem, Diskussionsbeiträge Nr. 29, Institut für Sozialethik des SEK, Bern 1990.

<sup>171</sup> The distinction between trading value and usage value goes back to Aristotle from whence it entered into theology. This also plays an important role in the economic theory of Karl Marx.

come necessary.<sup>172</sup> Conversely, we must regulate international trade conditions so that goods are not sold below their usage value to ensure that enough income is generated for the producers to survive. The market cannot, however, bring about trade justice – to the inclusion of social justice – on its own, but depends on framework conditions to bring about a recalibration of purchasing power and prices that might benefit the most disadvantaged. The financial crisis has invoked the issue of just price once again in response to, for example, the dramatic fall in resource prices and the resultant falls in the state income of many poor countries.

The following points can be made on justice in the context of the financial crises and the need for an improved international financial and economic system:

- The regulations that tie together justice of labor and needs within the concept of a “social market economy” in modern democratic states need to be transferred to the international community of nations as a whole. Similarly, these regulations need to be applied to the use of resources. “The classical concept of the social market economy needs to be expanded into a social, ecological, global market economy.”<sup>173</sup>
- The considerable increase in social inequality brought about by the financial crises is affecting both people living today (intragenerational justice) and generations to come (intergenerational justice). We must not favor one of these two considerations at the expense of the other.
- Eight-figure top salaries have been under heavy criticism as the result of the financial and economic crisis. For one thing, they were themselves partly responsible for the crisis and its deepening (cf. Chapters 1 and 2), but people also generally view the idea as unjust that a select few continue to receive top salaries and large severance payments all while a) state money is used to save banks from insolvency and b) lower salaries seldom increase even as working conditions worsen and increasing numbers of workers are laid off. Inflationary top salaries can thus have

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<sup>172</sup> One well-known example is France’s state-determined bread prices that lasted two centuries from 1791 to 1986 (except for 1978–1981).

<sup>173</sup> Evangelische Kirche in Deutschland: *Wie ein Riss in einer hohen Mauer*, p. 8.

a negative effect on the social peace of a society.<sup>174</sup> This great discrepancy can be illustrated as follows: The nine largest U.S. banks, which received a total of 175 billion dollars in state support in 2008, issued 32.6 billion dollars in bonus payments to its staff the very same year.<sup>175</sup> The current financial and economic crisis cannot be explained away in terms of individual ethics or monocausally in terms of the “bad behavior of greedy speculators”.<sup>176</sup> The increased social inequality over the past several decades is a more important long-term cause of the crisis. Distribution justice is hence not only an ethical goal with regard to social justice but also with regard to (economic) freedom.<sup>177</sup>

- We must guarantee that the costs of the financial and economic crisis are financed in a just manner. It is of particular importance that national tax revenues are safeguarded through the prevention of tax evasion and flight.<sup>178</sup>

### 3.4.3 Solidarity and “option for the poor”

Solidarity refers to the ability and willingness to “cooperate with others to pursue a common goal and to work on behalf of or supportive of the needs of others. Solidarity can take the form of *working for the disadvantaged and marginalized*, in a *mutual obligation* within a particular group or as a form of general *societal cohesion*.”<sup>179</sup>

The term was introduced into theological and ethical discourse in the course of the 19th and 20th centuries. The idea of “solidarity” indeed played a major role in the workers’ movement, taking the place of the *fraternité* of the bourgeois emancipation movement of the late 18th century. The concept of *fraternité*, in turn, most certainly had a theological background, deriving from church references to the siblinghood that Jesus pursued with all

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<sup>174</sup> Global Unions Pittsburgh Declaration, p. 9; SEK (Hella Hoppe, Christoph Stückelberger): *Faire Spitzenlöhne?*, p. 26.

<sup>175</sup> Global Unions Pittsburgh Declaration, p. 9.

<sup>176</sup> Zinn, Karl Georg: *Zwischenbilanz: Beschleunigte Talfahrt der Realwirtschaft. Die langfristige Wachstumsabschwächung wurde spekulativ überdeckt*, in: *Finanzkrise, Überakkumulation, und die Rückkehr des Staates*, Supplement der Zeitschrift Sozialismus, 12/2008, pp. 1f.

<sup>177</sup> Global Unions Pittsburgh Declaration, p. 15.

<sup>178</sup> Global Unions Pittsburgh Declaration, pp. 9f.

<sup>179</sup> SEK (Stückelberger, Christoph / Mathwig, Frank): *Grundwerte*, p. 54.

people, and especially those on the margins of society. This *siblinghood among seeming strangers*, which Jesus upheld in opposition to all natural family ties, follows from the understanding of all people as God's children (Mark 3:31-35parr; cf. Matt. 6:9). Early Christian congregations followed this attitude and manner of speaking. Both Acts and the letters of Paul and John also bear witness to this (Acts 2:42-47; Rom. 14:13-23; 1 John 3:11-18). Church renewal movements in a number of different eras also harkened back to this experience of community and the demand for solidarity as brothers and sisters (e.g. the Franciscan movement, Late Medieval lay movements, and the Confessing Church of Nazi-era Germany).

*Solidarity*, more than just siblinghood with a strongly idealized picture of social cohesion, despite any actual differences of interest, is used to describe, in terms close to reality, *mutual assistance and a common fight for social rights*. The Cooperative Movement and the creation of social insurance schemes, the workers' movement, the fight against discrimination due to confession, gender, culture, ethnicity, "race", or sexual orientation, and other social movements are anchored in processes of solidarity. This can occur either within the groups in question (*con-solidarity*) or in external solidarity with them (*pro-solidarity*).<sup>180</sup>

Solidarity, as a basic value, is taken to a new level in the "*option for the poor*". Originally developed within Roman Catholic social doctrine, and in Latin American liberation theology in particular, the principle has spread further since the 1980s and adopted in Protestant theological ethics. It is also a concept central to the Bible and can be found both in the Old Testament prophets and in the words of Jesus, and in the beatitudes in particular (Matt. 5:1-11), in which the marginalized are addressed and deemed "blessed".

*Recognition* is also of crucial importance in this connection, with groups being addressed that were outside of the ancient realm of recognition. The extremely poor<sup>181</sup> are the first to be addressed and beatified, pro-

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<sup>180</sup> These terms were coined by Dietmar Mieth.

<sup>181</sup> Ptochoi or those who only have enough to eat once a day.



nounced blessed.<sup>182</sup> The characteristics rejected by society (poor, grieving, meek, hungry, and thirsty for justice in Matt. 5:3-6) are turned into signs of recognition for the new family of God's children. They indeed have these characteristics as the result of special qualities: they are merciful, have pure hearts, make peace, and suffer persecution for the sake of justice (Matt. 5:7-10). They thus take the highest place in this code of honor.<sup>183</sup>

This understanding makes it clear that the "option for the poor" (and disenfranchised) is not a matter of "charity" or even chiefly that of compensation for material lacks, but in fact the *recognition of people and their legal rights*. Solidarity is tied to justice but not with the giving of alms.

In the context of the financial crises, we can derive the following provisional guidelines for action from these basic values of "solidarity" and the "option for the poor":

- The existential endangerment of numerous people in developing countries by the 2008 financial and economic crisis must be prevented through effective and rapid measures while honoring promises previously given.<sup>184</sup>
- According to the analyses of the ILO and the OECD, the stimulus and crisis management programs have focused too little on social security and employment.<sup>185</sup> We need to strengthen and implement the planned G-20 charter for a (socially and ecologically) sustainable economy as a means of achieving more social justice in addressing the financial crises. Previous social achievements of the international community of nations (such as the ILO agenda for work in dignity) need to be adopted.<sup>186</sup> Participation and solidarity thus need to be boosted through the expansion of the social security network and the promotion of work in dignity.

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<sup>182</sup> The adjective *makar* is always used by Homer and in other classical Greek contexts for the gods. As *makarioi*, people who are not recognized by society are seen in the proximity of God.

<sup>183</sup> The authors would like to thank their colleague Ivana Bendik for this exegetic explication.

<sup>184</sup> Global Unions Pittsburgh Declaration, p. 12.

<sup>185</sup> Global Unions Pittsburgh Declaration, p. 5.

<sup>186</sup> Global Unions Pittsburgh Declaration, p. 4.

- Money can be spent only once. However, the rich societies of the Global North can and must do more for the world's poorest countries and regions. The claims of these people can in fact add up, whether they derive from clear-cut distribution justice (the use of natural resources common to all humankind such as the atmosphere, oceans, and biodiversity), from historical responsibility (climate change and other global environmental problems caused by industrialized countries), or from a solidarity that seeks to allow people to become the masters of their own development instead of trapping them in structural downward spirals that rob them of all opportunity (e.g. the debt crisis and the indirect effects of the financial crisis). The industrialized countries need to resist the temptation to subtract money from funds directly invested in development for use in new climatic protection projects abroad or in stimulus measures to support the financial system and industrial projection.
- The illusion of “catch-up development” that prevailed in the 1970s is now obsolete. The lifestyle of the rich countries cannot spread to other places or even continue into the future for ecological reasons alone. It is not true that the poor become richer when the rich get even richer. The seemingly limitless proliferation of “fast money” and the unbounded material growth of our lives of plenty are both founded in the same lack of solidarity with others now alive and with generations that are yet to come.

### 3.4.4 Participation and the international legal order

“Participation” refers to the right to *participate in collective decisions* that affect our own lives. The right to vote in democratic societies is one such example, as are the co-determination rights of stockholders and members of cooperatives, and indeed the participation of countries within international organizations (wherein the treatment of small member states is illustrative of a participatory spirit.)

Participation is also served by the structural principle of *subsidiarity*. This means that the lowest level of each institutional hierarchy has the rights and obligations to decide on all matters that affect it alone, and in which it can also make use of opportunity and solve problems in an efficient manner.

The top levels are only responsible for matters when they exceed the capacities of the lowest levels so that an overall strategy is required, or when it is necessary to mediate, coordinate, or even resolve disagreements among subunits at the lowest level.

Theologians have time and again pointed out that the *Reformed model of the church* and *Reformed covenant theology* are *models of the subsidiarity principle in modern society*.<sup>187</sup> The organization of the Pauline congregations in Paul's letters served as a biblical model for this. Old Testament Israel, moreover, also served as a model in that it was only a centralized state during the kingly period but was otherwise a federation of twelve tribes, and that this tradition, critical of centralization and monarchy, especially in the North, continued for an extended period. The presbyterian-synodal system is clearly just as subsidiary as federal states or international organizations such as the United Nations. This is not merely an ideal-typical analogy but can be seen historically as a strong influence, first in the political philosophy of the Reformed theologian Johannes Althusius (1557–1638), and later, for example, in the social contract theory of John Locke (1632–1704) and Jean-Jacques Rousseau (1712–1778), both of whom came from a Reformed milieu. The *Roman Catholic social doctrine* of the 19th and 20th centuries also developed the principle of subsidiarity into a pillar of its understanding of society and the state, derived from Aristotelian philosophy and its scholastic explication. Aristotle developed the idea of subsidiarity in part from his intensive study of the constitutions of the Greek *polis*.

A participative understanding of politics leads perforce to the idea of a globally *valid order of law for the entire community of nations*, as this level of participation would also have to be defined institutionally. The election of the current Secretary-General of the United Nations, Ban Ki-moon, a Reformed Korean, has been seen as an indication that Reformed subsidiarity (also likely influenced by the Anglo-Saxon view of the state) may have also influenced the *emergence of the United Nations*.<sup>188</sup> The U.N.

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<sup>187</sup> Peter Opitz in: Krieg, Matthias / Zangger-Derron, Gabrielle: *Die Reformierten. Suchbilder einer Identität*, Zürich 2003 (2d ed.), p. 50.

<sup>188</sup> Thoual, François in *Réforme* no. 3206, 11–17 Jan. 2007, p. 5; SEK (Hella Hoppe/Christoph Stückelberger): *Die UNO mit Reformen stärken*, Bern 2005, pp. 9ff.

is indeed not a global authority governed from the top down (as Pope Benedict XVI would prefer it) but instead a (hitherto much too non-binding) federal structure of independent states that use rules cemented in international laws and coordination bodies as instruments of *global governance*, or as E.-U. von Weizsäcker put it: *Erdpolitik*. The European Union also has a subsidiary structure. Many of its founders were indeed committed Catholics and were guided by the church's social doctrine. Protestant and Reformed influences were also significant in the E.U.'s development as in the "Europe of Regions" of Denis de Rougemont.

True participation is only possible in subsidiary structures if this participation is both free and binding. Participation entails taking part in decision-making. Games of participation that are only set up to promote the acceptance of long planned controversial projects, however, seem to entail participation. True participation must include transparent information, monitoring, and evaluation, and must result in *efficient* measures.

For the challenge presented by the financial crises and the reorganization of the international financial system, this means:

- The democratically legitimized monitoring of the international financial system and the banking system in individual countries needs to be expanded and harmonized, requiring the transparency of data and decisions as well as effective regulatory and implementation competences with regard to banks and other financial institutions. A working financial supervisory system must especially be able to monitor unregulated areas of the financial sector to the inclusion of all financial institutions and products. The financial supervision system must also be determined at the international level.<sup>189</sup> We must prevent governments from having to save essential banks from insolvency through the state-financed purchase of toxic securities.
- Rating agencies should not be motivated to evaluate securities in line with particular interest and thus play down potential risk. A functioning supervisory system is necessary as a means of preventing rating agencies from evaluating and advising the very same customers. The

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<sup>189</sup> Dullien, Sebastian / Herr, Hansjörg: Die EU-Finanzmarktreform; Global Unions Pittsburgh Declaration, pp. 3ff.

creation of a state-controlled European rating agency would also exclude conflicts of interest.<sup>190</sup>

- Tax-relevant information must also be transparent to the authorities in question. National peculiarities (such as the distinction between tax fraud and tax evasion in Switzerland) must not be an obstacle to the democratically founded international fight against tax flight. In an international legal community, state borders must not be open to access to assets and earnings while being closed to legitimate tax claims related to the same assets and earnings.
- The banks' "appetite for risk" was a catalyst in bringing about the 2008 financial crisis. This was also evident in the fact that the equity ratio between the owners' own capital and external capital had fallen precipitously over the past few years. Equity requirements need to be raised considerably as a means of preventing risky business, and also with regard to further securitization.<sup>191</sup>

### 3.4.5 Sustainability and qualitative growth

Sustainability basically means that resources need to be used in such a way that the *capital* remains untouched while only the interest is extracted from the system. Only that which grows back should be extracted from the production system and only to the extent that it grows back. This can be compared aptly and appropriately with the timber industry only cutting as many trees as can be replanted in the same period of time. Interestingly, the principle of sustainability was actually developed in forestry in the early 18th century as a reaction to the overuse of woodlands to satisfy smelting demands for charcoal.

It is less easy to describe what sustainability means in modern societies. Non-renewable resources are often used so extensively that they may well be entirely used up at some point in the future (e.g. fossil fuels, some rare metals that are important for technology). This manner of business is, strictly speaking, no longer sustainable. The extent to which this can be

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<sup>190</sup> Dullien, Sebastian / Herr, Hansjörg: Die EU-Finanzmarktreform; Global Unions Pittsburgh Declaration, pp. 4–6, 11.

<sup>191</sup> Dullien, Sebastian / Herr, Hansjörg: Die EU-Finanzmarktreform; Global Unions Pittsburgh Declaration, pp. 4–6, 11.

justified depends on whether the definitively depleted resources can be replaced with other resources with similar functions (*substitution*). The over-exploitation of many natural resources, including a rapid loss of biodiversity, has now attained such a high degree of acceleration and globality that even the greatest optimism in terms of possibilities for substitution would still not entail sustainable use in any way.

The obligation to use resources in a sustainable manner (with a certain amount of leeway through substitution) is founded in *respect for future generations*. They too will require resources to satisfy their needs and to make economic and social development possible. Sustainability can also be seen to be founded in a *respect for nature as a manifold and ever developing creation*, the purpose for which lies not solely in its use for humankind today – and definitely not for a small minority of humankind. This view is echoed in numerous religions. In the Judeo-Christian tradition, it is the task of humankind to work and maintain the land (Gen. 2:15) and also to have “dominion” over it (Gen. 1:26,28), although within the boundaries of a sensibly designed creation geared to the ideal of non-violence. The wonderful and mysterious diversity of creation goes well beyond human appropriation, use, and understanding (Job 38-42, Ps. 104).

The 1992 *United Nations Conference on Environment and Development* (UNCED) in Rio de Janeiro (“Earth Summit”) defined sustainability as including *social and economic components* in addition to its ecological component. Sustainability includes but is also more than merely “protecting nature”. Sustainability, in a broader sense, takes into account other values, especially that of social responsibility and societal capacities as well as economic development that can endure into the future. *Sustainability thus takes on characteristics of “qualitative growth”*. What this can mean will be explored further in the last chapter.

In the following points we examine the financial crises and their causes with regard to sustainability and qualitative growth:

- We should not focus on the financial and economic crises or the global environmental and climate crises to the exclusion of the other, but should see them as a common problem to be solved. Failures in climatic protection would indeed only lead to further dramatic financial

burdens for the global economy.<sup>192</sup> The financial crises can thus not be solved at the cost of the climatic crisis but should be viewed as an opportunity to move toward a more sustainable economy.

- Unstable financial systems endanger sustainability, leading to short-term stimulus measures that tend to support anything and everything that serves to resuscitate the economy (for example, the lack of sustainability criteria in Germany's "cash for clunkers" program and the lower value placed on such criteria in France). Errant, structurally conservative investment decisions can present obstacles to ecological recalibration for long stretches of time.
- Long-term monetary investments are essential to sustainability. There is thus a public interest in supporting this type of investment in place of the short-term speculative type. Transaction taxes can be one way of doing this – despite all the difficulties that would come with their formation and implementation, particularly with regard to the international money transactions.<sup>193</sup>
- A new economic system able to meet the challenge of a Green New Deal would require a common understanding of qualitative growth indicators. This is an extraordinarily complex task. Synthetic indicators for qualitative growth therefore need to be developed. While such indicators will require approximations and oversimplifications – such as the "ecological footprint" that measures sustainability in more narrow ecological terms. They do, however, provide a much more adequate basis for the estimation of gains or losses in overall wealth than does the gross domestic product, which has been criticized as an indicator for decades – and rightly so. Wealth is more than just the sheer qualitative volume of economic production, as is borne out in social ethics.

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<sup>192</sup> The economist Nicholas Stern has calculated the economic losses at five to twenty percent of the global GDP annually if nothing is done about it. Stern, Nicholas: *The Economics of Climate Change*. The Stern Review, Cambridge 2006.

<sup>193</sup> Hübner, Jörg: *Ethik der Finanzmärkte*, p. 113.

### 3.5 *Maxims for financial system ethics*

In his economic ethical methodology, Arthur Rich refers to implementation rules for ethical norms as maxims. The maxims mediate between a connection to general ethical values and specific situations that require decisions to be made. This mediating character of Rich's maxims becomes evident in that they entail both normative (connected to values) and descriptive (with regard to situations) aspects.

The following presentation of maxims for the ethical evaluation of the financial and economic crises includes a twofold distinction. In addition to *ethical maxims* (as is Rich's usual meaning of the term) it seems appropriate to justify methodological decisions as well and to include *methodological maxims*. We distinguish as well between *general ethical maxims* and, secondary to these, *special ethical maxims*, depending on the level of specificity involved.

This following symbols are used for this categorization below:

- *MM for methodological maxims*
- *EM for general ethical maxims*
- *em for special ethical maxims*

Some of the maxims are explained with additional comments and illustrations.

#### 3.5.1 **Methodological Maxims (MM)**

##### *MM1 – Prioritizing ethics of the general order*

The highly complex character of the global economic system (and that of the financial system) needs to be viewed in the ethical terms of the general social order. Ethical approaches that focus on individuals, corporations, and professional life should not, however, be neglected in the process; and considerations, decisions, and measures can only be effective with regard to the last two areas of life if the ethical framework is well suited to both the matters and the people involved.

##### *MM2 – Practical interaction with a paradigmatic shift yet to be completed*

The lifestyles and economic styles of the affluent countries cannot be extended to the rest of the world, nor are they sustainable in their current form. This ineluctable understanding raises questions about central



concepts of economic policy, the philosophy behind economics, and other matters of worldview. “Growth” and “development”, and hence the Western world’s faith in progress can thus no longer be viewed as uncontroversial concepts.

In the midst of a paradigmatic shift yet to be conceived in full (“forward to moderation”, Hans Christoph Binswanger), we can justifiably and pragmatically reflect on the situation at two levels:

- social ethics (as in the present study) within the framework of extent concepts newly evaluated (“sustainable development”, “qualitative growth”);
- and basic ethics with a view to entirely new ways of thinking (criticism of growth, “décroissance”, etc.)

The neglect of basic ethical issues would lead to the trivialization of the global crisis and facets of it that are critical of our civilization. Conversely, there is a danger of a methodically questionable abridgement and narrowing of concepts when they are transferred directly from discussions of fundamentals to be applied socially and ethically (and thus without any reflection on the means and mechanisms of successful system change).

### *MM3 – Range of opinion and the long-term orientation of economic policy analyses*

The financial and economic crises have brought to light some of their serious long-term causes that had not been adequately identified by the institutions responsible for risk analysis. Alternative voices that had contradicted the analyses of “mainstream” economic policy were not heeded well enough. The current crises reflect the fact that analyses that are too homogenous and that exclude different positions both in the framework of university education and economic policy practice only serve to narrow our scope of vision and to increase the danger of economic policy blunders.

### 3.5.2 Ethical Maxims (EM and em)

#### *EM1 – The financial economy in service to the real economy*

The financial economy must act to serve the real economy – especially when it comes to extending credit. When the financial economy separates itself from the real economy, it brings about the illusion of an economic situation that is untenable. The financial crises have shown that differences in regulation in among areas of the financial sector, which make it possible for risky business to be conducted unchecked, along with the predominant focus on short-term profits do not improve overall economic efficiency but in fact entail considerable systemic risk.

#### *em1.1 – Support and respect for the subsistence economy and the public supply of essential goods*

Freedom is the expression of human life and thus of creaturehood. If we are to stand up for freedom and a free market economy, we must also stand up for their mental and physical prerequisites. Support and respect for the subsistence economy should be given the highest priority especially in development countries, as this is crucial to the very existence of hundreds of millions of people. This holds equally true for the public supply of essential goods in both industrialized and development countries such as water and education.

#### *em1.2 – A precautionary principle with regard to debt and financial policy*

Public debt and the introduction of incentives for private debt need to be anchored in a realistic economic rate of growth, i.e. one in step with past experience. This must also be in tune with the real economy. The rights of future generations can only be preserved through a precautionary principle in debt and financial policy – as an analogue to ecological sustainability. The total volume of financial transactions must, for example, reasonably reflect the real economic exchange of goods.

#### *EM2 – The social obligation of property*

Just as liberty without responsibility destroys itself, property can only be justified as bearing social obligation – both to others now and to later generations – within a system of civil liberties.

*em2.1 – Just distribution as a precondition for a prosperous economy*

Just distribution in terms of income and property is a precondition for social stability and economic wealth, whether viewed nationally or internationally. Developments that promote financial extremes are unsustainable. While the numbers of working poor swell and the unemployed become poorer and poorer, the highest earners work toward expanding and securing their financial advantages, even in fields hit by the crisis. The economic prosperity of all demands that we overcome this discrepancy. We must also redouble previous social efforts in the international arena such as the ILO's Decent Work Agenda.

*em2.2 – Tax justice even at the global level*

Tax evasion and flight run counter to the social obligation of property. Market globalization necessitates the globalization of tax law and collection as well. This requires forms of transnational cooperation that can supplant any peculiarities of national law (e.g. bank secrecy and the differentiation of tax evasion and tax law according to Swiss law.)

*em2.3 – Protecting social security from financial market risk*

Secure reserves and risky investments with a high potential for profit can both be reasonable financial options depending on the prevailing situation. The mix of the two, however, which is not very transparent for a majority of customers, has led to tragedy in many cases, even at the existential level. Social security systems, in particular, must be conceived in such a way as to protect people from the risks of the financial markets.

*EM3 – Global governance*

Just as human rights apply to humanity as a whole, legal principles and structures must be applicable across international borders. A legal community is only achievable in the era of globalization if they apply both between nations as well as in the global arena. National boundaries and peculiarities must be understood within the framework of global governance as subsidiary levels of a single system, what was once described by Ernst von Weizsäcker as "Earth Politics".

*em3.1 – A stable international financial system viewed as a public global asset*

The stability of the international financial system is a public global asset that must be made possible through policies – all as the expression of a common awareness of responsibility.<sup>194</sup> This requires the reorganization of the international financial system. Subsequent to the recent financial crises, this includes at its core a democratic system of financial supervision grounded in a system of law, along with higher equity standards for financial institutes, and binding regulations for rating agencies.

*em3.2 – Subsidiarity, transparency, and efficiency necessary to regulate the international financial system*

The regulation of the international financial system needs to be a participative process involving the co-determination of subsidiary structures. Commitments and self-governance at the local level need to be accompanied by a democratic system of regulations and supervision grounded in a system of law at the national, supranational, and international levels. This requires data and decisions to be transparent and efficiency to be safeguarded through the coordination and homogenization of oversight mechanisms. Public checks on the independence of rating agencies play an important role in the process as well.

*em3.3 – Expanding the social market economy to encompass a social, ecological, and globally integrated market economy*

The regulations introduced to modern democratic states to safeguard justice in terms of abilities and needs – all within the concept of “social market economy” – now need to be translated to the global level and to the international community of nations. This must also apply, by analogy, to the use of resources. “The classical idea of a social market economy needs to be expanded to incorporate a social, ecological, and globally integrated market economy”.<sup>195</sup>

<sup>194</sup> Lanz, Martin / Pohlenz, Friederike / Hess, Martin K.: Internationale Finanzstabilität: Nutzen und Beitrag aus Sicht der Schweiz, in: Politorbis, no. 39, 3/2005, pp. 19–34.

<sup>195</sup> Translated quote from: Evangelische Kirche in Deutschland. “Wie ein Riss in einer hohen Mauer. Wort des Rates der Evangelischen Kirche in Deutschland zur globalen Finanzmarkt- und Wirtschaftskrise” [EKD-Texte 100], Hanover 2009, p. 8.

*em3.4 – Binding indicators of qualitative growth*

Ecological, social, and economically sustainable development is only possible if suitable indicators are developed and introduced for sustainability in the widest sense of the concept and for “qualitative growth”, and if these indicators are indeed binding. Since wealth is more than just the volume of economic production without regard to its quality, the gross domestic product (GDP) is not an indicator well suited to this end. Using the GDP thus ignores the actual economic situation and can lead to political decisions that run counter to principles of sustainability.

*em3.5 – Cumulative nature of financial aid to poor countries*

The ethical and indeed often the legal financial claims of poor countries can in fact be cumulative if are based on different grounds. These can include: developmental aid as an act of international solidarity; compensation for damages (e.g. climate change and other global environmental destruction caused by industrialized countries); and compensation for one-sided, disproportionate uses of resources that are by nature a good common to all humankind (atmosphere, oceans, biodiversity, etc.) It is thus unethical to subtract, for example, sums from developmental aid to be used instead for climatic protection, or to take funding away from climatic protection to save banks from failing or to stimulate the economy.

### 3.6 *Individual, corporate, and professional ethics*

The discussion has focused so far on ethical points related to the general order. “Since the ‘structural order of the institutions of life in community’ determines to a great degree the behavior of economic actors and thus the quality of their personal ethos, ethical reflection on the framework of the general order has played a dominant role through today.”<sup>196</sup> The spheres of *individual ethics* and *corporate and professional ethics* must, however, not be disregarded. Protestant economics ethicists have rightly pointed out that this framework can only function through legal force and, if it is ignored, through legal sanctions. It cannot take the place of an ethi-

<sup>196</sup> Jähnichen, Traugott: Wirtschaftsethik, p. 69.

cal education or of an awareness of responsibility, and cannot replace efforts to introduce appropriate corporate cultures and association programs. On the contrary, this entails an important potential for creativity and mobilization: “the moral standards of individuals (virtues) and of intermediary forces (associations, companies) can become engines of economic innovation. This, however, requires institutions and cultural conditions that allow for the accommodation and stabilization of these moral standards.”<sup>197</sup>

The ability of individuals to act in ethical responsibility presupposes a certain degree of self-reflection. Education and learning play a major role in this process. The “Milgram experiment” of 1961 showed, however, how little we can take ethical responsibility for granted. In the guise of a scientific learning experiment, mistakes in the repetition of memorized series of words were (seemingly) punished with electrical shocks of increasing strength until they became unbearably painful and then (seemingly) life-threatening. Unwitting subjects were prompted by researchers in white smocks to press the buttons to punish mistakes, increasing the strength of the shocks each time. An alarming number of subjects were enthralled by the authority of “science”, asking no questions and instead obeying the scientists’ orders to the point of extreme brutality.

The results of the experiment run by the American psychologist Stanley Milgram, which was publicized in films such as “Abraham – Ein Versuch” (1970) and “I as in Icarus” (1979), were viewed as providing an excellent insight into how people who would otherwise seem to behave perfectly normally in social situations can turn into willing accomplices of state terror. Much more generally, this can be viewed as evidence for the importance of the development of emancipated personalities and, analogously, ethical guidelines as linked to responsible individual behavior in any kind of human system.

There is no doubt that the constraints and mentality of social backgrounds affect those who work in the financial sector as well. We can only imagine how hard it is to distance oneself from the constraints of hierarchical expectations, competition, ambitions and temptations, but also simple matters such as one’s routine, stress, and passion for the game, a dis-

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<sup>197</sup> Hübner, Jörg: *Ethik der Finanzmärkte*, p. 23.

tance that one needs in order to gain the space needed to develop one's conscience and critical personality. It is certainly essential as a means of supporting ethical reflection and an awareness anchored in group dynamics. Simulating dangerous situations, learning about alternatives and about how to integrate the results of risk research into one's own behavior are all important in this process. Coming to understand the phenomenon of "managerial power" – by analyzing, for example, the often rather vivid statements made in interviews – can help those in power and those who observe power to become more aware of responsibility and to be able to act more freely within power structures.<sup>198</sup>

Put more positively, this understanding means that *education* is a precondition for (economically) responsible action. The Protestant ethicist Eilert Herms focused on this matter in particular and spoke of a "*matured self-interest*" as the motivation for economic action that includes the aspect of ethical education.<sup>199</sup> The concept is also appealing in that it views economic logic from an anthropological perspective, i.e. embedded into a view of human existence as a whole. This can also be justified from an economic perspective as a means of minimizing transaction costs, i.e. less needs to be spent on monitoring, complaints, and legal action when business partners are reliable, honor their contracts, have an awareness for quality, and are generous with one another. This, however, also means that the economy is dependent on the work of social institutions.<sup>200</sup>

Georg Pfleiderer and Alexander Heit have also called, very convincingly, for a greater focus on individuals as the bearers of economic-ethical responsibility. With references to Max Weber, Pfleiderer explained that, even in today's world, a religiously motivated willingness to bear responsibility has an influence on economic behavior, linking itself to economic rationality, without be subsumed by it. One example is the effect that the charismatic church tradition of millions of Pentecostals have in terms of familiar, social, and economic consolidation, especially in the countries of

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<sup>198</sup> Hoffmann, Walter K.H.: *Macht im Management. Ein Tabu wird protokolliert*, Zürich 2003.

<sup>199</sup> Herms, Eilert: *Die Wirtschaft des Menschen: Beiträge zur Wirtschaftsethik*. Tübingen 2004; Jähnichen, Traugott: *Wirtschaftsethik*, pp. 89ff.; Hübner, Jörg: *Ethik der Finanzmärkte*, pp. 25ff.

<sup>200</sup> Hübner, Jörg: *Ethik der Finanzmärkte*, p. 27.

the Global South such as Brazil.<sup>201</sup> Developmental aid institutions are now decisive in drawing upon this type of religiously motivated reliability and the willingness of economic actors to cooperate in this sector.

### ***Contextuality of economic processes***

It can be said, generally speaking, that economic processes are embedded in particular areas and are dependent upon these areas in their specific qualities.<sup>202</sup> From a cultural-historical point of view this can also be seen in the example of certain regional types of market economies such as Rhine,<sup>203</sup> Anglo-American, or Asian capitalism with their different practices of social partnership, and social and economic competition.

Alexander Heit also views religious communities as providing an important service in opposition to the constraints of rationalization – particularly in terms of economics – by demanding “self-determined action”. Encouraging reflectiveness, when this tends to be forgotten, is a task that the church must undertake in particular as an institution of learning and a community of action.<sup>204</sup>

And this is not only a matter to be seen at the individual level. *Corporate cultures* can also at times promote a blindness to one’s own internal problems – or alternatively an open, fear-free atmosphere that recognizes the value of critical thought. Corporate cultures can embrace – or not embrace – the ethical dimension of common work. Professional ethics, moreover, are also of importance at this level, and ethics codes are not limited to the field of medicine. When these codes become binding, they serve to legitimize and thus provide cover for the critical conscience of individuals.

<sup>201</sup> Pfeleiderer, Georg: Max Webers These und ihre Aktualität. Bemerkungen und Beobachtungen nach einhundert Jahren «Protestantische Ethik», in: Pfeleiderer, Georg / Heit, Alexander (eds.): *Wirtschaft und Wertekultur(en)*. Zur Aktualität von Max Webers «Protestantischer Ethik», Zürich 2008, pp. 21–33, here p. 33.

<sup>202</sup> This approach is referred to as social embeddedness (especially in economic sociology). Cf. also Granovetter, Mark: Economic action and social structure: The problem of embeddedness, in: *American Journal of Sociology*, 91/1985, no. 3, pp. 481–510

<sup>203</sup> Rhine capitalism – a term used more in English and French literature – represents the wider cultural-historical situation for which the West German post-war social market economy is typical.

<sup>204</sup> Heit, Alexander: *Kapitalismus und Kirche. Überlegungen zum Bildungsauftrag der Kirche im Anschluss an Max Webers Theorie der Moderne*, pp. 35–74, esp. pp. 57ff.



The discussion of ethics codes, whether in the schooling process, in company-internal further training, or elsewhere, can be helpful as a means of boosting the willingness to take on responsibility. One needs, time and again, to stand up to peer pressure, to avoid suppressing one's own moral intuition, to seek out external support (e.g. in joining a professional organization with ethical norms), and to learn, ultimately, that one's conscience does not need to remain silent but indeed knows its own language and rationality.

Economic ethics studies, in this vein, have recently been calling for the promotion of codes of conduct in various areas of the financial sector. Jörg Hübner has called, in particular, for the self-regulation of banks, hedge funds, and ratings agencies.<sup>205</sup> It remains quite clear that major transnational companies act at a level similar to that of entire countries, involving not the meso-level but indeed the macro-level. The corporate social responsibility (CSR) of major companies can indeed encompass a certain sense of bearing responsibility for the general social order.<sup>206</sup> This becomes evident when companies, as a means, for example, of recognizing human rights, no longer limit themselves to their own value-added chains but are vulnerable to the critical expectations of their partners and from all throughout the geopolitical context. It is nevertheless controversial as to how much companies can actually do and should do; and financial companies have not as yet featured prominently among the companies that are most active in this respect.<sup>207</sup>

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<sup>205</sup> Hübner, Jörg: *Ethik der Finanzmärkte*, pp. 131ff., 147f., 158ff.

<sup>206</sup> Breuer, Markus / Mastronardi, Philippe / Waxenberger, Bernhard (eds.): *Markt, Mensch und Freiheit. Wirtschaftsethik in der Auseinandersetzung*, Bern 2009, esp. the article by Guido Palazzo & Andreas Georg Scherer: *Entfesselung und Entgrenzung – Konsequenzen einer global entfesselten ökonomischen Vernunft für die soziale Verantwortung der Unternehmung*, pp. 81–95, and the commentaries by Peter Ulrich, pp. 12 and 232ff.

<sup>207</sup> Well-known examples include Nike shoes, other sports and clothing companies, and the food industry.

## 4 *New orientations beyond financial system ethics*

Severe crises such as the recent financial and economic crises and the connected insecurity in the societal, political, and economic worlds, can entail new opportunities to take a step back and – *in addition to the maxims in terms of financial system ethics* – think about fundamental issues and an economic reorientation: Do we need new points of orientation for our economic activity and new guidelines for social progress? Has the economy moved too far away from our actual lives?<sup>208</sup> Would moving toward an economy that serves the people necessary mean the introduction of a new economic system? Do we need a new indicator of wealth that can serve better than the conventional GDP to describe the reality of human wealth?

### 4.1 *A new orientation within the current economic system*

We have recently witnessed the massive devaluation of securities, the collapse of numerous renowned banks, the near collapse of the world financial system, severe real economic consequences in many industrialized and threshold countries, and an existential threat to people in developing countries. Events that, until recently, were hardly imaginable, but which we have now seen during the 2008 financial crisis and the – as yet uncertain – consequences of the 2010 crisis have led to a growing skepticism towards the capitalist model of economics and wealth.

Such discussions are, however, nothing new, but have had a resurgence due to the severity of the crises. As the international financial markets are a major part of the global economic system, the church position on the economic system can be derived from earlier positions within the framework of the globalization debate, positions that were already treated

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<sup>208</sup> Ulrich, Peter: Die gesellschaftliche Einbettung der Marktwirtschaft als Kernproblem des 21. Jahrhunderts, St. Gallen 2009, p. v.

comprehensively in the FSPC Globalance Study. We will revisit some of the most prominent points here.

Over the past decade, the ecumenical debate on economic globalization has had four commonalities, parallel to most other church positions:

1. The Christian faith needs to become involved in the future of economic behavior, as this should reflect God's love and justice.
2. Human dignity, human rights, and global justice are values that have time and again been offered as standards for economic behavior.
3. The current trend toward economic globalization offers opportunities in terms of increasing wealth and of getting to know and understanding others, all while, however, leading to numerous injustices that need to be named and overcome.
4. Even when there are differences of analysis, all practical conclusions remain similar to those expressed in the Accra <sup>209</sup> Agenda for Action.<sup>210</sup>

There are, however, also four areas of conflict and divergence in the churches' approach to globalization:

1. Only the World Alliance of Reformed Churches (WARC) – and not the WCC, the Lutheran World Federation (LWF), or the Roman Catholic and Orthodox churches – has gone as far as to view neo-liberal globalization as a matter pertinent to confession.
2. The estimation of globalization as not only a real process but one that is steered by imperial powers and supported by neo-liberal ideology forms the basis of the WCC, WARC, and LWF papers, but not, for example, those of the FSPC and the Evangelical Church in Germany (EKD). This view of globalization as being steered by imperial powers is also the most controversial point within the ecumenical debate.
3. The social-economic context of the individual churches plays a major role. Many churches have a minority position in their societies, and have little influence or power. They can only be heard as a cry of the helpless. Majority churches can, in contrast, act as partners with direct influence on decision-makers in their countries' political and economic processes.<sup>211</sup>

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<sup>209</sup> The World Alliance of Reformed Churches (WARC) issued a basic document at its June 2004 General Council in Accra "Covenanting for Justice in the Economy and the Earth", which included this plan of action.

<sup>210</sup> SEK (Hella Hoppe / Christoph Stückelberger): *Globalance*, pp. 34ff.

<sup>211</sup> SEK (Hella Hoppe / Christoph Stückelberger): *Globalance*, pp. 34ff.

The fourth such conflict in the church discussion of the best economic system is most pertinent to the present study. This is the question of whether it is better to work toward a market economy with clear social and ecological regulations, or a system that more fundamentally rejects private ownership and the market. This corresponds with two ideal economic orders, one in which control is exerted through centrally steered state institutions, and one in which control is exerted through market systems driven by decentralized decisions.<sup>212</sup> In its *Globalance* study, the FSPC spoke out very clearly against being caught up in such polarized views and analyses of globalization processes, as this would entail the danger of robbing the necessary processes of national and international policy reform of the broad social support it requires.<sup>213</sup> The FSPC believes it is better to pursue de-ideologized, secular, and socially dedicated strategies for a humane globalization process. As explained in Chapter 3, any reorganization of economic behavior would then be in line with basic values and norms of practice derived from these values. The causes of the crisis and the failings of the global financial and economic system indeed ultimately involve value judgments and the search for fundamental values.<sup>214</sup> The 2008 crisis, for example, made the imbalance very clear between social justice, ecological sustainability, and economic efficiency. There were imbalances in play in the relationship between state interventions and free market forces; between the size of the financial sector and the real economy; between countries with trade surpluses and deficits; and between industrialized countries and developing countries. We will need to correct the imbalance in the distribution of wealth in particular.<sup>215</sup> Three important factors need to be stressed in the debate on the current situation:

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<sup>212</sup> SEK (Hella Hoppe / Christoph Stückelberger): *Globalance*, pp. 34–38.

<sup>213</sup> This conflicts reflects the old ecumenical debate of the 1970s and 1980s on “development or liberation”. In 1996, the WCC admitted that the debate had become to ideological. Cf. SEK (Hella Hoppe / Christoph Stückelberger): *Globalance*, p. 35.

<sup>214</sup> The question of which strategies are useful in supporting this change has also been of particular importance within the church. Non-binding dialogue is as useless as wildly radical conference statements that nobody listens to. Churches can pursue a sensible double strategy, supporting the search for alternatives to the current globalization and economic structures while expanding the dialogue with political and economic decision-makers to take steps possible that lead us closer to reform.

<sup>215</sup> Global Unions Pittsburgh Declaration, p. 16.

- a) Capitalism cannot be equated with the free market. On the contrary: We have seen in the past that capitalist societies work the best economically if they can rely a strong state that protects property and social rights because such a state safeguards market confidence. The current situation is, nevertheless, problematic in that the financial sector has split off from the real economy and developed less than transparent and unregulated shadow economies that are pursue only short-term profits, a development that led to the near collapse of the global financial system in autumn 2008.<sup>216</sup>
- b) We must, furthermore, take into account that – unlike socialism – capitalism is not normally a system that is introduced to countries by decree. Capitalist national economies instead develop over years and take on a wide variety of forms, especially with regard to the relationship between the state and the economy. The crisis of confidence that resulted from the financial crisis has given rise to the likelihood of new varieties of capitalism arising in the years to come that would involve stronger monitoring and regulation in the financial sector.<sup>217</sup>
- c) One third factor involves the fact that the future of today's capitalism will lie increasingly in threshold economies such as China and India. Clear signals were given for this in the replacement of the G-7 by the G-20 as a global decision-making summit, and in the announcement that the IMF would soon change to give threshold countries more say in matters. China and India will continue to pursue a fundamentally capitalistic market system, if perhaps with a weakened reputation and more regulation.<sup>218</sup>

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<sup>216</sup> Phelps, Edmund: Uncertainty bedevils the best system, in: Financial Times online, 14 April 2009.

<sup>217</sup> Brittain, Samuel: A catechism for a system that endures, in Financial Times online, 30 April 2009; Sorrell, Martin: The pendulum will swing back, in Financial Times online, 8 April 2009.

<sup>218</sup> Wolf, Martin: This crisis is a moment, but is it a defining one?, in Financial Times online, 19 May 2009.

### ***Creative destruction***

Dynamic economic systems thrive on being confronted with continually new technical and organizational trends – and are thus quite open to innovation. As part of these “creative destructions” (in the words of Austrian economist Joseph A. Schumpeter), old production and markets structures are replaced by new ones, serving to increase efficiency and productivity. The continual development of new products and production processes forcefully brings about a break with old, outdated habits.<sup>219</sup> Economic cycles with their ups and downs are thus integral parts of free market systems and, together with the spirit of innovation, help do away with overinvestment and errant investment. The current crisis thus has a creative side as well with the potential to correct any unsuitable and destructive tendencies that have emerged in recent years.

There is, however, a fine line between the healthy self-correction of the market and an economic depression from which the economy is not able to recover on its own. The state thus needs to pursue measures necessary to ensure that the economy works as it should. Critics may, however, object that this type of state action came too quickly during the 2010 financial crisis in an attempt to stop the downward economic trend. This, in their view, hemmed in the market’s cathartic self-cleansing process, while raising the willingness of economic actors to take risks by teaching them that they can rely on state support. These two viewpoints, supporting rapid state action on the other hand, and the self-healing powers of the market on the other, have shaped the current analysis of the financial market crisis and what we can learn from the situation.

## ***4.2 Towards a new indicator of wealth and growth***

The quality of growth and the measurability of this quality are crucial to the question of whether we need more growth. Until now, the wealth of nations has been measured primarily in terms of the gross domestic product (GDP). It is assumed that wealth increases whenever the GDP goes up. Even during the financial and economic crisis, comprehensive stimulus packages were put together with the goal of preventing negative economic growth as measured in terms of the GDP.

The GDP has, however, received increasing criticism. The indicator points, for example, to wealth-creating growth, but growth that also is the

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<sup>219</sup> Töpfer, Armin: Betriebswirtschaftslehre. Anwendungs- und prozessorientierte Grundlagen, Berlin 2007, p. 703.

cause of immense environment damage, does nothing to address distribution issues, and remains fully blind to areas that are of great importance to economic life.<sup>220</sup> Due to the current financial, climatic, and food crises, the question has arisen more and more as to whether the indicators and statistics currently in use are the best ones to provide motivation for a more socially and ecologically sustainable way of doing things. And the consequences of this could be even worse if the use of inadequate indicators could be seen to lead to the opposite of our goals and perhaps lead to entirely wrong decisions.<sup>221</sup>

While the discussion on the limited information proved by the GDP has been ongoing for over thirty years, it has gained recent momentum as the result of several new studies, some presented from a church perspective.

In November 2008, for example, the economist Hans Diefenbacher of the Protestant Institute for Interdisciplinary Research in Heidelberg and the administration studies expert Roland Zieschank of the Free University of Berlin's Environment Policy Research Center developed a new National Welfare Index (NWI), commissioned by the German Federal Office of the Environment. The NWI was conceived to take into account services that do not appear in official statistics.<sup>222</sup> Like the GDP, the NWI is based on private consumption; this is, however, weighted in accordance with a distribution index in the NWI, with the aim of demonstrating that the welfare of a nation rises more when all of its people are able to afford more goods than if only a small group of people consumes wealth at pronouncedly higher levels. Another new aspect is the recognition and addition of the value of unpaid work at home and of volunteer work, and the subtraction of the costs of environment damage and the use of non-renewable resources. Diefenbacher and Zieschank compared the GDP and NWI for Germany for a number of years, and the NWI was always lower than the GDP. Immediately prior to the 2008 financial crisis, interestingly, the NWI be-

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<sup>220</sup> Agenda21: Nationaler Wohlfahrtsindex. <http://www.agenda21-treffpunkt.de/lexikon/NWI.htm> (30 June 2010).

<sup>221</sup> Stiglitz, Joseph: Wider den BIP-Fetischismus! Was ist wirtschaftlicher und sozialer Fortschritt, in: Informationsbrief Weltwirtschaft & Entwicklung, 15 September 2009, p. 1.

<sup>222</sup> Project website «Weiterentwicklung der deutschen Nachhaltigkeitsstrategie – Vorschlag für einen nationalen Wohlfahrtsindex» ([http://www.polsoz.fu-berlin.de/polwiss/forschung/systeme/ffu/projekte/laufende/07\\_wohlfahrtsindex/index.html](http://www.polsoz.fu-berlin.de/polwiss/forschung/systeme/ffu/projekte/laufende/07_wohlfahrtsindex/index.html)).

gan to drop even as the GDP continued to rise. Hans Diefenbacher explained that, although they had not developed the NWI as an instrument to confront the economic crisis, if they had had the indicator before, they may have been able to detect the impending crisis at an earlier date. In any event, he concluded, we are in need of new indicators.<sup>223</sup>

In its position paper on the financial and economic crisis, the WCC also called clearly for the development of new indicators of progress that reflect on quality of life, lifestyle habits, good governance, education, health, ecological resilience, cultural diversity, societal vitality, healthy time management, and spiritual and mental health.<sup>224</sup>

Among non-church actors, the economist Nicholas Stern published a trailblazing report in 2006 that was clear about economic growth only having a positive effect on the welfare of a nation if the nation's natural resources are not destroyed in the process, as environmental destruction does away with the basis for future growth.<sup>225</sup> The 2008 financial and economic crisis clearly demonstrated that a rising GDP is a poor standard for the people's general welfare or even for the state of a nation's economy. U.S. economic growth, for example, was considerably higher than European growth before the crisis, and was celebrated as such. We now, however, know that the increasing debt of U.S. households both contributed to this rise in GDP and helped trigger the crisis – another case in which the GDP supported an economic illusion.<sup>226</sup> The GDP is also unable to represent social inequalities. Even if the household income of most people decreases, top salaries in the financial sector can make up for this and lead to an increase in GDP due to the overall average in spite of increasing inequalities.<sup>227</sup>

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<sup>223</sup> Diefenbacher cited in: N.N.: Die Mängel der Statistik. In Wahrheit misst das Bruttoinlandsprodukt gar nicht den Wohlstand. Forscher suchen Alternativen, in: Die Zeit online, 26 March 2009.

<sup>224</sup> WCC: Statement on just finance and the economy of life, Geneva 2009, p. 3 (unpublished working paper).

<sup>225</sup> Stern, Nicholas: *The Economics of Climate Change*. The Stern Review. Cambridge 2006; Stern, Nicholas: *Der Global Deal. Wie wir dem Klimawandel begegnen und ein neues Zeitalter von Wachstum und Wohlstand schaffen*. Munich 2009; N. N.: «Nicolas im Glück», in: Süddeutsche online, 16 September 2009.

<sup>226</sup> Stiglitz, Joseph: *Wider den BIP-Fetischismus!*, S. 2.

<sup>227</sup> Stiglitz, Joseph: *Wider den BIP-Fetischismus!*, S. 2.



French President Nicolas Sarkozy also raised the matter of a new wealth indicator, bringing it to the country's political agenda, and initiating a high-level international Commission on the Measurement of Economic Performance and Social Progress (led by the economist and Nobel laureate Joseph Stiglitz, and with economist and Nobel laureate Amartya Sen and French economist Jean-Paul Fitoussi). The commission's 292-page September 2009 report called for the creation of new indicators for societal welfare,<sup>228</sup> with the goal of quantifying – all in one figure – individual welfare, the environmental friendliness of economic growth, as well as volunteer work and home-centered services, especially from the care economy.<sup>229</sup> Even when significantly more hours are worked in the care economy than in paid work and in the officially quantifiable economic activity of the national economy, care work remains invisible in official statistics, even as over three quarters of all socially necessary work (childcare, care for adults, cooking, cleaning, household work) is performed by women without pay.

The economist Bruno S. Frey of the University of Zurich has questioned whether the individual benefits of economic action can be measured in terms of money and can be reflected in the GDP. Frey prefers instead to measure the level of happiness that individuals experience within a national economy. Taking this indicator into account in the economy includes non-material values into an overall evaluation of welfare. Environmental factors such as pollution and noise, and social factors such as threats of terrorism or a lack of political satisfaction are measured and are reflected in the indicator.<sup>230</sup>

The concept of sufficiency economy of King Bhumipol of Thailand also takes into account other measures of value, which he introduced as an alternative to the Anglo-American business model (which he felt to be too short-term and shareholder oriented, and thus unsustainable), as the latter does not guarantee people and societies the quality of life that they would

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<sup>228</sup> Cf. the final report of the Commission on the Measurement of Economic Performance and Social Progress (Coordinator of the Commission: Joseph Stiglitz; Amartya Sen, Jean-Paul Fitoussi), Paris 2009, [www.stiglitz-sen-fitoussi.fr](http://www.stiglitz-sen-fitoussi.fr).

<sup>229</sup> N.N.: Weg mit dem BIP, in: Süddeutsche online, 14 September 2009.

<sup>230</sup> Frey, Bruno S.; Stutzer, Alois: The Thirst for Happiness. In: Journal of International Business Ethics, 1/2008, no. 1, pp. 7–17.

expect.<sup>231</sup> A key element of this new model is the focus on sustainability in all areas of the economy, in addition to moderation, rationality, and the need for self-sufficiency and protection from external upheavals. Knowledge and morality are the two basic requirements for a sufficiency economy, which are necessary in order for the required values can be understood and implanted.<sup>232</sup> In sum, the model comprises a philosophy of life that explicitly includes economics: “The Sufficiency Economy Philosophy serves as a guide for the way of living/behaving for people of all levels, and is scalable with universal domain applicability, including business organizations.”<sup>233</sup>

Theologian John Cobb and economist Herman Daly argued along similar lines. Their book in the late 1980s recommended a holistic view of economics that takes into account the human realities of life, community, and the environment.<sup>234</sup> The book provided ideas for a new indicator of wealth to replace the GDP at the national level. The Index of Sustainable Economic Welfare and the further advanced Genuine Progress Indicator were to make a more realistic evaluation of the strength of national economies possible, reflecting both obvious and concealed economic consequences such as environment damage, crime, public satisfaction and health. The sustainable quality of economic growth and its consequences were also taken into account, replacing money as the sole indicator for the wealth of a national economy. This index has already been used to reevaluate wealth in several countries, and has in fact indicated a steady decline in this wealth – in contradiction to conventional GDP figures.<sup>235</sup>

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<sup>231</sup> Kantabutra, Sooksan: Development of the Sufficiency Economy Philosophy in the Thai Business Sector, 12 May 2010 (<http://www.sufficiencyeconomy.org/old/en/files/26.pdf>).

<sup>232</sup> Kantabutra, Sooksan: Development of the Sufficiency Economy Philosophy in the Thai Business Sector.

<sup>233</sup> Kantabutra, Sooksan: Development of the Sufficiency Economy Philosophy in the Thai Business Sector, pp. 4f.

<sup>234</sup> Daly, Herman E.; Cobb, John B.: For the Common Good. Redirecting the Economy toward Community, the Environment, and a Sustainable Future, Boston 1994 [1st ed. 1989].

<sup>235</sup> As applied to Germany: Diefenbacher, Hans: Der Index of Sustainable Economic Welfare – Eine Fallstudie für die Bundesrepublik Deutschland, 1950-1992, Heidelberg 1995

### 4.3 *Global Green New Deal*

In 2009, the global economy slid into one of the deepest recessions since the war as the result of the 2008 financial crisis, a recession from which it has been slow to recover. It would seem that efforts similar to U.S. President Roosevelt's New Deal in the 1930s will be necessary to overcome the effects of the crisis in the long run and to avoid further crises such as the one in 2010.<sup>236</sup> The world community, at the same time, has been faced with the immense challenge of limiting global warming. We must act in the short term to bring about long-term climatic stabilization. Any failure to do so would only lead to further dramatic financial strains on the global economy.<sup>237</sup> The financial crises cannot be solved at the expense of the climatic crisis, but must be viewed as an opportunity to move toward a sustainable economy. The program of the Global Green New Deal supported by UNEP,<sup>238</sup> various NGOs, unions,<sup>239</sup> and a number of political parties accordingly entails decisive state action with political measures that both stabilize the economy and create jobs, while responding to ecological challenges and the climatic crisis in particular.<sup>240</sup>

The financial crises have indeed made it very clear how important investment is in sustainable values that safeguard our future in areas such as climatic protection and energy efficiency. Our interdependence is particularly evident in the need of the global community for a stable financial system to successfully implement emissions trading systems and to finance green technologies.

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<sup>236</sup> U.S. President Franklin D. Roosevelt launched his New Deal program of economic and social reform in the 1930s in response to the 1929 stock market crash and subsequent global economic crisis. The main aim of the New Deal was to mitigate the U.S. economic crisis and mass unemployment through the implementation of major state-funded investment programs.

<sup>237</sup> The economist Nicholas Stern has calculated the economic losses at five to twenty percent of the global GDP annually if nothing is done about it. Cf. Stern, Nicholas: *The Economics of Climate Change*. The Stern Review, Cambridge 2006.

<sup>238</sup> United Nations Environment Programme

<sup>239</sup> Cf. e.g. Global Unions Pittsburgh Declaration, p. 7.

<sup>240</sup> French, Hilary, Renner Michael, Gardner, Gary: *Toward a Transatlantic Green New Deal: Tackling the Climate and Economic Crises*, Berlin 2009, pp. 9ff.; UNEP: *A Global Green New Deal*. Final Report, New York 2009, p. 8.

Some countries have in fact already begun to implement the concept of a Global Green New Deal. A February 2009 HSBC Global Research study showed that some 16 percent of the world's stimulus packages, or over two trillion euros, has been tagged for ecologically sustainable programs and climatic goals, such as the improvement of energy efficiency in buildings, and low-carbon technologies and vehicles.<sup>241</sup> The analysis, however, also showed that a majority of funds either contribute nothing to the active support of carbon reduction or even actively support the conventional carbon-based economy. Both a lack of action and the reinforcement of existing structures will worsen the climatic crisis and lead in the middle to long-term to considerable additional costs for the global community.<sup>242</sup>

Asia has so far seen the largest portion of these “green investments” with China, Japan, India, and South Korea combining for 200 billion euros of green investment from a total 900 billion euros in stimulus packages. South Korea has served as the best model for green investment with 80 percent of its stabilization funds being invested in this type of activity.<sup>243</sup> The American stimulus package, comprising some 750 billion euros, includes just under 12 percent for green investments, while Europe has only invested 8.5 percent of its total 490 billion euros in stimulus funds for green investment, although with considerable variation at the national level.<sup>244</sup>

The Global Green New Deal does not focus solely on stimulus packages, even if they are currently in the spotlight due to their size and due to the current crisis. There have also been calls for using the crisis as a catalyst for a change in mentality in other areas of policy as well. This includes, for example, the promotion of “green jobs” through professional training programs, and fiscal reforms that support environmentally friendly activities. In Europe, the Global Green New Deal also aims at focusing research and

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<sup>241</sup> French, Hilary, Renner Michael, Gardner, Gary: *Toward a Transatlantic Green New Deal*: pp. 12–15.

<sup>242</sup> French, Hilary, Renner Michael, Gardner, Gary: *Toward a Transatlantic Green New Deal*: pp. 11ff.

<sup>243</sup> UNEP: *A Global Green New Deal*, p. 17; French, Hilary, Renner Michael, Gardner, Gary: *Toward a Transatlantic Green New Deal*, p. 12.

<sup>244</sup> French, Hilary, Renner Michael, Gardner, Gary: *Toward a Transatlantic Green New Deal*: pp. 13. (Information as of Feb. 2009).

development funds on energy efficiency and climate-friendly energies.<sup>245</sup> At the global level, UNEP has called for the Global Green New Deal to be used in support of the Millennium Goals, and specifically that one percent of the global GDP (or 25 percent of the global stimulus funds) be used toward a) improving energy efficiency in buildings, b) supporting renewable energies and sustainable traffic systems, c) protecting the ecological infrastructure (especially freshwater systems, forests, soil, and coral reefs), and d) reorganizing agriculture to adopt sustainable methods.<sup>246</sup>

The Global Green New Deal is closely connected with such energy issues as the burning of petroleum and other fossil fuels, which account for a large portion of the carbon dioxide that precipitates global warming. Implementing the Global Green New Deal would thus be an important milestone on the way to a new era of energy use.<sup>247</sup> The concept of the 2000-watt society, supported by the FSPC Energy Ethics study, in which the primary energy use of each resident of Switzerland would be reduced at least three-fold and use of non-renewables would be reduced six-fold, provides a clear vision of how sustainable energy can work in the future. We cannot, however, bring about a 2000-watt society through technical measures alone. Such a shift would require behavioral change as well, particularly a reduction in mobility that would run counter to the current trend. Such a change would ultimately depend on a change in mentality and thus involves significant spiritual and ethical aspects. A pending “efficiency revolution” would lead us nowhere if it were not joined by a “sufficiency revolution” that would entail a profound change in the material consumption that we currently take for granted. We would otherwise just continue to consume larger amounts of energy and resources, and for every two energy-guzzling devices that we use today, we would perhaps use twenty highly efficient devices, which would, however, combine for a much

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<sup>245</sup> French, Hilary, Renner Michael, Gardner, Gary: Toward a Transatlantic Green New Deal: pp. 42ff.

<sup>246</sup> UNEP: Delivering Tomorrow's Economy and Job Market Today. Press release of 9 March 2009. (<http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=573&ArticleID=6103&lang=en&rt=long>)

<sup>247</sup> SEK (Otto Schäfer): Energieethik. Unterwegs in ein neues Energiezeitalter. Nachhaltige Perspektiven für die Zeit nach dem Erdöl, SEK-Studie 1, Bern 2008, p.37, etc.

larger amount of energy consumption. This “rebound effect” applies by analogy to all other material resources as well.

In their support for the Global Green New Deal, the churches have been working toward including issues connected to the international financial and economic order into the broader issue of the fair economic use of our resources. The miraculous proliferation of money without any link to real economic growth cannot continue much longer. The real economy is, however, only real if it serves people in their lives.<sup>248</sup> It is thus by no means a digression from the topic – but its logical end – to conclude this ethical discussion of the financial and economic crises with a focus on the ecological, social, and humanitarian aspects of the global crisis and with a discussion of sustainable development for the future. A stable and efficient financial system would contribute significantly to this much broader goal.

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<sup>248</sup> This term borrowed from Arthur Rich is used by Peter Ulrich as a central idea in his “Integrativen Wirtschaftsethik” (Ulrich, Peter: *Integrative Wirtschaftsethik: Grundlagen einer lebensdienlichen Ökonomie*, Bern 2008).

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The recent financial and economic crises have brought numerous deep-seated problems to light. A stable international financial system, for instance, is entirely impossible when bereft of relationships of trust. Trust is connected to ethical values, which can in turn be tied into political and legal structures (ethics of order), corporate culture (ethical codes), and our individual awareness of personal responsibility. This study follows in the tradition of Arthur Rich and his Protestant economic ethics in its analysis of the financial crises of 2008 and 2010, including practical suggestions as to how ethical values can stabilize the international financial and economic system in the long run – for the benefit of all. From a Protestant perspective, financial ethics must support economic forms that serve people and better their lives. The study fittingly concludes with the idea of a Global Green New Deal, a concept that touches on much more than financial issues alone.

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