



VI General Conference
Preparatory Committee

Dear confrere

In the letter of convocation of the next General Conference of Father General (December 27, 1998), there is clearly indicated the purpose and objective of the Conference, as well as the time and process.

The preparatory committee hereby invites you to participate in the preparation of the General Conference. Enclosed you will find a text regarding the Economy and the Reign of God, with a questionnaire attached. This text is addressed to every confrere of the Congregation, and you are invited to read the text, reflect upon the questionnaire, and participate in the community discussion of the text and questionnaire. Each community then is asked to send their reflections to the Justice and Peace Committee of the Province or Region (or a committee set up for this purpose by the Provincial Council) which will gather all the data into one text. This text is to be sent to the General Administration in Rome, before the 30 of September 1999.

We ask that this response be sent in one of the following languages: English, French, Italian, Spanish or Portuguese. These responses will then be compiled into an *Instrumentum Laboris* for the General Conference.

We wish fruitful reflections, and look forward to receiving them. We also ask you to remember the General Conference in your prayers that it may be of benefit for the Congregation, the Church and the World.

With every best wish we are.

Angelo Cavagna (IS), Nestor Eckert (BM), Peter Sanders (CA)
Members of the Preparatory Committee

Questionnaire

1. Having read the text, how do you feel regarding this neoliberal reality: feelings, behavior, options?
2. What does your community think about?
3. How do you feel and think regarding the vow of poverty and the standard of living as well as issues such as: solidarity, share, detachment, option for the poor?
4. What is being done in your Province/Region/District to change neoliberal economic system?
5. What could you do to change yourself?
6.to change your community?
7.to change the Congregation?
8.to change for better society? Which groups and movements should be supported?
9.to change for better local and international politics so to influence economic structures?
10. Do you have any other suggestion, reflection or aspect to emphasize about the theme of the Conference: Economy and Reign of God?



GENERAL CONFERENCE – RECIFE
(16 to 26 May, 2000)

THE ECONOMY AND THE KINGDOM OF GOD

(Preliminary Preparatory Materials for the General Conference: The Economy and the Kingdom of God)

INTRODUCTION

Our topic, The Economy and the Kingdom of God, is very complex and is presentable in many ways. The economy, as an activity of human beings who band together to act on nature to obtain goods and provide services for the purpose of maintaining life on earth, has a wide range of qualities which are dependent upon the natural environment and the socio-cultural makeup of human societies.

At the very same time, the concept of the Kingdom of God has a very wide range of qualities.

To pique our reflective interest, while at the same time to proceed in orderly fashion, we have elected to come to grips with an economy influenced by neo-liberalism in a globalized setting.

Another methodological premise is that the economy and the Kingdom of God are not mutually exclusive. The opposite is true. These are essentially interdependent realities. The Kingdom of God is built upon the daily life of human beings. It is not separate from the life and activity of human beings.

More concretely, we are looking at a dimension of human existence and activity: the economic dimension. We do not look at poverty and at wealth as abstract categories. We look at human beings as actual persons who are poor or become poor or who are wealthy and able to make decisions. This is concrete reality and all these persons are citizens of the Kingdom of God.

Our topic, The Economy and the Kingdom of God, from the perspective of neo-liberalism and globalization, seem to constitute the most troubling problem before us religious as we conclude this century. If Fr. Dehon experienced the damaging effects of the Industrial Revolution at the end of the 19th century, to the cause of labor specifically, it seems that the problem before us today – one which demands a specific bearing on our part – is neo-liberalism and globalization. If we wish to be consistent and faithful to our charism, we cannot remain indifferent to the plight of so many brothers and sisters who are victims of the “economic horror” (Viviane FORRESTER) of our times.

It could very well be that someone is not aware of what is going on around us. If this is the case, we ourselves will become victims. Yet, we religious are called to be proactive, people who change history.

1 – SOME PARTICULAR EXAMPLES

1.1 NIKE Products

In whatever part of the world one travels, you will find people who use NIKE products. How so? What is the reason why the production costs are so low as to allow anyone to buy these products anywhere? Who are the people that make the products with that trade name and where do they come from? How are these people paid?

Theology students in Africa do their fitness hiking with NIKE shoes and equipment. Youths in Brazilian cities and Mexican farmers all obtain and wear identical products.

1.2 Films

There once was a time when the cinema was a well-defined and almost perfect example of art. Today, when we see a film, what do we actually see? What type of product are we consuming and at what cost? Films appear designed to make a profit. And underneath it all a subtle ideology becomes widely disseminated.

1.3 Sports

Today, the, perhaps, most classical example of economic-commercial interest conducted by liberalism and globalization is in the world of Sports. We have a great illustration in the most recent edition of the World Cup in France where the majority of the players on the French team were not French by birth. It was a team with world-wide origins. At the end of the last game won by the French, the athletes – to get ready for the celebration to follow – put on over their national uniform the uniform of ADIDAS, a German multinational company.

How does one react to such a situation? Will French nationalism undergo crisis as it faces the phenomenon of globalization? How will France's interests be affected?

Soccer football, like basketball, is a vast market today, a huge commercial enterprise involving almost inconceivable sums of money.

1.4 Bananas

Bananas in many countries serve as a product for export. To do so, the products are chemically treated to maintain their appearance. If bananas, for example, arrive from Africa into some country, the competition has sufficient influence to lead people to believe that this is a dangerous product because of its country of origin.

1.5 Product Validity Dating

In the packaging of food products, one can find the year, month, day and exact hour (expressed in minutes and seconds) by which it must be consumed. Is nature this exacting or is this a supply stocking technique so that when the fixed date arrives it becomes useless –

and, in which case, can then be eaten by the poor to whom these products are furnished by charitable organizations? Will these last consumers be free of any problems which might arise as a result of consumption after the validity date?

2 – A LEXICON

2.1 Economy: Production and Rendering of Services

We can describe the economy as the science which deals with the efforts and activity of the human being to seek the material things with which he or she stands in need of to live on earth, and how these are produced, exchanged (through commerce) and consumed.

All human beings feel certain needs. These are elementary human needs: food, clothing, housing, health and hygiene, education, transportation, free time. Normally, some of these needs are primary or “instinctive” which means there are no other solutions than to satisfy the needs. If they are not, even minimally, the human being cannot survive. Examples of this are food, health, and clothing in some cases. Other needs are typically social. This means that they arise from the society in which the human being exists, that has a certain way of organizing itself, has a certain manner of living and of behaving in keeping with its culture.

Human beings in society operate upon NATURE, transforming it to obtain by such transformation whatever is necessary and suited to meet their needs. Sometimes, it is sufficient to merely to gather up the resources which nature readily provides (fruit, leaves, tubers, stalks, roots, honeycombs, small animals). Yet, in most cases, what is necessary requires at least some transformation. This is where the phenomenon called PRODUCTION makes its appearance.

2.1.1 - PRODUCTION

PRODUCTION has among its meanings: transform, give another form to a specific good through human intervention so that by such intervention, the human being can obtain the capacity to satisfy a need which he ordinarily would be unable to. Here’s an example: when we clean, skin, salt, and cook a potato, we accomplish a change in this good (a raw potato). We produce food. In the same way, when we cut down a tree and from it obtain the finished planks that we use in turn to make chairs and tables, we transform a tree. We produce furniture and we satisfy social needs.

Yet to achieve this transformation, we need tools and knowledge; we need to know how to effect the transformation. We need to know how to produce. We can call this ability “technical knowledge” or “know how”. The knowledge that is incorporated into equipment, into machines, into tools that transform resources we can call technology. For this reason, a human being is always necessary for a transformation of goods to take place in order satisfy the needs of other human beings.

Hence, to understand economy, we can ask certain questions and try to find answers this way: Production: Of What? How much? How? Where?, When? FOR WHOM?

The last question, “production for whom?” is the most important and decisive. Goods have only one purpose for existing: to satisfy the needs, wants, and aspirations of human beings who live in society.

In the language of economics, once there is an answer to the question “production FOR WHOM?”, we are able to arrive at a reality called the CONSUMER MARKET, i.e., those persons who consume (buy) products offered on the MARKET.

Further, relative to the economy we can say that there are typically two kinds: subsistence economy and market economy.

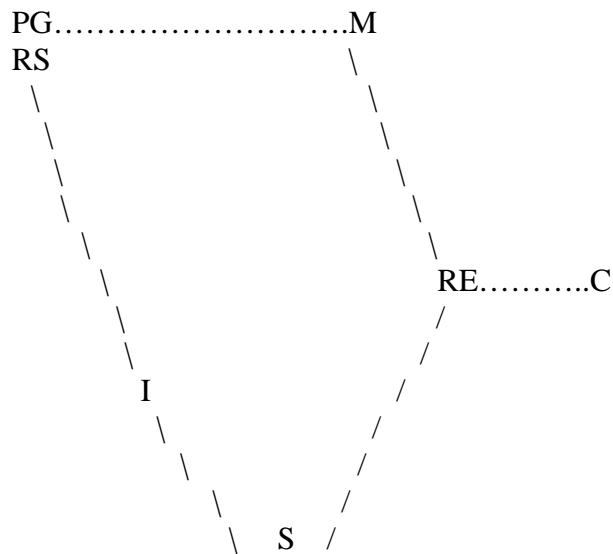
2.1.2 – Services

From another perspective it is important to keep in mind that the economy is based on services too and not just on the production of goods. It seems that more and more people obtain their living by rendering services rather than by producing goods.

We present a small diagram below in an effort to show how the economic cycle originates and operates, utilizing a model of a typical liberal capitalist economy. A diagram is always a generalization and its only scope is to render a particular situation graphically intelligible.

In the diagram below the following synthetic constructs are involved (Key):

- PG = Production of Goods
- RS = Rendering of Services
- M = Market
- RS
- RE = Return
- C = Consumption
- S = Saving
- I = Investment



To understand the cycle, let us begin by saying that human beings who live in society demonstrate needs and seek to satisfy these needs through PRODUCTION OF GOODS (PB). This is market economy. Consequently, such goods are found on a MARKET so they can be obtained and consumed by those who do not have them. The rendering of services can be viewed as work, or service, or activity found in the market place. In exchange for produced goods or services rendered that are offered on the market, one can obtain a RETURN. In other words, persons who consume goods pay for these goods; persons who are benefited by

services rendered pay for these benefits. Whoever has produced goods or rendered a service receives some recompense. Generally speaking, we can call this recompense his RETURN.

What do people do with their return? The better part is consumed, goes into CONSUMPTION (C). This means that people buy food to eat, they buy clothing, pay rent, telephone, water, heat, etc. This means that part of the money that a person receives at the end of the month as salary (return) disappears. One part of this return is consumed. This is due to expenses necessary to continue living.

At the end of the month, once all the expenses and debts are paid, whatever part of the return is left can be used as the owner decides. He can set it aside for future use. This practice is called SAVINGS. A person holds onto money left over, puts it in a bank, or loans it to another person for a certain period, thus acquiring more money. At a moment when he thinks he has enough money, he uses this money to produce other goods or to improve services. This is INVESTMENT. If a person wishes to invest immediately, without saving it up, he or she can do so. It can happen that a person does not always have enough money to make an investment he wants to make. By putting his money into a savings account which will be used by other people for a pre-determined period, he obtains a small increase of money without doing anything. This is how capital is used. Truly, this is what happens when money is capitalized. Whoever has money will obtain more. Whoever does not have money will not succeed in having any. And if he wants to use the money of another who saved it, he must pay for its use. This is interest on the loan.

One of today's great questions in economics arises from the purpose of financial activity: production for what purpose? Produce wealth for what purpose?

Money capitalism, which lies at the base of many political and economic decisions, can come up with answers that do not have the human being at the core of its concern.

2.2-The Market: Supply and Demand

Here, we intend to make use of Paolo SANDRONI's "Dictionary of Administration and Finance" to examine the meaning of the words.

Generally, the term "market" refers to a group of buyers and sellers who are in nearby contact so that any exchange among them can enable purchasing and sales to others as well. A market exists when buyers wishing to exchange money for goods and services are in contact with the persons who sell these same goods and services.

Thus, we can look upon a market as a place, theoretical or actual, where there is regular contact among buyers and sellers in a particular economy. Specifically, a market is formed from a group of institutions where commercial transactions take place (fairs, stores, commodity and stock markets, etc.) Above all, a market is recognized by the way that exchanges are effected in the specific universe by individuals, companies, and governments.

Supply represents the total volume of a particular article of merchandise that producers (or sellers) have ready to sell at a particular price. The supply tends to be directly

proportional to the price obtained on the market. The higher the price, generally, the higher the amount for sale; the highest prices offer the greatest profit margin.

Demand represents the buyer's (or consumer's) side in that the equation tends to be inverted: the higher the price, the less disposition to buy.

Supply and demand work in this fashion in relationship to prices; they work in opposite fashion. Equilibrium is theoretically achieved when, at a determined price, the amount of goods and services sought is equal to the amount of goods and services offered.

This is where the matter of the influence that buyers on the one hand, and sellers on the other, have over pricing. This relationship leads to a classification of markets at the extreme scale ends of which one finds perfect competition (assumed by classical economic theory) and the monopoly.

2.2.1-Open Market

An open market is one in which the central bank of every nation regulates the cost of money by buying or selling bonds (bonds of public debt). Whenever there is an abundance of currency in circulation, the central bank "dries up" the market by selling national Treasury bonds; when the opposite is occurring, the bank buys back these bonds. Such operations are done by financial institutions. An "open market" has great flexibility and few limitations; buyers and sellers do not have to be present within the same confines because such transactions are usually done by telephone.

2.2.2-Stock Market

The entire network of stock exchanges and financial institutions (banks, venture companies, insurance companies) that operate through the purchase and sales of certificates (stocks and bonds generally) have the function in the long run of channeling the savings of society toward commerce, industry and other economic activities, and government itself.

Capitalist countries that are more developed usually have strong and dynamic stock markets. The weakness in such markets in underdeveloped countries make savings possibilities less likely and constitute a serious obstacle to development. They force such countries to have recourse to international stock markets which have their main offices in the [major cities] of the great powers.

2.2.3-Commodities Market

Commodities Markets are financial centers where *commodities* (raw materials of great economic importance: cotton, beans, iron ore, etc.) are the business. Since *commodities* are very important products in international commerce, their prices end up by being fixed by quotations at the principle markets: London, New York, and Chicago. The great majority of such sales transactions are dated, that is to say, one decides now the price to be paid at consignment of the goods at some future date.

2.2.4-Euromoney Market

A money market is an international market in which the currencies of the more developed countries (from the perspective of finances and economies) are loaned by banks of these same countries. Even if it is usually called “Euro”money market, this does not mean the practice is restricted to European countries and their principal financial centers.

The Euromoney market had its beginnings, as the Eurodollar market, towards the end of the 50’s because of the commercial deficit experienced by North Americans who had inundated European countries with dollars. Euromoney was loaned for periods which could vary up to seven years, though the usual period was twelve months.

During the oil crisis in 1973-1974, countries that imported oil (Brazil, in particular) made a large number of loans in this market to deal with the deficits in their respective balance of payments; at the same time this market was the chief means of recycling the excessive commercial gains obtained at the time by the countries who had formed OPEC (Organization of Petroleum Exporting Countries).

2.2.5-Foreign Money Markets

These are financial centers where currencies of other countries are bought and sold, the transactions of which daily determine the value of some currencies in relationship to others. In some countries, Brazil for example, buying and selling foreign currencies is a monopoly of the government exercised through the Bank of Brazil.

2.2.6-Financial Market

The financial market is the sum total of the money market (the sector of the financial market that uses terms) and capital markets (cf. n° 2.3). It includes all the currency and stock and bond transactions and the institutions that make use of them: central banks, regional banks, savings and commercial banks, trust funds, in addition to the stock markets.

2.2.7-[Mercato Parallelo]

This is a market of credit bonds or certificates whose transactions are not regulated or controlled by the government or by financial lending institutions. This is a kind of black market with this difference in that it is tolerated by the authorities so long as it does not go beyond certain limits.

2.2.8-CATS

These are the initials for the English *Certificate of Accrual on Treasury Securities*. They are issued by the North American [sic] treasury and sold at big discounts on the indicated value but without coupons or interest. The return on these certificates is obtained only at term when the owner receives the indicated value. CATS cannot be redeemed before term. Such certificates are suitable for long term investments as, for example, those connected with pension plans.

2.2 – Economic Systems

2.3.1-The Concept of an Economic System

Each society has the task of deciding the nature and quantity of goods and services it shall produce and where and how these goods and services shall be produced and distributed; their reasons can be diverse (consumption and private or public investment) as can their participants (individuals or groups). Different societies have different ways of accomplishing the task. The way in which each resolves the matter defines, in a manner of speaking, the various economic systems.

2.3.2.-Pure Capitalist Market Economy

This ideal system never existed in fact. It was proclaimed as a model of economic efficiency and as a measure with which to look at world economies and real politics.

This system is distinguished by:

- the establishment of private property with guaranteed legal supports;
- flow of free enterprise and competition;
- predominance of commercial production for the sake of sales in competitive markets as opposed to subsistence production;
- prevalence of the objective of maximizing consumer satisfaction;

Productive resources, i.e., the goods and services, are found and distributed among activities and procedures called the trade mechanism, which in turn has the following distinguishing features:

- a) decisions: what, where, when, how much to produce are all made by the individual economic entity: the individual, the family, the company.
- b) These individual entities base their decision on the alternatives available to them, expressed by market price for goods, services, and raw materials available to them and which they cannot change.
- c) Costs are determined by the flow of supply and demand.

This economic system strengthens both “perfect” competition and the “invisible hand”. In summary, the fact that each individual economic agent in the capitalist system seeks to satisfy his/her own interests *per se* makes it able to satisfy the interests of the nation.

2.3.3 – Developed Capitalist Market Economy

While the paradigm of a pure capitalist market economy rests on a fundamental premise – private property and private use of resources and individual private entities making decisions

– in reality, the greater part of capitalist market economies in the developed world are a mixture of various systems of resource ownership and public and private economic decision making. For a number of years governments have assumed growing control over aggregate economic activities using one or other of the following: monetary and fiscal policy; growing participation in economic activities in the form of state owned or “public” industries, and programs of public investments. Additionally, just as such capitalist societies have increasingly deviated from their ideal world of competition among producers, with ever greater frequency their governments have been called up to moderate and regulate these activities and their undesirable consequences of giant monopolistic corporations.

In the greater part of developed countries today, where the economy is directed toward the marketplace, governments engage in a number of direct and indirect roles in the economy. These are: economic planning; regulation of the activity of private corporations; taxation on individuals and private corporations; public expense allocation; direct participation in investment; administration of public companies; conduct and regulation of foreign commerce; manipulation and control of salaries; determination of interest and other rates; redistribution of profits as well as other kinds of activities.

Thus, while the institution of private property and the idea of individual economic freedom appear in the rhetoric of advanced capitalist societies, any distinction between public and private economy, between control or free flow of prices and salaries, between public and private interests, is becoming less and less evident. In many respects, the “invisible hand” of the market mechanism is being replaced by the “guiding hand” of the central government as the chief economic force in capitalist societies.

2.3.4-Socialist Market Economy

For a number of years, economists held conflicting notions about the social implications of the pure market model of economics.

From one perspective, the automatic adjustment mechanism of competitive pricing (meaning that prices would be useful in allocating resources, goods, and services through their automatic rising or falling movement which would balance supply and demand) capable of promoting efficiency to individual economic entities under the guise of incentives, was to be retained as one of the more important and useful functional helps to any economy.

From another perspective, private ownership of resources and the tendency to concentrate such property in the hands of few people, so as to allow the market to allocate wealth in extremely uneven fashion, led several economists to advocate the abolition of private resource ownership (except for labor) yet holding onto the essential qualities of the market mechanism.

The resulting system became known as “socialism of the marketplace” or “decentralized socialism” in the sense that the socialist ideal of collective ownership of resources was combined with the capitalist ideal of making decisions about pricing and profits at the level of decentralized individual economic activity.

To sum up, the social economic market systems strive to retain the best of both worlds: the pricing mechanism and the efficiency of capitalist markets and the egalitarianism of socialist production and distribution.

2.3.5- Market Economy of Central Control

This kind of economy is in complete opposition to the capitalist market economy.

The direct socialist economy is based not only on collective ownership of all productive resources, but also on the complete substitution of the market pricing mechanism with centralized planning of all economic activity. There exists a kind of central planning committee at the top of the pyramid while at the base are found thousands of companies and organizations operating individually, though property of the state, the function of which companies, etc., is to carry out the directives and reach the production goals set by the central committee. Prices are also set by the central committee. Regional and national plans are drawn up each year that determine the methods of production and the material needs for all the sectors for practically the entire economy.

Material needs and their availability are counterbalanced as the function of allocations made by the center, in contrast to the function of pricing for a market system.

The economy tends to have the capacity to mobilize economically scarce resources and channel them to a more productive use over time.

The paradigms for the kinds of property or ownership under this system are: private, common, cooperative, and state.

Private property or ownership is rather limited and consists in small machines, farm houses, some city dwellings, and small parcels of land that cannot be sold.

Common property includes almost all land and all the means for agricultural production and the industries.

Cooperative property includes economic activity that is not rural, and its commercial aspects, with all its worker members sharing the property of these activities.

State property extends to all lands and production means that are not in the hands of communes and cooperatives.

2.3.6-Mixed Economy: (Capitalist) Market and (Socialist) Planned

The greater number of developed countries can be classified among those with mixed capitalist-socialist systems, excepting China, Cuba, and North Korea.

Various degrees of private property ownership of resources coexist along with a substantial degree of participation in public economic activity. Frequently resources are the property of the commune with both private and public interests in them.

Generally, government exercises a rather more important role in the economies of the southern hemisphere (Third World) than is found in developed capitalist societies.

An Observation: when speaking about economic systems, it is always useful to speak about tendencies. The economic systems of the various countries are never found in the “pure” state. It is possible to make comparisons among systems but only as a frame of reference.

At the University of Warsaw, the following once appeared written on a blackboard: “Capitalism is the exploitation of man by man; Communism is the opposite.”

Source: TODARO, M.P. *Introdução à Economia: uma visão para o Terceiro Mundo* [Introduction to Economics: A Third World Point of View] Rio de Janeiro, Campus, 1981

2.4 Associations and Organizations

Economics today is sufficiently guided and planned. There are large organizations, interest groups and corporations which, simultaneously, have a group of political interests which are very well structured and organized. In economics, things do not happen by chance. Decisions are taken and put into effect. For this reason, this situation must be taken account of. We will present a brief outline of the associations which are most influential in decision making today.

2.4.1. OECD - Organization for Economic Co-operation and Development

This organization was created in 1961 taking the place of OEEC (Organization for European Economic Co-operation) the inclusion of the USA and Canada, and the adoption of development as one of the objectives, justified the change of name. This structure grew out of the existing membership and comprises: Germany, Austria, Belgium, Denmark, Finland, France, Great Britain, Iceland, Ireland, Italy, Luxembourg, Holland, Norway, Portugal, Sweden, Switzerland, USA, Canada, Spain, Japan, Australia, and New Zealand.

Since 1990 five other countries which have weaker economies have been admitted on the grounds of treaties which involve ties with the European Union or the American free trade zone (NAFTA). The countries are: Turkey, Mexico, Hungary, Poland and the Czech Republic.

(Translator's Note: the Slovak Republic joined in 1996 and South Korea in 1997)

The objectives of the OECD are: motivating economic growth, a high level of employment and financial stability amongst member countries, as also contributing to economic development and the expansion of multilateral commerce.

The OECD functions through various commissions and secretariats and regularly publishes statistical bulletins, reports and specific studies. It is still considered an important forum for discussion on international monetary problems and for the promotion of technical assistance and aid for developing nations.

2.4.2 WTO (World Trade Organization)

In a certain way this substitutes for GATT (General Agreement on Tariffs and Trade) which wound up its activities after the re-union in Marrakech (Morocco) at which 97 countries signed an agreement to draw up a new constitution starting in 1995. The WTO by contrast with GATT, has a permanent charter which came into full effect in 1999.

2.4.3 BIS (Bank for International Settlements)

This is a financial organization which was created in 1930 with seat in Basle (Switzerland). Its objective is to promote co-operation between central banks and facilitate international financial operations. It functions, above all, as a co-ordinator of short term international monetary transactions. Many of its functions have been subsumed by the IMF even if the BIS continues to have a role in terms of co-ordinating European central banking.

The directors of the BIS are drawn from the central banks of Great Britain, France, Switzerland, Italy, Belgium, Holland and Sweden.

2.4.4 G7 (The Group of Seven)

This is a grouping of the seven most powerful economies in the world. They gather each year to discuss the state of the world's economy and to co-ordinate economic policies as well as monetary and financial matters on a world wide scale.

It is made up of: USA, Canada, Japan, Germany, France, Great Britain, and Italy. Because of its political and military importance Russia was invited to join the group and therefore the group is sometimes referred to as G7 + 1

2.4.5 The Paris Club

At present the Paris club or the Creditors club, or even the Group of Ten, functions as a mechanism for discussing the multilateral refinancing of debts of countries which are not members of OECD.

The OECD has moved into having a wider sphere of operations than the OECE and one of its objectives was "to co-operate towards the expansion of world economy on the basis of multilateral and non-discriminatory practices" which represented a broadening of commerce between all the nations of the world.

In truth the post-war years have been characterized by a very large balance of payments surplus in the USA combined with a shortage of dollars internationally. In order to defend their own industries and the level of employment at home as well as defending a balance of payments, the industrialized nations of Europe supported very high export levels. The counterpart to this was certain advantages for importation especially when such deals involved making acquisitions within the European nations.

Latin America became a magnet for the expansion of European exports, and not only because there was a naturally expanding market, but also because there were reserves of revenue accrued during the second world war. However this capacity for acquisition did not last on a long term basis. Already in the 1950's some Latin-American countries, starting with Argentina and Brazil, had difficulty in settling their accounts with the OECE countries.

It was in this context that the Paris Club was founded, that is, a gathering of creditors to discuss the problems of debt associated with non-member countries.

2.4.6 IMF (International Monetary Fund)

This is an international financial organization which developed out of the 1944 Conference at Bretton Woods (New Hampshire USA)

It is a specialized agency within the UN, with its seat in Washington, which is part of the international financial system of the IBRD (International Bank for Reconstruction and Development)

The IMF was created to develop monetary co-operation between capitalist countries, co-ordinating exchange rates (to avoid destabilizing devaluation) and establishing a fund amongst member countries that could be used whenever a member found itself in difficulty with international payments.

Almost all the relatively industrialized countries (with the exception of socialist based economies) are part of the organization. Every country pays a quota to the fund (three quarters in its national currency and a quarter in gold) and nominates a delegate and a substitute as his representative.

There are 20 directors of the fund (5 nominated by the countries which have the highest quotas and the others elected by the representatives) who elect a director general from among their number.

One of the principal functions of the IMF is to regulate parity between currencies (in relationship to the gold standard). In the first years of the IMF, if a country wished to change this relationship, it had to put in a request to have this studied by the IMF in view of possible consequences in terms of international monetary exchange stability. In this way the organization sought to maintain a constant level of purchase and sales taxes for money between themselves.

Since 1971, with the fall of the gold standard of comparison for currencies, the Group of ten (USA, UK, Canada, Germany, France, Belgium, Holland, Italy, Switzerland and Japan) have established a new 'central value' devaluing the dollar by 10% and allowing the other currencies to float by 2.25% around their starting value. To regulate help for the countries with balance of payments difficulties, in 1967 a special withdrawal procedure was established according to a theoretical currency (internationally acceptable) which was drawn from a balance of 16 currencies. Each country has its own DES in proportion to the amount of quota it receives. Higher values are possible by direct appeal to the IMF. In each case help is tied into the proposed purpose and a fixed term of between three and five years is set.

When help has been asked for, the organization sends representatives to study proposed solutions to the financial problems that have arisen in member countries. This is especially the case when instability has arisen, for example, due to hyper-inflation or a fall in exports, when the IMF experts will suggest a rapid adoption of corrective methods so that internal difficulties do not create international fiscal problems.

Where the IMF has been asked to assist it remains faithful to a politics of monetarism (single and fixed exchange rates, monetary exchange, cuts in public spending, fixed wage rates etc...) and this is not always beneficial to developing countries since it has the effect of occasioning a recessive tendency in the economy and heightening social costs.

2.4.7 The Bretton Woods Conference

After the second world war many economies had become devalued. In July 1944, 44 countries gathered at Bretton Woods in New Hampshire (USA) to plan for economic monetary stability. This conference was organized under the auspices of the United Nations.

The Bretton Woods accords which gathered the capitalist countries under the leadership of the USA gave rise ultimately to the IMF and the IBRD.

3. NEO-LIBERALISM AND GLOBALISATION

3.1 Liberalism

By Liberalism is understood that political doctrine which favors the liberty of the individual and limits the power of the state. Liberal ideas, formulated in the between the 17th and 19th centuries in Europe, were a challenge to the absolutist and mercantilist states of the time in favor of constitutional government based on a free market. The diffusion of these ideas is linked to the development of capitalism and the growth of working classes. Whether at the level of theory or practice there is nothing to separate liberalism and neo-liberalism. If they are to be distinguished it is at the level of the way they are taught.

3.1.1. Political Liberalism

The principles of the liberal state were first explained by the philosopher **John Locke** (1632 - 1704) in 'Two Treatises on Government', Locke outlines his theory of inalienable human rights, life, liberty, and property. Civil society, created freely by humans, exists to preserve these rights under the protection of the law.

In France, the philosopher **Montesquieu** (1689 - 1755) writes 'On the Spirit of Laws' in which he defends the separation of powers (Legislative, Executive and Judiciary) a principle which will be incorporated into liberal constitutions. This idea will be developed later in the thought of **John Stuart Mill** (1806 1873)

Liberalism has contributed to important movements in the modern era. In Britain the 'glorious revolution' of 1689 establishes the complete triumph of parliament over the power of the king. In the United States liberal principles are enshrined in the Declaration of Independence of 1776. In France liberal principles dominate the post-revolutionary period.

3.1.2 Economic Liberalism

Liberal Economic theories oppose the policies and practices of state controlled mercantilism. They hold that the dynamic: production, distribution, and consumption of goods is supported by natural laws which should be taken notice of and observed. Thus the function of the state is to ensure that these laws function well and to safeguard the right to private property.

The principle theorist of this ideology is the Scottish economist **Adam Smith** (1723 - 1790) author of 'An inquiry into the Nature and Causes of the Wealth of Nations' (1776). In this work he proposes an economic model based on the free interplay of supply and demand, the 'laissez-faire' model. All wealth is therefore based on the principle of human endeavor which is given structure through free enterprise and industrial and commercial entrepreneurs. Smith's theories are carried on and developed in the thought of **Thomas Robert Malthus** (1766 - 1834) and **David Ricardo** (1772 - 1823)

Liberal ideas remain dominant till the end of the nineteenth century. From that point they give way to more and more state involvement especially in the fields of education and health intended to overcome social inequalities.

In brief, the central text of Liberalism is this:

“The minimum possible intervention of the state and of politics”

This posits the de-politicization of the market and the free movement of people and capital. This corresponds to the views of Smith. The intransigent defense of individualism.

The theme of social equality appears within liberal and neo-liberal thought only in terms of equality of opportunity and an equal starting conditions for all. Liberalism has always opposed inequalities sustained by state intervention. Liberalism has always maintained that at the outset conditions should be equal, after that differences in the abilities of individuals will inevitably result in different outcomes, which is, of course, perfectly legitimate and necessary to the dynamic of a democratic capitalist society.

3.1.2.1. The difference between early liberalism and that of the end of the century.

The following reflections are indebted to the work of **Jose Luis Fiori** (Os moedeiros falsos, Petropolis Vozes 1997 - the false monetarists).

Notwithstanding that there are fixed points in liberal theory, like those outlined above, there are also significant differences in the liberalism of the end of this century.

A) Firstly, liberal individualism presents itself today explicitly as ‘methodological individualism’, a claim to scientific status which was never claimed in the past. This involves an attempt to reach an ever higher degree of satisfaction from a formal, even mathematical perspective. It is in this sense that we should understand the theories of ‘games’ and ‘attainable expectations’ and ‘public choice’ as expressed in economic theory.

B) Secondly, ideas and politics have worked together reciprocally developing alongside one another between the 70’s and the 90’s. It has often been ideas which shaped politics; ideological considerations have prompted general deregulation in the world’s markets.

C) Thirdly, the fall of communism and the progress of the neo-liberal ideas and the politics of the Eastern European countries has gifted new conditions in which neo-liberalism had never previously operated, an ideology which now manages to be accepted almost universally. It is precisely this that **Fukuyama** has elaborated in his recent work on the end of history; the idea that liberalism has gained an ‘urbi et orbe’ victory. It may be that this is not the whole truth however it is true that liberalism has never had such a widespread distribution nor enjoyed a more powerful hegemony as at this end of millennium time.

D) Fourthly, neo-liberalism rises up like a victorious ideology which opens the doors and confers legitimacy on a kind of wild vendetta of capital against politics and against working people. This victory has happened on account of the fact that the times in which we live have seen the struggle of the workers and the public politics together forming a complex system which is the welfare state. Fundamentalist Liberalism rebels against the welfare state.

3.1.2.2. Principle stages up to today

First stage: a time of resistance and clandestine activity. The period of the germination of the ideas of **Frederick Hayek**, which will see the light of day after the second world war, in his book ‘The Road to Serfdom’. He foresaw the rise of the welfare state and suggested ideas against its development. However, the powerful hegemony of the social-democratic

ideas of **John Maynard Keynes** has kept the ultra-liberal ideas of Hayek in check, in a kind of clandestine resistance.

Second stage: Beginning from the 1960's when the ideas of Hayek and then also of **Milton Friedman** began to be taken seriously in the universities. The theories of 'public choice' and 'attainable expectations' gain ground and 'game theory' is applied to economics.

Third stage: the movement of these ideas from economics to politics. When did this happen? With the coming to power of the liberal-conservative government of Margaret Thatcher in 1979 in the UK, Ronald Reagan in 1980 in the USA, and Helmut Kohl in 1982 in Germany. At this time and with these governments these theories were taken from the academics and translated by politicians especially Mrs. Thatcher whose government revolved around the terms: deregulation, privatization, and open markets. Subsequently these political ideas entered into the recommendations and conditions of the IMF and the IBRD and other financial organizations.

Fourth stage: defeat and implosion in the communist world. From this moment neo-liberal economic ideas take a qualitative leap. This is the moment when these theories overcame all resistance and become an almost religious utopia. This is the moment in which the countries of Latin America and many others are constrained to negotiating conditions from within a neo-liberal perspective.

3.2 Neo-liberalism

By neo-liberalism today we understand a political and economic doctrine which applies liberal / economic principles within the conditions of modern capitalism. It has its main tenets drawn from work began in the 1930's with the work of **Walter Lippman**, the Frenchmen **Jacques Rueff**, **Maurice Allais** and **L Budin**, and the Germans **Walter Eucken**, **W Röpke**,

A Rustow and Müller-Armack, as well as the work of Hayek discussed previously.

As with the classic liberal school, so also the neo-liberals hold that economic life is governed by a natural order, formed by the decisions of free individuals, whose 'gentle teacher' is the mechanism governing prices (i.e. inflation). They still defend the regulation of the market economy, not to suffocate it, but rather to assure its survival. This is because they do not believe, as the old liberals did, that the system can discipline itself.

In this way, for example, in order for inflation to be held at bay it is indispensable to secure financial and monetary stability, without which prices can get out of control. Control of the economy remains a function of the state and of the so called concurrent markets (of the European Common Market type) in order to combat the forces of free competition.

Some followers of neo-liberalism defend small companies against the huge monopolies as with American antitrust laws.

On the social level, neo-liberals defend the principle of not passing huge fortunes down by inheritance in order to ensure the principle of equality of competition.

At present the term applies to those who defend free market principles, seek to end state intervention, privatization of state owned companies (even essential public services), the opening up of the economy and fuller integration into a world market.

3.2.1. The Washington Accord

At a meeting early in 1990 in Washington an accord was drawn up which establishes a set of political principles in a modern expression of neo-liberal ideas.

It drew attention to (1) opening up of the economy through financial and commercial liberalization and the elimination of the barriers to direct foreign investments; (2) a stable economy can only be attained through fiscal discipline, tax reform, exchange rate stability, and the re-direction of public spending towards health, education and infrastructure; (3) the reduction of state control / ownership through privatization and deregulation.

In Europe the country which advanced these ideas most thoroughly was the UK especially under the government of Mrs. Thatcher. Other nations like France, Germany, Sweden adopted some of these ideas while holding on to a greater degree of state participation to protect their industries and regulation of the policies concerning their welfare state.

The USA followed the neo-liberal prescription however still holding on to protectionist policies and a huge public debt especially under president Regan.

In general, within neo-liberalism, the role of the state is limited to combating the excesses of free competition, in this way safeguarding the survival of the system.

3.2.2. The phenomenon of the market within neo-liberalism

It appears that for certain authors the market has certain divine characteristics; it is omnipresent, immaterial, and omnipotent. At the same time the liberals are afraid of the market which, when it is uncontrollable, especially the money market. What needs do people have ?

The world of capital is a far distant one which is not interested in production. The trade in capital has two characteristics: a) it is in the hand of individuals and is able to evade control of public authorities, national or international; b) it works in real time everywhere; millions of dollars can be transferred in an instant from Hong Kong to Frankfurt, or from Milan to Tokyo. There is no way of controlling this. Economic power has no geographic location.

George Soros, the Hungarian speculator based in the USA said in an interview: “Markets today empty each day. It is they who constrain governments to adopt unpopular but indispensable measures. Today it is the markets which understand what it is to be a state”

We can therefore ask: what is the future of the nation state, what kind of state do we need, what power will this state have, who will decide what we should produce, how can the market know what is best for citizens ?

The market within neo-liberalism seeks to maximize profits, which, of itself, is not a bad thing. The problem is that profits do not respond to human need. We now have a market in capital which is world-wide. Everyone is dependent on the market, the rich and powerful and also the poor and weak, but there seems to be a massive abyss between the two groups.

Enrico Chiavacci (1977 p12) outlines some of the consequences that a free market can bring:

The system is not interested in responding to the basic interests of the development of human being, only in maximizing profit. The system is not interested in maximizing production. It is possible today to maximize profit while reducing production. The system is not interested in work, except in as much as a factor of production where production is maximized by reducing costs. Working conditions and increasing levels of employment are foreign concepts to the market, which only disturb the system. The system is not interested in

what is made from the capital invested - only in how much profit can be generated. Whether it is medicines or armaments, schools or drugs, are choices which do not interest the investor.

The system is not interested in the ecology. Plant which is non-polluting, saves non-renewable resources, relies on sources of energy which cost more but are less polluting, - only adds to costs and reduces profit.

4. The Social Doctrine of the Church

This text is intended to serve as preliminary reading in preparation for the forthcoming General Conference on Economy and the Kingdom of God. After having considered some points on liberalism in the world and globalization and having learned some elementary vocabulary on the subject we will now look at the Social Doctrine of the Church as providing a criterion for judgement of the economic situation today.

Throughout history, the Church has always taken note of the social and economic reality of society. Very slowly this has given rise to certain points of doctrine which serve as criteria for analysis. They are recognized as principles for the organization of society. Underpinning all of this is an anthropological principle which puts humanity first, the single motivation for all economic activity; the point of departure and the ultimate goal of all endeavor. A system or a socio-economic organization which does not put people first can be criticized because it has lost sight of its *raison-d'être*. This *raison-d'être* is judged within economic activity in the measure to which these activities help in the fulfillment of each and every human being.

Here is a brief outline of some of the principles drawn from the Social Doctrine of the Church which can serve as criteria for analysis.

4.1 Solidarity

This principle affirms that at the same time, humans are both individual and social beings. We are not only individuals, we are also social and we do not lose our individuality in society. We are always both individual and social beings. In this way the extremes of individualism and of collectivism are avoided.

“In this way is held in check both individualism, which denies the social nature of persons and sees society as simply an aggregate of private interests, and collectivism, which robs people of their dignity and debases them into objects at the mercy of social and above all economic processes.” (Höffner, J, *Cristianesimo e società - introduzione alla dottrina sociale della Chiesa* p 27-28)

The principle of solidarity avoids reductionism, considering people as either purely individuals or as members of a society. People are social individuals. Each of these two aspects are inextricably united. There is no human being who does not exhibit both aspects. Where there is an imbalance of these two aspects it ends in individualism or collectivism. (cf. **Quadragesimo Anno**, 46). In the hierarchy of ethical values defined by the social doctrine of the Church respect for the person and their conscience is fundamental.

4.2 The Common Good

One of the great challenges for Christian social teaching is the tension between the individual interests and the common good. The principle of the common good, in the light of social order, is understood as:

“the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment” (**Gaudium et Spes** 25)

“the precedence of the common good over private good is validated in so far as the individual person is constrained within their particular pattern of social formation. This social formation within which people belong has to be viewed as unique in each and every situation.” (**Höffner**, op. cit. p35)

In the case where the common and particular are in conflict the former should always prevail. In this way the greater good is offered to the greater number who will see their living conditions improved.

4.3 Subsidiarity

The term subsidiarity derives from “*subsidium, sibiidiarius*” which means “reserve aid”. The word comes out of the vocabulary of the ancient roman military. The *subsidiarius* was a soldier of the reserves, there were even reserve cohorts (*cohortes subsidiarii*) who were held as a rearguard of the Roman army.

“Applied to society, subsidiarity indicates the intervention of a larger grouping on behalf of individuals or small groups, for the most part then we are dealing with the state and those organized groups which constitute the sphere of the so-called social formation organizations.” (**Höffner** op. cit. p. 38)

The definition of the principle of subsidiarity was proposed in *Quadragesimo Anno* (QA). What is involved, according to QA, is a principle of social philosophy. “It is unjust to take away from the individual those things which they are perfectly able to do for themselves in order to have them done by the state, at the same time demanding of the higher or more elevated aspects of society those things which properly can and should be done by smaller groups is also unjust, and causes severe damage and disturbance to the social order. The natural purpose of society and its activity is to assist its members, not to destroy nor to absorb them” (QA 79)

Pope John Paul II formulates his understanding of subsidiarity a little differently in the light of our contemporary reality:

“An essential condition is that the economy needs to be given a human sense and logic (...) It is necessary to liberate various aspects of our existence from oppressive economic strategies. Economic policies need to return to their proper place and so create a multifaceted society like a woven garment which avoids massification” (J.P.II Discourse to the workers of Sao Paulo 3.7.80 in *Todos os pronunciamentos do Papa no Brasil*. S. Paulo Loyola, 1980 p102 - 111)

We understand that it is necessary to have an authority which is able to control the market. However it is necessary to intervene in a subsidiary way so that “oppressive economics” does not limit or invade those areas of work which belong to individuals or intermediate groups.

Subsidiarity favors intermediate groups such as, schools, families, small groups, trade unions, parties etc. When groups like these are unable to function properly, it is up to higher powers to act. Intermediate organizations should always be privileged.

4.4 **Human Dignity**

The starting point of the social teaching of the Church is the dignity of the human person especially in the light of his supernatural destiny. People have the right to be able to develop integrally all the aspects of their personal and social lives. Therefore a vision which reduces us to 'homo oeconomicus' is unacceptable.

Human beings are gifted with freedom and unique personalities. Viewed from the perspective of economics, freedom is manifest in the taking of free initiatives, the foundation of private property. Excessive state intervention has proved itself damaging to progress, freedom and personal development. (cf. **Alves A. A.** *Economia e Doutrina Social da Igreja* (mimeo), p 6 - 7)

The dignity of the human person is also often offended through situations created by neo-liberalism and globalization. This is clearly seen in the case of Africa when its own rich cultures with all their value systems are overlooked, and natural resources are seen only in terms of the profits that can be made for more developed economies. In such cases the person is irrelevant. Human dignity has been eliminated. (cf. **Klizerbo, J** *Le grandi trasformazioni del sud del mondo*).

4.5 **The universal purpose of goods**

The goods with which the earth provides us, only have a purpose within a human framework, they are oriented towards the service of people and communities. They exist so that people can fulfil their lives' plan.

If things are used without reference to human auto-realization they have no sense. They are there to satisfy human needs and aspirations. If goods are used for the sole purpose of making money, to generate capital which will never arrive at a human destination, these are unnatural goods.

The social doctrine of the Church, for us as Christians, offers us parameters of judgement which we can use in our society and in the economies of today. If it is true that the chief characteristics of the economies of today are neo-liberalism and globalization, then our principles for a Christian society give us reason for disquiet. We cannot remain indifferent. Our status as religious calls on us to make a stand.

At the end of the industrial revolution the Church was called on to respond to the social situation. It is now even more urgent, in our own days, that questions are raised. Our weakest and undefended brothers are hurting are we are not even aware of it. We ourselves have been attacked by neo-liberalism and globalization in their most negative effects, and we are not always conscious of it. We are the victims.

The prophetic nature of religious life calls on us to make a clear and courageous stand.

PS The present text is intended to serve only as something to wake us up and call us to action. When the general conference has taken place, what will change in our personal, community, or Congregational lives ?

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