

## Ethics and "Disconnected" Capitalism

### **An interview with Helen Alford OP, Dean of Social Sciences at the Angelicum**

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ROME, MARCH 15, 2004 (ZENIT.org).- Ethics in the financial realm are possible and urgent, says a document recently presented at the University of St. Thomas, the Angelicum.

The document, "Finanza internazionale ed agire morale" (International Finance and Acting Morally), was written by researchers and professors from the pontifical and state universities working with the Italian bishops' office on Work and Social Problems.

Dominican Sister Helen Alford, dean of social sciences at the Angelicum, spoke with ZENIT about the main points of the text.

Q: I want my money to be "clean" and to serve just causes. Am I a utopian?

Sister Alford: Not at all! This means, however, that we have a responsibility to educate ourselves as much as we can about the financial system, about how and where money is used, even if we are not experts.

Even some limited knowledge helps us to make more informed decisions about our money. More importantly, however, it means that banks and financial service companies have to have a particularly strong ethic, and governments must regulate financial activities sufficiently, partly because the ordinary person has so little understanding of financial products.

Therefore, Catholics trying to invest wisely would need to find financial advisers that, as much as possible, they can trust, as well as informing themselves about the financial system.

Q: Can speculation be good?

Sister Alford: In the document "Finanza internazionale ed agire morale," we divide financial activity into three areas.

First, there is the good area, what we call the "white" area. Investing in worthwhile businesses is a very good thing to do, for instance.

Second, there is the "black" area, types of financial activity that are clearly wrong, including money laundering and financing of terrorism.

Then there is a very big "gray area" where one needs to evaluate case by case whether the activity is really good or not.

Much speculative activity falls into this area, even though there can be some in the white -- in brief, when it is good, speculation helps investors find the right price for a share or other kind of financial product -- and some in the black area.

Those of us who wrote the document are more or less agreed that speculating on a currency, other than in very limited cases, is usually unacceptable morally. It is not possible to answer your question properly without some detailed examples to evaluate.

Q: Is the stock exchange an opportunity for Catholics?

Sister Alford: Yes, insofar as it facilitates the transfer of capital from those who have money to the businesses who need it for investment and who thereby create products, services and jobs which all contribute to the common good of society.

However, there are three further points here. First, most of the trading in shares on the various stock exchanges concerns existing shares rather than issues of new shares: financial transactions where the same shares are passed from one owner to another. There is no new money going into businesses for investment.

Some of this movement between investors is useful in that it helps find the right price for a share. But much of it is either irrelevant to the real economy -- "real" here means the economy of products, jobs and trade -- or can often be quite damaging to it.

Second, it is almost always the case that only relatively large companies are financed partly through the stock market. Small- and medium-sized businesses also need capital, which they cannot normally access through the stock market. Catholics should also be thinking about the capital needs of small and medium-sized businesses.

Furthermore, the extremely important development of "microfinance" for the very poorest groups in society, despite some of the problems it has had, is another very important area for Catholics, given the Church's commitment to a preferential option for the poor.

Third, and lastly, investment in the stock exchange can be very impersonal; the only thing many investors want through it is a certain return on their investment.

This kind of "disconnected" capitalism is not good enough from the point of the view of Catholic social thought.

Pope John Paul II in the encyclical "Centesimus Annus" talks about the business as a "community of work" in which investors, managers and employees, among others, collaborate with each other in the service of the community.

Catholics who invest through the stock market should be thinking not just about their return on investment, but about what kind of community between investors, managers and workers is being created in the companies in which they invest. Does, for instance, the company have a real commitment to be socially responsible? How are employees treated? And so on.

Q: Are ethical funds still an exception?

Sister Alford: The amount of money invested in stock exchanges through funds that call themselves "ethical" is still quite small, though it is increasing.

But the impact of the ethical funds is more significant than this suggests because they have a wide influence on all funds and fund managers, as well as on companies.

Q: Is the document against the existence of tax havens?

Sister Alford: First, it is not easy to define what a tax haven is. Even the big international organizations have trouble defining them -- the IMF, for instance, prefers to talk about "offshore centers."

Just to give you one example of the problem: If we wanted to list who are the biggest providers of low-tax, offshore financial services, the list would start with the following: London, New York, Tokyo.

Yet these cities are not known as tax havens because most of the financial activity that runs through them does not pass through the special low-tax facilities they offer to some non-residents.

Many rich countries, including the U.S. and countries of the European Union, offer particular tax incentives to particular industries or to companies who invest in particular regions of their countries.

The Organization for Economic Cooperation and Development [OECD] has a program on "Harmful Tax Practices" which lists these forms of special tax treatment which various rich countries offer to non-residents only and that they consider to be harmful to other countries.

However, so far, it has not done anything about these practices, and instead has focused on the "classical" tax havens, most of which are poor countries in themselves.

One cannot help thinking here that this is, at least in part, due to the fact that the OECD is controlled by the rich countries, like other international organizations. However, there is also another important reason behind the OECD strategy: In the case of the special tax incentives offered

by rich countries, there is still normal regulation of these activities.

This means, for instance, that certain principles are followed, such as the "know your customer" principle -- so it is difficult for people or organizations to operate under fictitious names, for instance -- and the transparency principle --which includes things like , under certain circumstances, giving information about accounts to the police without the owner of the account being informed.

In the case of the well-known tax havens like the Cayman Islands, Niue or Bermuda, the difficulty has been more lack of transparency and general lack of regulation than anything else.

In other words, people have been able to set up accounts with fictitious names and thus hide their money from local tax authorities, use it for illicit means like terrorism, or use the account as a way of laundering drug money or money received from other illicit activities.

Obviously, all these activities fall into the "black" area of finance, and the document is against them.

The main criticism the document makes is of people who use tax havens, because they use them only to avoid paying taxes which their government has a right to levy on them as members of society who benefit from being part of that society.

What this means is that the tax burden becomes greater on those who do not use tax havens, and, surprise, these people are generally the poorer members of society. This kind of behavior on the part of wealthy people is really very unjust, and should be something considered in the "black" area of finance for a Catholic.

Q: Are deontological codes useless in the financial sphere?

Sister Alford: No, they are very important, but they cannot do everything. They need to be supported by proper industry and government regulation.

Furthermore, they also need to be used by people who are able to use them well -- this means, in the terms of Catholic social thought, that these codes are used by "virtuous" people, those who are able to make effective use of good means towards a good end.

Q: Is it possible to know if our funds serve to buy arms, drugs, pornography, and if so, to report it?

Sister Alford: Most reputable funds publish reports and will inform their customers where they are investing, including naming specific companies, should their customers ask them about this.

Therefore, my advice is to use financial advisers who are reputable and who respect a strong ethical code, and also

to check with them where your money is going, as we said in answer to the first question.

The more you can inform yourself about the financial system the better, too.

That is why studying the social sciences, including economics and finance, in connection with ethics, like the stu-

dents in the School of Social Sciences at the Angelicum do, is so important.

In every generation, we have to see anew how the living, vibrant social tradition of the Church can operate in the new social, economic and political circumstances in which the Church finds herself.

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