

London's Financial Leaders Challenged, Inspired at Acton Seminar



Last April 16, Acton's Rome office co-sponsored a seminar in London on "The Morality of Work, Commerce and Finance: Lessons from Catholic Social Teaching" with St. Mary Moorfields, the only Roman Catholic parish in the Square Mile and located in the very heart of London's investment banking district.

With several astute financiers, bankers, and business executives in attendance, the seminar's expert speakers helped them articulate and ponder the moral and vocational aspects of the financial world in which they work. The seminar's speakers also addressed the political and legal frameworks that regulate their sectors in light of traditional free market economic philosophy and the particular Catholic social teachings that both challenge and sustain modern practices in the sector.

Participants listen attentively to Philip Booth's technical and moral-theological assessments.

Msgr. Martin Schlag, a moral theology professor at Rome's Pontifical University of the Holy Cross, led off discussion with his talk "Personal Virtues in the Workplace". Schlag spoke about the interplay of the classical virtues before raising a discussion on the uniquely Christian "theological" or supernatural virtues of faith, hope, and charity.

Through the help of a business-like presentation and sophisticated Power Point slide show, the pontifical university professor was able to translate high-browed Aristotelian and Thomistic virtue ethics into accessible management best practices. Schlag also narrowed the discussion to the levels of prudence, beneficence, courage, and magnanimity that must be perfected, in particular within the context of responsible stewardship amid the stressful, fast-paced, ever-changing and nebulous world of international finance, especially during today's ongoing financial crisis.

Acton's Rome director, Kishore Jayabalan, devoted his talk to the great economic and moral philosopher of the Scottish Enlightenment, Adam Smith. In his talk "Commercial Virtues and Vices According to Adam Smith"—mainly derived from ideas found in Smith's two masterpieces *Theory of Moral Sentiments* and *Wealth of Nations*—Jayabalan articulated why Smith's moral writings on commerce, the individual and society still offer a basic guide to virtuous behavior in today's markets—especially for the many of those who tend to demonize business persons as naturally immoral:

When we think of a capitalist, a certain type of person comes to mind. I'm not shocking you when I say it's often a negative impression we have. Think of Ebenezer Scrooge of Dickens's *A Christmas Carol*, old man Potter in the film *It's a Wonderful Life*, or Gordon Gekko in Oliver Stone's *Wall Street*. Few artists seems to have a positive impression of the wealth-producing capitalist; he's often pictured as extraordinarily greedy, vulgar, twisted, and lacking in compassion for the sufferings of those he throws out in the streets in his relentless pursuit of profit.

In order to counteract the capitalist's tendency to think only of his immediate reward when dealing with others, Smith promotes the merchant's characteristic virtue of prudence. In the book VI of the *Theory of Moral Sentiments*, Smith describes the "prudent man." The prudent man Smith portrays is very good calculating his own long-term interests rather than his short-term ones; he acts on what Alexis de Tocqueville would later call "self-interest rightly understood" and avoids the vulgarity of the imprudent and rash. Reliability is his middle name. But Smith admits there's nothing particularly noble or admirable about him. There has to be something more to the moral life than prudence.

To counteract and build upon the narrowness of prudence, Smith promotes a certain type of magnanimity, what he calls "the honorable and the noble." Magnanimity was perhaps the highest of virtues in the ancient world, as described by Plato, Aristotle and the Stoics, and seems, at first glance, utterly out of place in the world of commerce. If commerce aims to promote universal opulence in order to preserve life, thereby making it more secure, what place does it have for the great-souled man who takes risks and does things just because they are noble or beautiful? How can Smith combine the ancient love of the noble with the modern preference for self-preservation?

Concluding the seminar was Prof. Philip Booth of London's Institute of Economic Affairs, who delivered the talk "Finance After the Crash – Ethics, Markets and Catholic Social Teaching". Booth addressed the opportunities and challenges of practicing Catholic social teaching in the modern business world. Most notably, Booth referred to the pro-market economic principles found in the 1991 social encyclical *Centesimus Annus* by Pope John Paul II:

The main principles of Catholic social teaching are the dignity of the human person; the common good; solidarity; and subsidiarity. These principles do not generally mean what they are often interpreted to mean, but that is perhaps the subject of another lecture.

These principles can be—and often are—used to justify a broadly free economy; not anarchy or libertinism, but a broadly free economy. Pope John Paul II's justification of the free economy in *Centesimus annus* was based on a human anthropology that understands man's true nature and destiny. A free economy is not only economically efficient but it leaves persons—both individually and collectively, though generally acting collectively outside political structures—to meet their human needs exercising their free will in accordance with God's plan for them.

But if man is free and good in his natural human dignity, then what is the role of economic regulation? Booth mentioned that even Vatican statements and papal encyclicals had called into question the extent to which government regulators can force and curb moral behavior or direct business toward noble, Godly purposes. On the one hand regulation often comes in the form of well-mentioned decrees to the serve various moral ends of the common good, but on the other hand such legal and political measures can fall prey to overcompensating, hand-holding, and end up not functioning as corrective curbs on immorality, but rather stimulating a whole new set of corrupt practices.

What's for sure, said Booth, is that "the fallen nature of man . . . means that we cannot rely on the market entirely to generate and nurture the necessary moral values." And the same might be said of relying entirely on regulation to guide moral behavior, as the laws themselves may be far from perfect, entirely defective or even purposely crafted to satisfy crony rent-seekers and the corrupt special interests of the policy makers themselves:

Individuals in regulatory bureaus can also follow their own self interest and this is why comprehensively regulated financial markets often have poor outcomes regulatory bureaus can be a magnet for corruption. The production line of regulations can also lead to a society where people tick all the regulatory boxes – like Pharisees – and believe they have delegated virtue to the regulatory bureau.

Indeed, one of the moral aspects of the finance industry that Booth addressed focused on the virtues of integrity and practical realism. Booth said that, after 2008 crash, the financial industry now must save face and revisit how it “gave the impression that it was too big fail” and why it “underestimated the true risk” of various financial instruments.

To explain his point Booth spoke in financialese, employing the technical language from the lectern parishioners in the financial district in London were well accustomed to. Booth took a moment to question whether regulation itself does more harm than does good to incentivize moral and virtuous behavior:

You [can] have very weak personal bankruptcy law. You have these huge government sponsored enterprises like Fannie Mae and Freddie Mac [that] were securitizing and guaranteeing mortgages. You had regulation that required banks to give mortgages to people who were not perhaps in the best position to repay [them]. You had decade after decade the bailing out of financial institutions...that took imprudent decisions and went bust. Since the 1930s you have had deposit insurance in the U.S. . . . which was supposed to require risk-adjusted premiums from the banks, but those premiums were never actually risk-adjusted in practice.

And I think these are all huge public policy errors that provided significant incentives for people to behave imprudently. And also made it more difficult for market participants to discern what was and was not prudent behavior. And also regulation in relation to how banks have their capital holdings determined encouraged complexity and... the banking industry to become more opaque than it otherwise would be.

The participants were allowed time to pose questions to the experts. Many had shown their depth of concern to reverse the demonizing and irreligious reputation that has befallen the world of finance since “Greed is Good” days of Wall Street’s Gordon Gekko and the tarring-and-feathering their chief executives have experienced since the financial collapse of 2008.

Others had commented that Acton’s forum in the financial district parish hall provided a safe-haven for them to discuss their faith in light of imitating Christ inside the board room and interpreting their work in a deeper vocational sense beyond its obvious everyday economic utility.

The Acton Institute is looking forward to the next seminar when it can continue the conversation with London's many good financial and business leaders.

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