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THE CATHOLIC HERALD
BRITAIN'S LEADING CATHOLIC NEWSPAPER

30 October 2008
Weekly · £1

Vatican newspaper blames bankers

By **Mark Greaves**
3 October 2008

The financial crisis which has engulfed the West is a sign that the so-called "new economy" has failed, the Vatican newspaper has said.

Booming financial markets have not translated into real development for the rest of society and have only helped the "profits of the banks", according to an article in last week's L'Osservatore Romano.

The article, written by Ettore Gotti Tedeschi, an Italian economist at the Catholic University of the Sacred Heart in Milan, blamed the global meltdown on "the greed of managers and a lack of regulations".

He said the American government's proposed $700 billion bailout - which was since rejected by Congress - might stave off worst-case scenarios but would not tackle the root causes of the crisis. "Despite various attempts, the western world does not know how to map out a model of development that is capable of guaranteeing stable wealth," he said.

The latest attempt - "inventing a boom in the GNP through risky financial models that were poorly conceived and badly regulated" - had also failed, he said.

The professor is one of several Catholic voices calling for a wholesale reassessment of the role of the world's financial markets.

Prof Paul Dembinski, director of Observatoire de la Finance in Geneva, Switzerland, argued that the expanding financial sector has "deflected the market economy from its principal vocation: that of promoting the dignity and well-being of humankind".

He supported the idea that the world's current financial problems could be attributed to greed. He argued that the financial markets had become an area of life where morality had ceased to apply.

"Because of the so-called 'advancement' of economic science, greed is being seen not as a vice but as something of an economic virtue," he said.

"It is now very difficult to make the point that morality matters. Many Christian bankers and financial people say that Catholic teaching applies to private life, but in public life the market mechanisms take over."

Prof Dembinski added that few people in the Church were able to grasp the extent of the problem because they did not understand the intricacies of finance.

"Much of the greed is hidden in professional details. And, since the Church is not a trading company, they do not know these details. The diagnosis is only possible if you enter in at the deep end."

However, Catholic economist Philip Booth, a director of the Institute of Economic Affairs, said the arguments in the L'Osservatore Romano article were "extraordinarily silly".

The solution does not lie in more regulation, he said, but in establishing mechanisms "to ensure that there is an orderly winding up of financial institutions when they fail - and to make owners and managers pay the cost of their mistakes".

He said the Vatican newspaper article was based on an "old failed model for development - one that has an excessive suspicion of the service sector".

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The London-based economist said: "The [blamed] financial instruments developed at a time when the financial sector is more heavily regulated than ever before, and many of them have been developed in order to circumvent regulations in other sectors - thus regulation has discouraged transparency.

"The professor may be right that many people have been irresponsible but the idea that, somehow, we can solve these problems by regulation is unfounded. Regulators come from the same human stock as bankers - they are imperfect people who make mistakes. If regulators exist to perfect markets, who is going to perfect the regulator?"

On Monday the world's markets were plunged into turmoil after Congress failed to agree on a bailout deal to clear toxic debts.

During negotiations over the deal an American bishop wrote to leaders urging them to bear in mind the ethical dimensions of the crisis and its "enormous human impact".

In his letter Bishop William Murphy, chairman of the American bishops' committee on domestic justice and human development, was strident in his condemnation of Wall Street greed. "The scandalous search for excessive economic rewards even to the point of dangerous speculation that exacerbates the pain and losses of the more vulnerable are egregious examples of an economic ethic that places economic gain above all values," he wrote.

"Sadly, greed, speculation, exploitation of vulnerable people and dishonest practices helped to bring about this serious situation."

The bishop called for bankers who were complicit in the crisis to be made accountable and for vulnerable workers to be protected.

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