



BEHIND THE CRISIS, BEYOND THE CRISIS: A NEW CONCEPT OF WORK AND FINANCE



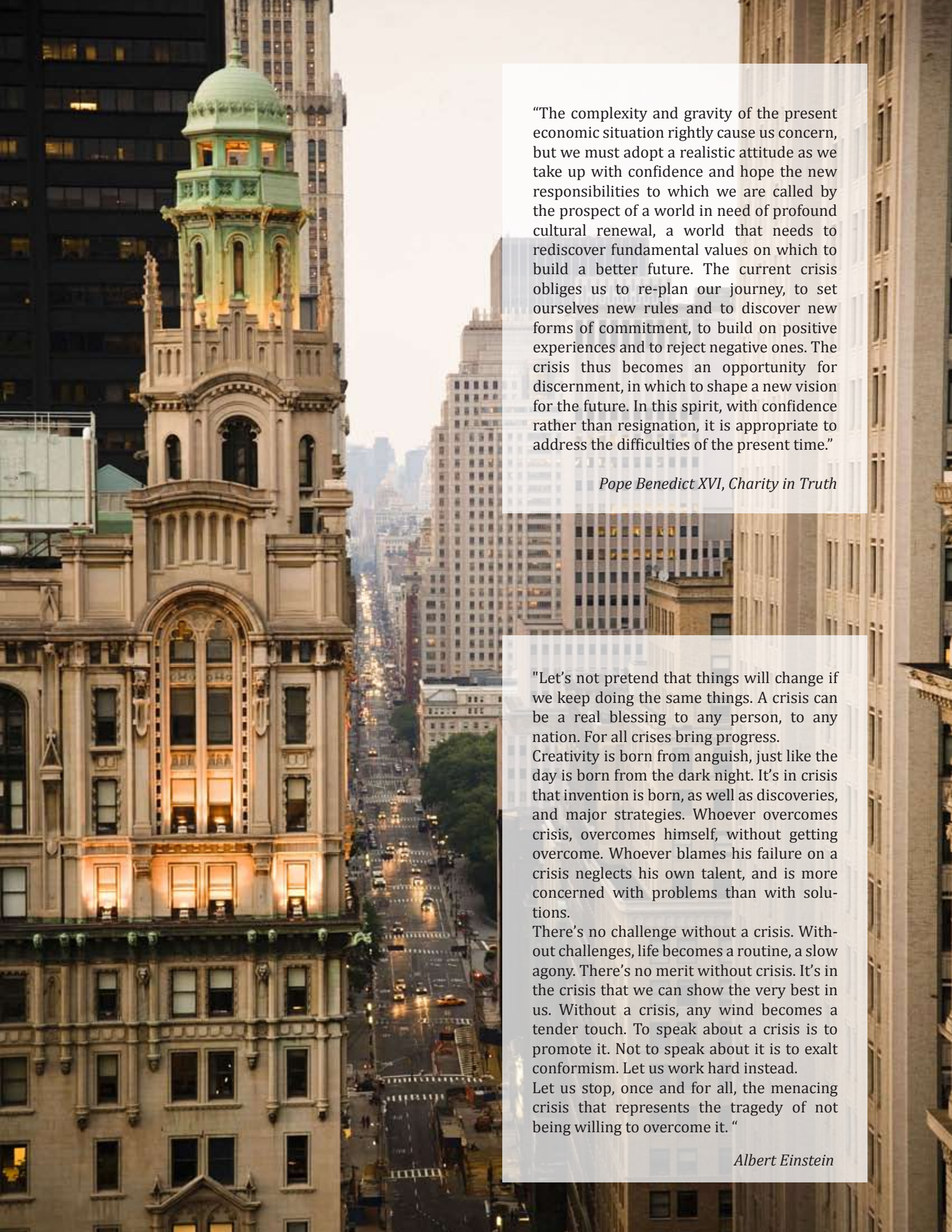
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“The complexity and gravity of the present economic situation rightly cause us concern, but we must adopt a realistic attitude as we take up with confidence and hope the new responsibilities to which we are called by the prospect of a world in need of profound cultural renewal, a world that needs to rediscover fundamental values on which to build a better future. The current crisis obliges us to re-plan our journey, to set ourselves new rules and to discover new forms of commitment, to build on positive experiences and to reject negative ones. The crisis thus becomes an opportunity for discernment, in which to shape a new vision for the future. In this spirit, with confidence rather than resignation, it is appropriate to address the difficulties of the present time.”

Pope Benedict XVI, Charity in Truth

“Let’s not pretend that things will change if we keep doing the same things. A crisis can be a real blessing to any person, to any nation. For all crises bring progress. Creativity is born from anguish, just like the day is born from the dark night. It’s in crisis that invention is born, as well as discoveries, and major strategies. Whoever overcomes crisis, overcomes himself, without getting overcome. Whoever blames his failure on a crisis neglects his own talent, and is more concerned with problems than with solutions.

There’s no challenge without a crisis. Without challenges, life becomes a routine, a slow agony. There’s no merit without crisis. It’s in the crisis that we can show the very best in us. Without a crisis, any wind becomes a tender touch. To speak about a crisis is to promote it. Not to speak about it is to exalt conformism. Let us work hard instead.

Let us stop, once and for all, the menacing crisis that represents the tragedy of not being willing to overcome it. “

Albert Einstein



The crisis and the questions it raises

The United States has been facing one of its most severe economic recessions in eighty years. The financial markets experienced their worst decline since the Great Depression. Very quickly, the crisis moved from Wall Street to Main Street because, nowadays, what affects finance, affects the entire economy. The job market is still suffering an unemployment rate not seen in decades. All the lessons learned from the Great Depression in the 1930s, all the advances in macro-economic policy since then, all the financial regulations that were instituted, and all the financial innovations to hedge many of those risks, were not able to spare us from the worst crisis in a generation. And, as in the 1930s, this is not just an American problem: it is a worldwide problem.

Now the panic has subsided, stock markets have recovered some of their losses, and the quality of life has not been as severely challenged as it was in the '30s. Another Great Depression did not occur, but the very fact that it might have occurred, is shocking. How and why did this crisis happen? What lies behind it? What might be the way forward? These questions are still very much alive and this exhibit intends to offer starting points for discussion.





July 31, 2007: Bear Stearns, one of the leading financial institutions in the U.S., liquidates two hedge funds that invested in various types of mortgage-backed securities.

August 6, 2007: American Home Mortgage Investment Corporation files for bankruptcy protection. The crisis extends from the U.S. to the world, because of the global market of the securitized subprime mortgages.

March 24, 2008: Bear Stearns, on the verge of bankruptcy, is purchased by JP Morgan thanks to an extraordinary term financing provided by the Federal Reserve Bank of New York.

September 7, 2008: The U.S. Federal Government takes control of Fanny Mae and Freddie Mac to avoid their collapse.

September 15, 2008: Lehman Brothers, one of the five most important merchant banks in the world, goes bankrupt.

September 16, 2008: The U.S. Government, through the Federal Reserve Bank of New York, rescues AIG (the biggest U.S. insurance company) from bankruptcy by lending \$85 billion.

September 26, 2008: After the U.S. Congress refuses to approve the Treasury Department's plan to face the financial crisis, stock exchanges around the world go into panic and the liquidity crisis quickly hits Europe and Asia.

September 30, 2008: The entire financial and credit system in the world is paralyzed. The central banks of the most important countries in the world put enormous amounts of liquidity into the markets.

October 14, 2008: TARP (Troubled Assets Relief Program) is approved: the U.S. Government makes available to the banking system \$700 billion to eliminate the "toxic" assets.

December 11, 2008: 4.4 million people are without jobs in the U.S., the highest number since 1982.

February 17, 2009: The "American Recovery and Reinvestment Act of 2009" (also known as the "Tax Stimulus Program") is approved with tax cuts and other incentives for \$820 billion.

March 19, 2009: The U.S. Treasury Department announces an "Auto Supplier Support Program" that will provide \$5 billion in financing to the automotive industry.

June 2010: The Greek crisis explodes. Other European countries, like Portugal and Ireland, are in serious financial trouble.

January 2011: Although the crisis is technically over, the unemployment rate in the U.S. remains very high (9.8%) and the future full of uncertainties.

Why did it happen? The dynamic of the crisis

Even though there are scores of differing analyses, there is a general consensus among the experts that the crisis was unleashed by the severe decrease in value of the real estate market. This decrease in value caused the conditions for a “perfect storm” for the economy with the exponential escalation of the following effects:

- A Inability to refinance the terms of mortgages and above all the very popular (now infamous) subprime mortgages (i.e., mortgages given to people with insufficient funds for down payments, poor or no credit history, and/or low incomes). The increase in value of homes was the only possibility for borrowers to refinance the terms of mortgages (and decrease the otherwise progressively higher mortgage payments) and the main guarantee for lenders.
- B Increase in defaults of mortgage payments and foreclosures, and consequent losses for the financial institutions lending the funds.
- C Drastic depreciation of trillions of dollars of “mortgage-backed securities” (i.e., securities that represent slices of mortgages) owned by the leading financial institutions all around the world (the so-called “toxic assets”).
- D The impracticality of establishing values for the illiquid mortgage-backed securities owned by the banks and, therefore, the impossibility of ascribing value to the potential losses in their financial statements.
- E Generalized loss of trust in the capacity of borrowers (banks, businesses, and individuals, no matter how solid they may have appeared) to repay their debts and, as a consequence, dramatic decrease in investments.
- F Slowing down and sometime-paralysis of the credit mechanism for businesses and between financial institutions, with consequent economic down-turn and unemployment increases.



LESSONS HIDDEN WITHIN THE CRISIS



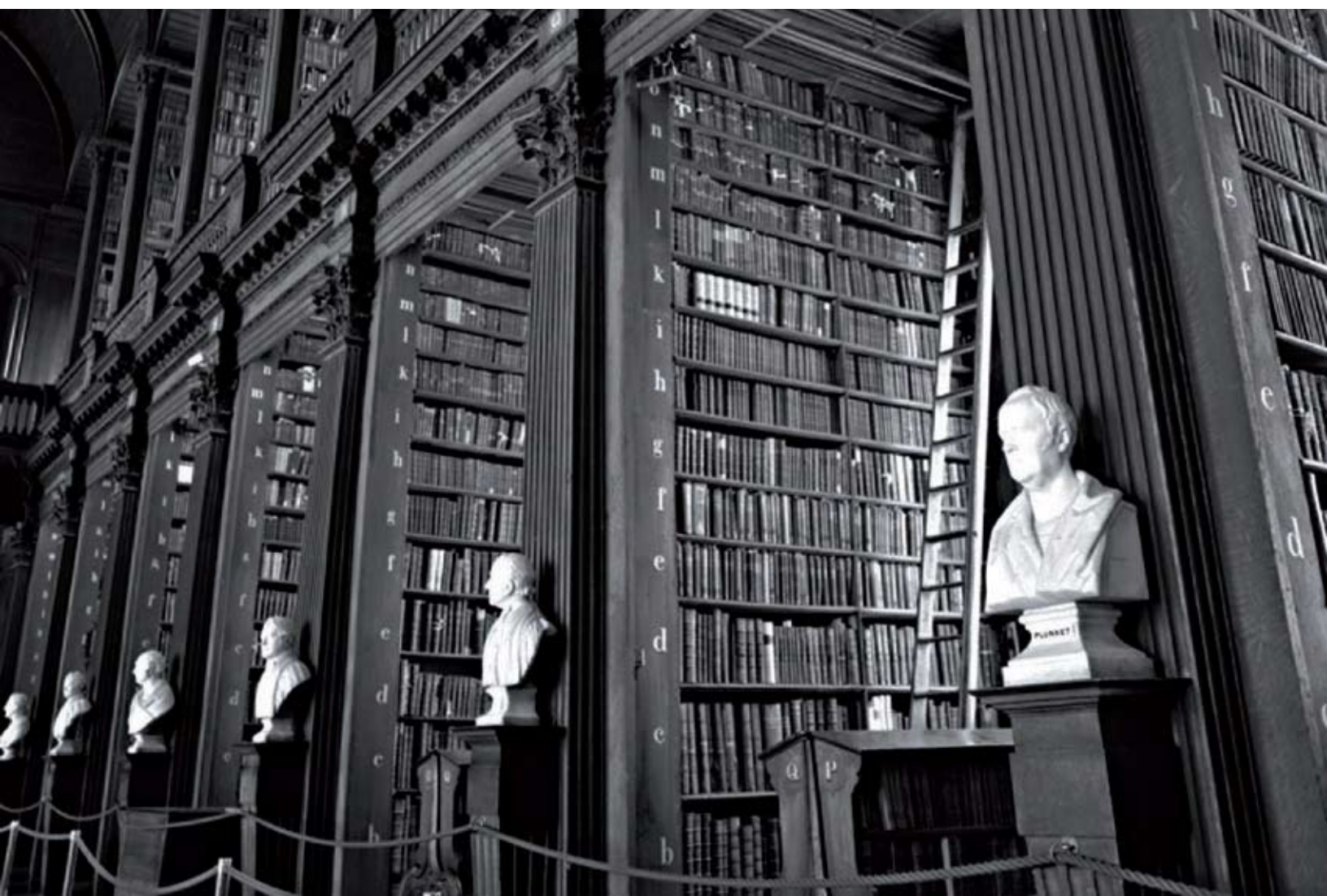
No scapegoats but a shared responsibility

There is no shortage of explanations for the crisis. All the possible causes and mistakes have been scrutinized by a multitude of experts. But it would be incorrect to point the finger at a single category of people or institutions. There are no scapegoats because everyone shares the responsibility of ignoring the suggestions given by reality: the consumers seeking to live way above their financial means; the financial companies and the credit rating agencies earning easy money; the government, the public institutions, and the regulators facilitating this process. But, at a certain point, reality struck back and now it invites us to learn certain lessons. What are they?

Economic models based on the “homo oeconomicus,” or other axiomatic approaches, are misleading

As revealed in many financial crises in the last decades, including the most recent one, the concept of the “homo oeconomicus” is inadequate and the economic models based on this concept are misleading. This concept is based on the widespread idea (that is now changing among many economists) that, when acting in the economic sphere, the person is intrinsically egotistical (first unreasonable concept), always behaves in a rational way (second unreasonable concept), and looks exclusively for profit maximization (third unreasonable concept). On the basis of these unreasonable premises, a theory developed that mere individual interest would be sufficient to build a collective economic order: an “invisible hand,” the market, would magically create a balanced system.

Reality, however, has shown that this axiomatic approach, especially when human freedom is at play as it is in economics, does not work and causes large-scale damage. As many economists are attesting, the creation of an economic model has to be based on the observation of reality rather than on axioms. Furthermore, its application cannot be left in the hands of a machine but always requires a critical eye, a good dose of realism, and certain caution.





Pure individualism, short-term profit, and competition à la Darwin, are inadequate

The unreasonable idea that the person looks exclusively for profit maximization is also at the origin of several other misconceptions:

- A** The exaltation of an abstract idea of individualism. “The conviction that man is self-sufficient and can successfully eliminate the evil present in history by his own action alone has led him to confuse happiness and salvation with immanent forms of material prosperity and social action. Then, the conviction that the economy must be autonomous, that it must be shielded from “influences” of a moral character, has led man to abuse the economic process in a thoroughly destructive way.”
Pope Benedict XVI, Charity in Truth
- B** The exaltation of short-term profit as the only goal of a business. The pursuit of short-term profit tends to force reality (in order to obtain results at all costs), and facilitates unrealistic and unethical behaviors in the workplace.
- C** The exaltation of an abstract, Darwinian, idea of competition. According to this idea, the other businesses are seen as enemies to eliminate or to exploit. The increasing need to pool resources, strategies, and research and development activities, even with competitors, to better face the challenges of a global market, is often ignored.



Technology is not sufficient

“Technological development can give rise to the idea that technology is self-sufficient when too much attention is given to the ‘how’ questions, and not enough to the many ‘why’ questions underlying human activity. True development does not consist primarily in ‘doing.’ The key to development is a mind capable of thinking in technological terms and grasping the fully human meaning of human activities, within the context of the holistic meaning of the individual’s being. Even when we work through satellites or through remote electronic impulses, our actions always remain human, an expression of our responsible freedom. Technology is highly attractive because it draws us out of our physical limitations and broadens our horizon. But human freedom is authentic only when it responds to the fascination of technology with decisions that are the fruit of moral responsibility. Hence the pressing need for formation in an ethically responsible use of technology. Moving beyond the fascination that technology exerts, we must reappropriate the true meaning of freedom, which is not intoxication with total autonomy, but a response to the call of being, beginning with our own personal being.”

Pope Benedict XVI, Charity in Truth

Finance is not alchemy

Finance has been gradually considered more and more as a generator of prosperity without being related to any value and to real economy. Financial activities, at the service of entrepreneurial spirit, have become an end in themselves and finance, with its increasingly sophisticated and intricate products, began to live in a parallel, self-referential, universe. In the illusion of generating unlimited wealth, the players acting in this universe ignored the most obvious signals to their common sense to try to overcome limitations imposed by reality.



WHAT CAN MOVE US BEYOND THE CRISIS





Economic growth: the only way out

No short-cuts, financial tricks, or magic solutions (from the public or private sector) will solve the economic problems we are still facing. Only real and sustainable economic growth with its longer-term drivers, i.e., labor force and productivity, will move us beyond the crisis. However, no mix of government policy and private sector incentives can replace a deeper cultural question about the relationship between human desire and work. And no financial engineering, labor market policies, and other government regulations—while certainly having an impact—can substitute the role of education in underlying longer-term productivity growth. Human beings are not ants, and economic construction is not a mechanical process, but a truly human event which involves reason and freedom at every step. At the center of economic action lies a free, relational subject moved by the desire to transform reality to reach his or her own fulfillment.

The need to reassess the foundations of work, business, and finance

As Pope Benedict XVI suggests in *Charity in Truth*: “The current crisis obliges us to re-plan our journey ... The crisis thus becomes an opportunity for discernment, in which to shape a new vision for the future.” A new vision in economy implies the reassessment of the constitutive factors of its growth: the person and his/her own desire; work and its driving forces; businesses and their organizations; finance and its goals. Only after such a reassessment can new models and a new set of rules and regulations be established, if they are necessary.



Desire: the essence of human nature and the engine that moves everything

Reassessing what can move us beyond the crisis is the same as reassessing what moves us at the start of every day. In order to begin anew, we can only start from what drives a person to face life and work. There are many theories about what motivates people to work but, at their roots, lies a compelling force: the desire to achieve happiness and to make it complete and lasting. This desire for fullness of life is the essence of human nature. Not only does it set us in motion to search for the infinite and ultimate meaning of life, but it also pushes us to work, in order to transform reality to make it more suited to the ultimate demands inscribed in our nature. Contrary to certain socio-economic literature, the attitude toward work is directly correlated to the extent with which one lives his/her deep nature, which is desire for justice, truth, and beauty.

The need for support vs. the mystique of the self-made man

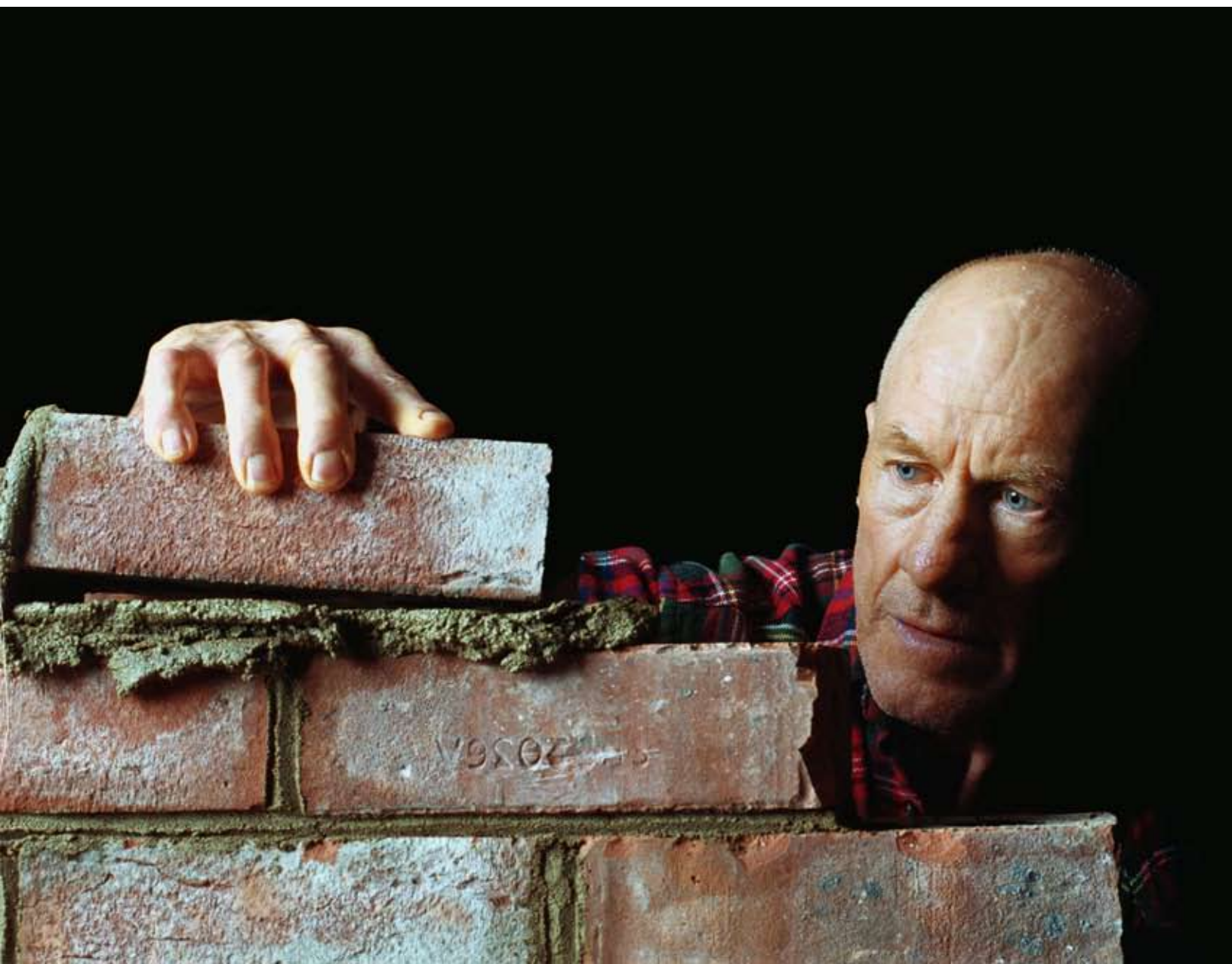
In as much as desire is the essence of human nature, in the same way, existentially, it is betrayed by censoring, denying, suffocating, or reducing the depth and breadth of the longing for fulfillment. Such betrayal, which starts in ourselves, is also favored by everything outside of us that tends to systematically tame one's desires, to the point of creating—as Luigi Giussani stated—“bewilderment in young people and cynicism in adults.” The person, left alone, is not able to live up to the stature of his/her own humanity. This is why the image of the self-made man as the ideal entrepreneur is, in real life, utopian. How, instead, can this stature be continually rescued? Once again, the answer comes from human nature. Pope Benedict XVI in *Charity in Truth* defines the person as a relational being, made in the image of the Trinity: “The development of peoples depends mostly upon the recognition of being one family that collaborates in true communion and is constituted by subjects who don't simply live one next to the other. ... The human creature, since it has a spiritual nature, fulfills itself in interpersonal relationships. The more the person lives them authentically, the more the person matures.”



A new concept of work as the connection between one's actions and the ultimate fulfillment

The notion of human nature as desire for fulfillment is the foundation for a new and truer concept of work. Work is the “connection between the action, be it extraordinary or banal, and the ultimate fulfillment of life, its ultimate destination, its ultimate meaning” (Julián Carrón).

This connection, and the continuous desire to discover it, is what gives freedom, dignity, balance, true value, sense of accomplishment, gusto, and satisfaction to our work, more than any other job condition or level of compensation. The awareness of this connection is called, in Christian terms, offering: the recognition that one's actions belong to a greater design that has a meaning. Any theory about work that forgets the essence of our humanity as longing for an everlasting happiness and reduces freedom to mechanics is misleading and destined to be unsuccessful.



A new concept of business and corporate responsibility

The concept of human nature as desire and of work as a connection to a greater design is the foundation of a more realistic concept of business. A business, regardless of size, is a set of individuals and resources whose primary goal is not merely to pursue profit, but also to create jobs and to provide top-quality goods and services. Actually, profit, far from becoming a goal in itself, becomes the test of how well the business is pursuing its other goals (which, from a personal and social point of view, are more relevant than profit). In this way, the business becomes a place where the entrepreneurial spirit is constantly regenerated by encouraging the creativity of the employees and the use of all the resources at hand. Sharing, dialoguing, and comparing its own endeavors with others businesses is not regarded with suspicion. The risk-taking activity is not disjointed by the sense of responsibility toward the people who participate in the enterprise. No factors both within and outside the business (employees, clients, consumers, the environment, and society as a whole) are overlooked. Only a business conceived in this way can live up to the ideals of what today is called “corporate responsibility.”



The employer/employee relationship as partnership

A notable consequence of this concept of business is that the employee is no longer considered solely as an instrument to increase profit. Studies and common experience show that personal motivation and love for the job are the most important elements for positive work performances. However, the employee cannot be deliberately manipulated as an instrument to this end - only a relationship of "partnership" is, ultimately, appropriate. A person who is free, mature, and reliable in everyday life is the best thing that can happen to a business.





The relevance of cooperation among businesses

What is true for the individual is true for businesses. A business, left alone, is not able to live up to its mission and needs support. For this reason, free associations among businesses, networks of cooperation and mutual help, pooling of tools and resources, sharing of research and development activities, are positive factors which contribute to the creation of a flourishing economic environment. Any theory that promotes, instead, the idea of the business world as a jungle where each one is on his/her own and everybody else is a potential enemy is as damaging as it is depressing.

Some implications of a new concept of work and business

Real economic growth, centered on the person as desire, work as connected to a greater design, and business as not merely profit-seeking, implies the enhancement of human capital, organizational flexibility (with direct, frequent, and informal interpersonal exchanges between businesses), production flexibility (which offers personalized products and quickly adapts supply to demand), close connection with the local socio-economic environment (which implies being in close contact with customers), and investment in research and development to guarantee the stability of the business through time.





Finance at the service of real economy

The financial sector plays an essential role in the development of economic growth. The current crisis is not a problem of too much or too little finance. The financial sector should not ignore its ultimate purpose and point of reference, which is service to the real economy. And those who work in the financial sector, like everybody else, need to look for a meaning in their jobs that goes beyond a limited measure of success to include the entire reality of work and what it reveals about themselves and their destiny.

A new vision for the future and the need for education

No crisis is able to halt the personal and social journey of life, because no difficulty is stronger than the unquenchable longing that marks our human questions and pushes us to start again, every morning, every time. By re-echoing the sentiments in our own hearts, the Pope has invited us to shape a new vision for the future in order to move beyond the crisis. What is needed to accept this invitation is an education to become familiar with our own humanity. And by education we mean an introduction to the reality of what constitutes the core of our own self, led by a teacher and supported by examples. This education to live our own human questions with seriousness is much more comprehensive and relevant to the creation of entrepreneurial spirit, job opportunities, and wealth, than schooling, ethical principles applied to the economy, or even profit itself.



“Desire is like the spark with which an engine gets started. Every human action is born from this phenomenon, from this dynamism which constitutes man. It’s desire that turns on ‘man’s engine.’ As a consequence, he starts looking for bread and water, for work, for a woman; he looks for a more comfortable armchair and a better house. He starts getting interested in the fact that some people have more than others, he looks at the fact that some people are treated in a certain way and he’s not, precisely because of the increase of these stimuli he has within himself and that the Bible calls heart.”

Mgr. Luigi Giussani