Lectio inauguralis
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Finance and Catholic Social Tradition

Introduction

I have chosen a fascinating theme: finance. Money is a very strange thing! Why is it so attractive? Be it in the form of metal coins or banknotes, of book money, cash-free money or digital bitcoins, we can neither eat it, nor immediately use it as a tool. It is a symbol, and yet, political power is at its command, nations are under its sway, armies march at its behest, and we all scramble after it. What is it that makes money so powerful, that overcoming its temptation is practically a miracle! St. Thomas Aquinas comments on the passage of Mt, in which Jesus asks Peter to catch a fish and to give the *stater* in its mouth as temple tax: whoever constantly talks of money and wealth has a coin in his mouth. Whoever converts such a person and removes the desire of money from his head has miraculously caught a fish and fulfilled Christ's command. He has freed the person from slavery to money.[1]

On the other hand, we need money. Any good project in this world—for instance, a University—needs money. At the beginning

[1] See Thomas Aquinas, *Super Evangelium S. Matthaei Lectura*, edited by Raffaele Cai, Turin – Rome: Marietti, 1951, comment on Mt 17:24-27, n. 1483, p. 226

of this University, a colleague jokingly (but also half seriously) described to me its (fictitious) coat of arms: a hippopotamus in a river, with its mouth wide open, and a man standing on a bridge over it, pouring a sack of gold into its mouth! I will leave the interpretation of this image to your imagination, however, one thing is clear: at some point, the hippopotamus has had enough. More would be greed; more would damage, not serve. Money is a bifrontal Janus: it has a good side and a very dangerous one.[2]

Pope Francis, in his pastoral speeches, reflects this ambiguity. Speaking to representatives of Italian cooperatives the Holy Father said:

"It takes money to do all these things! Cooperatives in general are not established by large capitalists, but rather it is often said that they are structurally undercapitalized. Instead, the Pope tells you: you must invest, and you must invest well! In Italy of course, but not only, it is difficult to obtain public funds to compensate for a shortage of resources. This is the solution I propose to you: bring good means together with determination in order to accomplish good works. Collaborate more among cooperative banks and businesses; organize resources to enable families to live with dignity and serenity; pay fair wages to workers, investing above all in initiatives that are truly necessary."[3] On the other hand, the Pope has warned against the idolatry of money time and again. With St. Francis he has called it the "devil's dung", and cries: "Money must serve, not rule!"[4] In an interview, Pope Francis explained further: "I am considerably allergic to all things economic, because my father was an accountant and when he couldn't finish his work at the factory, he brought the work home, on Saturday and Sunday; old books with gothic titles. My father worked… and I would just watch

[2] This was already expressed in a striking way by the Sephardic Jew José de la Vega, who in 1688, only about 75 years after the birth of the first *Stock Exchange* in Amsterdam, characterized finance in the following words: "un negocio enigmatico, que es el mas real y el mas falso que tiene la Europa, el mas noble y el mas infame que conoce el Mundo, el mas fino y el mas grossero que exercita el Orbe (…) sin riesgo podeis ser rico…", José de la Vega, *Confusión de confusiones. Diálogos curiosos entre un filósofo agudo, un mercader discreto, y un accionista erudito*, Amsterdam, 1688 (RP Maxtor, Valladolid 2009), 17.

[3] Francis, *Address to Representatives of the Confederation of Italian Cooperatives*, 2015.

[4] Francis, Apostolic Exhortation, *Evangelii Gaudium*, n. 58.

him.... I am quite allergic."[5] Accountancy, which is an important service for any business, seems to have caused an allergy in Pope Francis, and he is not alone with this difficulty.

In this talk I would like to briefly tackle the questions: What is this allergenic finance? Why is such a useful institution generally ill-reputed? Why is it specifically ill-reputed in the Church? And what can we do about it?

What is finance?

Money has existed in the most primitive societies in the form of seashells, cattle, pieces of metal, finally coins and the forms of money we use today. Since its invention money has played a decisive role in exchange economies. However, when we today refer to finance we mean not simply money but financial capitalism as it has developed in the Western world. The financial sector has grown enormously over the last decades due to globalization and the reduction of barriers for exchange. In financial capitalism financial assets acquire prevailing importance to the point of determining the performance of the economy. This, as such, is not bad; rather, it is typical of advanced or developed economies.[6]

Ideally speaking, financial markets fulfill three important tasks:

1. They allocate capital through fix income, credit and equity markets. They thus channel savings to those who need funding in order to invest;
2. They transfer or distribute risks (mainly through *futures* and *options*): in simple terms, a farmer can sell his future harvest at a fixed price now, thus avoiding the risk of a decline in prices. At the same time, he risks losing out if prices rise;

[5] Francis, *In-Flight Press Conference of His Holiness Pope Francis from Paraguay to Rome*: http://w2.vatican.va/content/francesco/en/speeches/2015/july/documents/papa-francesco_20150712_paraguay-conferenza-stampa.html

[6] Instead of deploring this fact or rejecting financial capitalism, the Nobel prize winner in economics Robert J. Shiller studies how finance could become "democratic." By this he means a transparent system that benefits society as a whole on the basis of widespread information. See Robert J. Shiller, *Finance and the Good Society*, Princeton and Oxford: Princeton University Press, 2013 (paperback edition; first edition 2012), 1-15.

3. As all free price mechanisms they create information on future market developments (mainly through and derivative instruments like *swaps*).

These tasks involve individuals, corporations, and governments, in order to raise the financial resources they need. We thus speak of personal finance, corporate finance, and public finance.[7] Finance is an indispensable element of modern free market economies. In order to function well, the financial market must be liquid. This means that the owner of a financial position can trade it with ease, if for example one wishes to diversify his or her portfolio to reduce risk. Liquidity is important because it reduces transaction costs and the costs of capital in general, thereby encouraging investment, generating more profits, raising wages, and creating wealth that can be used to address social and environmental needs.[8] In the case of Greece we have seen the dramatic consequences of a reduction in liquidity as a result of the Greek banking system and stock exchange being closed.

Across the political spectrum thinkers agree that well functioning and ethically sound financial markets, systems, and institutions are integral to economic growth and wellbeing.[9] Economic research provides empirical evidence, that finance fosters growth, promotes entrepreneurship, favors education, alleviates poverty and reduces inequality.[10] Development economists share the con-

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[7] Cf. Klaus Spremann and Pascal Gantenbein, *Finanzmärkte. Grundlagen, Instrumente, Zusammenhänge*, Konstanz – München: UVK – UVK/Luzius, 2013; John R. Boatright, "Ethics in Finance," in John R. Boatright (ed.), *Finance Ethics. Critical Issues in Theory and Practice*, Hoboken, N.J.: Wiley, 2010, 3–19, 3.

[8] Cf. Spremann and Gantenbein, *Finanzmärkte*, 36.

[9] See for instance Joseph Stiglitz, 2010, "Financial Innovation: Against the motion that financial innovation boosts economic growth," *The Economist,* February 23–March 3. http://www.economist.com/debate/days/view/471: "over the long sweep of history, financial innovation has been important in promoting growth."; and Thorsten Beck, "The Role of Finance in Economic Development: Benefits, Risks, and Politics," in Dennis C. Mueller (ed.), *The Oxford Handbook of Capitalism*, Oxford: Oxford University Press, 2012, 161-203, 174: "There is strong historical, theoretical, and empirical evidence for a positive role of financial deepening in the economic development process."

[10] See Luigi Zingales, "Does Finance Benefit Society?" http://www.nber.org/papers/w20894, 2.

viction that poverty is due to a lack of financial institutions rather than their existence.[11]

Despite all its positive effects, however, the last decades have also been sobering in regard to finance, and the fragility of the financial system has unequivocally come to the fore in bank runs, moral hazards, boom-and-bust cycles, systemic distress, bank failures, and currency crises.[12] Within the last 15 years there has been an excessive expansion of credit accompanied by an excessive monetary expansion in general. There has also been a terrifying amount of unethical conduct in the financial sector: "not a day passes without a news of a fresh financial scandal."[13] Unfortunately the ethical attitudes among the finance community do not seem to have improved.[14] The whole financial system seems to have blown up in our faces since 2008 in a series of financial crises that are exacerbated by failed monetary and fiscal policies of governments. As the IMF stated in 2011: "At the heart of the global financial crisis was an abrupt discovery of credit risk."[15]

As I am not an economist, I must rely on the writings of those authors whom I consider trustworthy. However, with Thomas Piketty, I hold that the economy is too important to be left to the economists alone.[16] We should all make an effort to understand

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[11] I particularly refer to Abhijit V. Banerjee and Esther Duflo, *Poor Economics. A Radical Rethinking of the Way to Fight Global Poverty*, New York: Public Affairs, 2011, especially 157–181. Their empirical studies show, among other things, the enhancement of development by Microcredit and its limits. They concur with many others that finding ways to finance medium enterprises is "the next big challenge for finance in developing countries" (181). See also Niall Ferguson, *The Ascent of Money. A Financial History of the World*, New York: Penguin Press, 2008, 13.

[12] See Beck, *Role*, 174-182.

[13] Zingales, *Finance*, 2. In table 1 (41f), Zingales reports that over the last two years the Financial Institutions have had to pay $139 billion in fines. Something must have seriously gone wrong!

[14] Since their last survey in 2013, Labaton Sucharow LLP report a marked decline in ethics, particularly among the most junior professionals: "numerous individuals continue to believe that engaging in illegal or unethical activity is part and parcel of succeeding in this highly competitive field." Labaton Sucharow LLP (ed.), "The Street, the Bull and the Crisis. A Survey of the US & UK Financial Services Industry," presented by The University of Notre Dame and Labaton Sucharow LLP, Notre Dame: 2015, 3.

[15] International Monetary Fund, Global Financial Stability Report, Washington, April 2011, 12, quoted from Carlo Bastasin, *Saving Europe. Anatomy of a Dream*, Washington: Brookings Institution Press, 2015, 257.

[16] Cf. Thomas Piketty, *Capital in the Twenty-First Century*, Cambridge, MA – London: Harvard University Press, 2014, 2f.

what is being done with our money. We all benefit from finance. We all have to foot the bill, if something goes badly wrong, and we should all therefore as taxpayers have an interest in the regulation of financial institutions.

Without endorsing his proposals for fiscal policies, the findings of Piketty on the reemergence of a class of rentiers—i.e. of people who can live off the rent of capital—is hardly surprising.[17] Academics who are clearly in favor of capitalism have affirmed that "the link between the size of the financial sector and economic growth weakens – or even reverses – once countries become rich and reach the technological frontier. Now rent seeking in financial markets can lead to great private gains but have little impact on economic growth. Growth is actually harmed to the extent that talented risk takers are drawn into the financial sector to engage in rent transfers, rather than starting businesses and engaging in rent creation."[18] These authors acknowledge that "there is no theoretical reason or empirical evidence to support the notion that all the growth of the financial sector in the last forty years has been beneficial to society," because a major component of the growth of the financial sector has been "pure rent seeking," i.e. activities that are only profitable for individuals without any correspondence to work or service to others.[19] Subprime mortgages and NINJA loans were artificially promoted (also—and forcefully so—by government interventions, which unfortunately are sometimes seen only as the solution and not as part of the problem) in order to create new highly complex (and highly profitable) financial securities (RMBS, CDOs, etc.), sometimes through specifically created Special Purpose Vehicles, and then hedged by Credit Default Swaps, in order to offer financial investment to the immense and increasing amount of capital in pension funds, sovereign funds, endowment funds, etc. All this led to what seems to me to be an enormous financial bubble of the whole Western economic system.

Why is finance generally ill-reputed?

The dark sides alone, however, do not suffice, I think, to answer the question as to why something as useful as finance is viewed

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[17] Three out of four parts of Piketty's book analyze this development.

[18] Dennis C. Mueller, "Introduction: The Good, the Bad, and the Ugly," in Dennis C. Mueller (ed.), *The Oxford Handbook of Capitalism*, Oxford: Oxford University Press, 2012, 1–14, 7

[19] See Zingales, *Finance*, 3.

in such a dubious ethical light. Many other industries, like the pharmaceutical or the chemical industry, not to mention politics, have had terrible scandals without anyone doubting their principle justification and need. In the case of finance, however, general perception is different. Why? Whereas people might not like Bill Gates, they can immediately appreciate the advantages of having a PC and using the Internet. They cannot, though, in the same way immediately feel the advantages of a liquid financial market, as long as it works. And when things go awry, the public usually blames the bankers, as in the present crisis. The reputation of finance is very low because it is seen as serving private interests and not the public good. This creates "envy and public resentment. (...) there is a natural public dislike towards finance."[20] This is dangerous because "without public support, the best form of finance – the competitive, democratic, and inclusive finance – cannot operate."[21]

Here I think the Church has an important role to play through her social teaching and through the exemplary use of her own material assets. Business education needs ethics, and it needs the wisdom of Christian faith. Physicists teach about atoms but they do not teach atoms. If they did they would have to be concerned about the way atoms react and change the universe. Professors of economics and finance do not only teach about finance but they teach the people who will put their knowledge into practice. They change the students, and unfortunately, against their good intentions, not always for the better.[22] On the other hand, when we, as theologians, engage with the field of economics we should be positive, fair and balanced in our judgments and not condemn the profession as a whole. We should bear in mind, that good economists, and scientists in general, are cautious about strong affirmations. They seek empirical data and evidence, and work with inductions, formulate hypotheses, are wary of apodictic judgments, especially when they are deductive. We must be aware of this, because many of our statements are deductive, and unfortunately also quite apo-

[20] Zingales, *Finance*, 5.

[21] *Ibid.*, 6.

[22] A series of studies shows that the teaching of business and economics, as it is done now, makes students more selfish than the average. Cf. Frey and Meier, 2003, "Are political economists selfish and indoctrinated? Evidence from a natural experiment", Economic Inquiry, 41:448-462; and Wang Long, Deepak Malhotra, and J. Keith Murnighan, December 2011, "Economics education and greed," *Academy of Management: Learning Education,* 10 (4), 643-660.

dictic. Thus they are not taken seriously by economists, at least not as scientifically relevant statements. We should also bear in mind that the best argument is that of our own good example. "The Church's agencies in this area need to be exemplary as the laity have every right to expect that their donations are properly managed and wisely expended for good purposes."[23] Therefore it is increasingly important to offer basic education on economics, management, and finance for ecclesiastics, together with the social teaching of the Church and *business ethics*.

Why is finance specifically ill-reputed in the Church?

There is diffused skepticism about finance in the Christian tradition, especially the Catholic tradition. St. Josemaría Escrivá, for instance, had to overcome quite some difficulties to convince the Holy See that lay Christians who earnestly strove for holiness could work in business and finance.[24] This should not surprise us: St. Josemaría had to break molds of spirituality that had reduced holiness to the religious model. Thomas Aquinas, for example, had taught that clerics and religious should refrain from commerce, because they should not only avoid what *is* evil but also what *seems* to be evil, as was – according to him – the case of business, because of the vices frequently connected with it.[25] However, this attitude does not stem from Scripture or the Church Fathers. To the contrary, the Church Fathers expressed the History of Salvation in the monetized language of the ancient commercial society they lived in. "Redemption," the "economy of salvation," and other expressions and parables are taken from business language. St. Augustine, the greatest authority of Latin Antiquity, defended commerce against wholesale condemnation: the vices observed in commercial dealings were to be blamed on the individual merchants, not on commerce as such.[26]

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[23] Letter Cardinal Pell, April 24, 2015 on the project of a School of Church Management at the Pontifical University of the Holy Cross.

[24] See Amadeo de Fuenmayor, Valentín Gómez-Iglesias, and José Luis Illanes, *El itinerario jurídico del Opus Dei. Historia y defensa de un carisma*, Pamplona: EUNSA, 1989, 226, esp. FN 92.

[25] Cf. Thomas Aquinas, *Summa Theologiae*, II-II, q. 77, a. 4 ad 3; also q. 187, a. 2. In his rule of Benedictine monastic life, Benedict allows the monks to sell goods for their own livelihood but at a price below the market average, in order to give all glory to God. Cf. Rule of Benedict (various editions), number 57.

[26] See Augustine, *Enarr. in Psalmos*, ps. 70, 15; PL 36,886; quoted e.g. by Thomas Aquinas, *Summa Theologiae* II-II, q. 77, a. 4 sed contra.

It was in the feudal period that a negative evaluation of commerce entered the Christian tradition. The feudal society was ordered according to a principle of "hierarchical representation": the knights fought for all and defended all, the monks and nuns prayed and did penance for all, and the farmers worked for all and fed all. The cultural value horizon created by such a social order had no space for the merchants who seemingly did nothing for others, only putting money in their pockets. Thus the *palea* "*Eiciens*" taken from the Ps-Chrysostomus' comment on Mt, was introduced into the *Decretum Gratiani*: just as Jesus had expelled the merchants and moneychangers from the Temple, the Church had to be liberated from businesspeople![27] Such a harsh judgment could not be maintained for long.

However, the deeper reason for the Church's wary stance toward commerce and finance, a reason that went beyond the limits of feudal society, was her concern for avarice or greed, defined as "immoderate love of possession."[28] Ever since Gregory the Great had systematized the capital vices,[29] there was an ongoing debate among the scholastic teachers, whether pride or avarice was the worst sin of all. The Bible offered arguments for both positions.[30] In any case, in Scholastic eyes merchants and especially financiers were in constant danger of avarice because they worked for profit. They wanted to increase their wealth. The profit motive as such was condemned as avarice.

Nonetheless, there is no condemnation of money either in the Medieval Dominican or the Franciscan School. In Aristotelian manner money was seen as a measure of value, as a means of exchange and as a store of wealth.[31] Nor was there any condemnation of money and finance as such in the School of Salamanca, which incorporated the *Schola non affectata* of the "*nominales*" of

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[27] For a description of this process, see Diana Wood, *Medieval Economic Thought* (Cambridge: Cambridge University Press, 2002), 110-120; Martin Schlag, "The Encyclical *Caritas in veritate*, Christian Tradition and the Modern World," in *Free Markets and the Culture of Common Good*, ed. Martin Schlag and Juan Andrés Mercado, (Heidelberg: Springer, 2012), 93-109.

[28] Thomas Aquinas, *Summa Theologiae* II-II, q. 118, a. 1 c.

[29] Gregory the Great, *Moralia* XXVI, 28: PL 76, 364-5.

[30] Eccl 10:15 ("initium omnis peccati est superbia"), 1 Tim 6:10 ("radix enim omnium malorum est cupiditas").

[31] See Fabian Wittreck, *Geld als Instrument der Gerechtigkeit. Die Geldlehre des Hl. Thomas von Aquin in ihrem interkulturellen Kontext*, Paderborn: Schöningh, 2002.

Paris and the positive elements of Renaissance humanism into the Catholic tradition.[32]

This is important for the topic at hand because a semantic shift regarding avarice had taken place in the civic humanism of the Renaissance, particularly in Florence. The new upward mobility in society had justified the profit motive and the desire for greater wealth. The boundary for growth had been pushed forward, and the answer to the question when enough was enough had become grey.[33] In this new cultural horizon, finance could be seen in a slightly more positive light, albeit fraught with moral peril. Actually, Domingo de Soto, the author of the first textbook of moral theology as an independent discipline in the modern sense, explained that the reason for his literary endeavors were the complexities of finance and the need to orientate Christian conscience in the field of contemporary business.[34] Finance thus is at the origin of modern moral theology!

There is, however, one great and decisive difference between the Scholastic and some modern views on money. In the Medieval tradition, money is placed at the service of the so-called "economic cycle": Goods are exchanged for other goods with the help of money as a means of exchange and as a measure of value between disparate commodities. The economic cycle thus is Goods (G) – Money (M) – Goods (G). Goods are the aim and the measure of money. Money itself is measured and limited by goods. There is no need for more money than goods available.

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[32] An excellent overview is found in Juan Belda Plans, *La Escuela de Salamanca*, Madrid: BAC, 2000.

[33] Such Renaissance authors were, among others: Poggio Bracciolini, "De avaricia," in *Prosatori Latini del Quattrocento,* edited by Eugenio Garin, Milano – Napoli: Riccardo Ricciardi Editore, 1952, 249-301; Leon Battista Alberti, *I Libri della Famiglia*, ed. Ruggiero Romano and Alberto Tenenti, Einaudi, Torino 1969; Benedetto Cotrugli, *Il libro dell'arte di mercatura*, ed. Ugo Tucci, Venezia: Arsenale Editrice 1990; Matteo Palmieri, *Vita civile*, edited by Gino Belloni, Firenze: Sansoni, 1982. For a general description, see Marco Pellegrini, *Religione e Umanesimo nel primo Rinascimento da Petrarca ad Alberti*, Firenze: Le Lettere, 2012; Odd Langholm, *The Merchant in the Confessional. Trade and Price in the Pre-Reformation Penitential Handbooks*, Brill, Leiden – Boston (2003), 269f.

[34] Domingo de Soto states this in the prologue to Book VI of his *De iustitia et iure*, edited by Instituto de Estudios Políticos, *De la justicia y del derecho*, Madrid 1968, (p. 505). His stance on financial practices remains negative: they were full of "malice, plague, and poison," Soto, *De iustitia et iure*, lib. VI, *q.* VIII, *a* 1 (581).

This explains why just price and just wage were and are so central for the Catholic tradition. I am aware of the great difficulties attached to these notions and of the debates on the varying definitions of value. However, what the idea of justice in business fundamentally expresses is that there is a measure beyond money: goods should be truly good and services truly serve. Thus, the Scholastics with Aristotle opposed the so-called "chrematistic cycle", in which money in itself is the aim. Money is given for goods in order to acquire more money: M – G – M. In such a cycle there is no objective end. Goods are measured by needs or at least wants. Money is pure potentiality and is infinitely expandable.

The rejection of the chrematistic cycle is one of the reasons for the canonical and theological condemnation of usury. For nearly a thousand years of Church history any form of interest on loans was condemned as intrinsically evil.[35] A thorough discussion of the history, development, arguments and debates of this prohibition is far beyond the scope of the present essay. However, this much must be said: When Thomas Aquinas and the other Scholastic teachers came to reflect on the matter, the condemnation of usury was a plurisecular tradition of the Church, confirmed by Papal documents.[36] It thus had become a question of faith, but the medieval theologians argued for it rationally from a natural law perspective. Even such sympathetic modern scholars as Raymond De Roover, who reintroduced medieval economic ethics into contemporary debate, have accused scholasticism of having fallen into a "quagmire of contradictions"[37] on this topic.

However, this judgment perhaps misses the whole point. In the relevant question of his book *De Malo*, Aquinas lists 21 arguments against interest. Twenty of these arguments are not necessarily the

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[35] Its long and complex history has been well described by John T. Noonan Jr., *The Scholastic Analysis of Usury*. Cambridge: Harvard University Press, 1957; Gabriel Le Bras, "Usure." *Dictionnaire de Théologie Catholique* XV/2 (1950): 2316-2372.

[36] The Second (1139) and the Third Lateran Councils (1179) prohibited usury and declared that this condemnation was revealed by the Bible. The *Decretum Gratiani* (ca. 1159) dedicated a special section to it, repeating the prohibition. Also Urban III, in Letter *Consuluit nos* (between 1185 and 1187), DH 764, was very influential because it applied Lk 6:35 to usury. See Noonan, *Scholastic Analysis*, 18–20.

[37] Raymond de Roover, "Scholastic Economics. Survival and Lasting Influence from the Sixteenth Century to Adam Smith." In *Business, Banking, and Economic Thought in Late Medieval and Early Modern Europe. Selected Studies of Raymond de Roover*, edited by Julius Kirshner, 306ss. Chicago and London: The University of Chicago Press, 1974, 318.

points Thomas himself would make, but rather refutations of arguments brought forward in favor of interest by others. In his refutations Thomas does repeat the general scholastic doctrine on usury but consistently refers to his own argument of "consumptibility," [38] which was very influential throughout scholasticism (except in Duns Scotus and his school). Aquinas points to this argument as the justification underlying all the rest. Money is sterile in a *moral* sense: money cannot produce money but is meant to be a means of exchange for a useful good. "The use of money is the same thing as money itself," wrote Aquinas. Money had no other value than when exchanged. Therefore, counting substance and use separately is sinful and usurious.[39] The use and ownership of money in this argument are indistinguishable. The essence of money, according to Aquinas, is its consumption (hence the argument from consumptibility). It does not have any other use. Thus, having to pay back more than what one has received, merely for having used this money, means paying twice. From a modern point of view, anybody slightly acquainted with economics will understand that the notions Aquinas obviously lacks are that of the opportunity costs of liquid funds and of the default risk of the debtor. Interest compensates the creditor for these costs.

From this practical commercial and financial problem of evident costs the Catholic tradition developed the distinction between mere money and capital.[40] When a merchant invested money it acquired seminal character: it became an instrument, grew, and bore fruit. When the merchant gave out a loan from his capital, he was thus entitled to interest (not usury!) in three cases, which were called "extrinsic titles": *poena morae, damnum emergens*, and *lucrum cessans*. These extrinsic titles when combined with an insurance contract and a contract of *societas*, in practical terms, enabled the payment of interest in commercial dealings, however excluded private consumer debt that was not aimed at fruitful

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[38] Aquinas, *De Malo*, q. 13, a. 4; *Summa Theologiae,* II-II, q. 78.

[39] Aquinas, *De Malo*, q. 13, a. 4 c; cf. Odd Langholm, *Economics in the Medieval Schools: Wealth, Exchange, Value, Money & Usury according to the Paris Theological Tradition, 1200-1350*. Leiden: E.J. Brill, 1992, 243.

[40] Particularly important was the Franciscan Peter John Olivi (1248-1298), who introduced this distinction, see his *Usure, compere e vendite: la scienza economica del XIII secolo*, ed. Amleto Spicciani, Paolo Vian, and Giancarlo Andenna (Novara: Europia, 1998). This book contains Peter Olivi's *Tractatus de emptione et venditione, de usuris et de restitutionibus*, written in the 13th century, 69ff. See also the edition by Sylvain Piron, *Traité des contrats*, Paris: Les Belles Lettres, 2012.

investment. This typically "Catholic" form of finance was in force until the end of the 18th century, and as late as 1745 Pope Benedict XIV restated it in his encyclical *Vix pervenit*.[41] I am not arguing for a return to such a regime, but for the wisdom of the insight into the difference between money and capital.

I think we need to reflect on the moral dimension of debt, credit and monetary expansion, particularly the illegitimacy of pure consumer credits. I am not referring to an occasional overcharging of a credit card or the purchase of real estate or of a car through sustainable and realistic loans. What I have in mind is a style of life where one habitually lives beyond his or her means, and the general atmosphere of consumerism that induces private debt.[42] I also consider excessive public debt as a real evil that imposes the burdens of contemporary opportunist policies and intemperateness on future generations. Public debt is one of the major sources of rent-seeking. The rich who have capital enough to buy bonds receive their annual interests from the taxes paid by the whole population.[43] Building a normative barrier against credit expansion and monetary expansion, against the induction to foolish private debt and against the imposition of sky-rocketing public debt would also be advisable from the viewpoint of fundamental theology because it would more clearly maintain the continuity in Catholic moral teaching. The condemnation of usury in the past, for over a thousand years, was really very strong and absolutely unambiguous as an intrinsically evil act. At present we define (and condemn) usury as disproportionate interest rates as charged by loan sharks.[44] Would it not be more adequate to make the deeper distinction between money used for consumption (and therefore not capable of interest) and capital destined to investment (and therefore with interest)?

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[41] See DH 2546-2550. Islamic finance today still functions on these principles in order to comply with the prohibition of riba.

[42] See the profound historical analysis by Brad S. Gregory, *The Unintended Reformation. How a Religious Revolution Secularized Society*, Cambridge, MA – London: Harvard University Press, 2012, particularly 235–297. Gregory posits an intrinsic link between capitalism and consumerism.

[43] In the dawn of the modern economy, Adam Smith had already foreseen the growth of public debt, and David Hume had warned: "either the nation must destroy public credit or public credit will destroy the nation." ("Essay of Public Credit" 360-I, quoted from Christopher J. Berry, *The Idea of Commercial Society in the Scottish Enlightenment*, Edinburg: Edinburg University Press, 2013, 183.)

[44] Pope Francis, in his *Speech Following the General Audience*, January 29th, 2014, has called usury in this sense a "dramatic scourge."

Such a practice of debt avoidance would also echo the Bible's warning: "the borrower is the slave of the lender."[45]

The Redemption of Finance

Following the logic of the Incarnation of Christ, Christians must not withdraw from this world but engage in its temporal structures, sanctifying them from within through the light of truth and the warmth of love.[46] Christ has redeemed the whole of reality, which includes finance, and continues to do so through Christians. However, what does such a calling specifically mean for a Christian working in finance? Is there anything he or she must do beyond obeying general ethical rules that are valid for everyone independently of their faith? Is there such a thing as Christian finance, comparable to the Islamic finance movement, which would be the natural haven for devout believers? With this last question I am not referring to financial institutions that manage the Church's material assets or sponsor Church activities, but posing the question whether there are specifically Christian technical rules for finance, or typically "Christian financial products" or forms of investment that are obligatory for Catholics. I don't think there can be anything of this kind or anything analogous to Islamic finance in the Christian religion because Christianity believes that faith is truth and that truth is one and universal. At the same time, however, practically speaking, being a Christian should make a big difference.

Today's free market economy is the result of a process of secularization, i.e. of the emancipation of commercial activities into the public sphere out of Ecclesiastical tutelage. However, our Western markets are characterized by moral values of Christian origin: all persons can participate in them on the basis of equality in dignity and rights; and economic activities must not infringe on human rights. In the past, in non-Christian societies there were markets, commerce, and trade, but they were not based and structured by the same values but on inequality and disrespect of dignity or freedom. Without turning a blind eye to similar phenomena existing in the present, our present economy is definitely not based on slavery, on privileges of rank or caste, on conquest, etc. Contemporary non-Christian societies participate in the globalized market of the West, and play according to its rules. Among these rules is human

[45] Prov 22:7.
[46] Second Vatican Council, Dogmatic Constitution *Lumen Gentium*, 30-38.

dignity, which has become a social principle thanks to Christian faith. Equality and liberty are its immediate consequences. Christians today should therefore be leaders of ethical improvement and social innovation. This implies avoiding investments in unethical activities (for instance, abortion, contraception, drugs, child labor, but also socially unjust or ecologically damaging production), and requires the moral strength to reflect on the avoidance of foolish private and public debt, as stated above. In many cases, the ethical decision will not be clear. The color of the markets is oft not black and white but grey: frequently investors will have to apply the rules to an action with double effect or the moral rules of material cooperation. Christian behavior should also put the central Christian commandment into effect: love of God and neighbor.

Along this line, Benedict XVI posed the challenge of introducing love into social macro-relationships, thus expanding its limits beyond the sphere of family or friends.[47] One way of doing this, for example, is charitable investment decisions (not donations but *impact investment*). It is not possible to list all the possibilities. In any case, Christians have a lot to contribute, advocating the anthropological dimension of money as material freedom and as medium of virtuous relationships. The cardinal virtues, practical wisdom, justice, temperance and courage are all very necessary in finance in order to correctly assess financial products as means and as ends, to rein in greed and control our "animal spirits" or "irrational exuberance".

I find it very telling that the main representatives of virtue ethics are skeptical of the possibility of virtue in contemporary finance. Alasdair MacIntyre has recently published an article, in which he excludes the possibility of being both virtuous and making money in the present system of advanced capitalism.[48] According to this important moral philosopher the whole financial sector is "a school of bad character." He explicitly underscores that he is not saying that all people working there are bad, but that being ethical is a disadvantage in their field. "Just as the successful training of a boxer will destroy his prospects as a violinist, so the inculcation of qualities of moral character is no way to prepare someone for a rewarding career in the financial sector. Ethics is not just irre-

[47] Benedict XVI, Encyclical *Caritas in veritate*, 36.

[48] Alasdair MacIntyre, "The Irrelevance of Ethics," in Andrius Bielskis and Kelvin Knight, *Virtue and Economy. Essays on Morality and Markets* (Farnham: Ashgate, 2015), 7–21, 7f.

levant. It is a probably insuperable disadvantage."[49] Why? Because—says MacIntyre—*traders* have to be too self-confident, they are apt to fail as virtuous *risk-takers*, unable to distinguish adequately between rashness, cowardice and courage. Their understanding of shared common goods is inevitably and radically defective because they are held strictly accountable for short-term successes. All of this is opposed to the virtues.[50] MacIntyre is against withdrawal from the world but does not seem to be able to accept the present world either. His proposal is to begin all over again, understanding the financial sector as both an engine of growth and a "perpetrator of great harms and continuing injustices."[51] From a combination of Marx and Aquinas he draws up a series of principles for this new beginning.

I agree with MacIntyre's distinction between external and internal goods, and his notion of practice and institution. His books have made a great impact on me. It is a pity that he cannot apply his own criteria to business. For this reason I agree with Hartman (and disagree with MacIntyre) that the motive of profit does not on principle destroy the pursuit of the internal goods of practices. In a similar way, the goal of the safety of the polis does not undermine martial courage. I too consider management to be a practice that can be aimed at the common good through a sort of leadership that encourages social capital.[52] Even Hartman, though, is very critical of the financial sector as it has taken shape over the last decades. Finance has formed a "toxic brew" of institutions, which do not support a virtuous life.[53]

Systemic unease about finance seems to prevail among ethicists. Structural or systemic evils seem to be so pronounced that they are seen to poison virtuous life. Perhaps this unease also explains why the approaches in Finance Ethics thus far have been mainly norm-oriented, not based on virtues.[54] Rules are certainly the first step to drain a moral swamp. In this sense structural reforms are certainly necessary: Financial institutions should not be able to regularly make profit off of the losses of clients; they

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[49] *Ibid.,* 12

[50] *Ibid.*, 10–12.

[51] *Ibid.*, 16f.

[52] See Edwin M. Hartman, *Virtue in Business. Conversations with Aristotle*, Cambridge: Cambridge University Press, 2013, 161-188.

[53] Hartman, Virtue,186.

[54] See for instance John R. Boatight, *Ethics in Finance*, Malden - Oxford: Wiley – Blackwell, 2014.

should do less business of their own and concentrate on the service to their clients as their main source of revenue. However, in addition to rules, virtues are called for. [55] Financial instruments and products can without a doubt be good, and financial operators who work together in an atmosphere of trust and cooperation with one another and with their clients pursue internal and external goods. As long as it does not jeopardize or condition higher internal goods, the pursuit (also) of profit does not exclude virtuosity. To the contrary, under normal circumstances, profit might well be an indicator of excellence (another word for virtue), even though it is obviously not sufficient. The praxis of making a violin, for instance, cannot be excellent if the violin is not good: good *poiesis* is a necessary but not sufficient condition for good *praxis*.[56]

The possibility of leading a virtuous life can encourage Christians who are active in finance to evangelize their walk of life. Evangelization is a program of cultural transformation that starts with the affirmation of the goodness of what exists. Then it proceeds to cleanse it of its sinful elements.[57] This second step, the cleansing process, unfolds in three actions: the proclamation of values (or practical truths), offering exemplary practices (virtues, best practices), and the creation of institutions.[58]

Religious enthusiasm alone and well-intentioned programs from the core of the Gospel can be very dangerous for political and economic life if they lack truth and skill. The plumbing in a house and the hidden wires in its walls are not nice to look at and are very complicated and intricate. Nobody should tamper with them unless he is a specialist – otherwise he would leave our common house in a mess! The specialists, in turn, must serve the people living in the house and serve their needs and purposes. They will fulfill their task well if they recognize what is good for them, abide by the rules, and are virtuous in their work.

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[55] In the sense of a combination of rules and virtues, see also M. A. Santoro – R. J. Strauss, *Wall Street Values. Business Ethics and the Global Financial Crisis.* Cambridge University Press, Cambridge 2013.

[56] Cf. Hartman, *Virtue*, 166.

[57] See Francis Cardinal George, *The Difference God Makes. A Catholic Vision of Faith, Communion, and Culture,* New York: The Crossroad Publishing Company, 2009.

[58] I have developed these ideas in my book *Cómo poner a dieta al cannibal. Ética para salir de la crisis económica*, Madrid: Rialp, 2015.