the Pontifical Academy of Social Sciences

Final Statement of the Meeting on Private Capital and Public Purpose

Program on The Fraternal Economy of Integral and Sustainable Development

The world is productive enough to end poverty, ensure a place in school for every child, and convert rapidly to sustainable energy and land use to face climate change challenges and ensure just wealth distribution. Humanity has, in short, the technical and financial means to meet humanity's material needs. The urgent tasks are, therefore, neither economic nor technical but ethical and political: to cooperate for the global common good.

We can put today's challenge in numbers. The world's output in 2023 will be around $US 104 trillion, or approximately $12,500 per person. With an average income of $12,500 per person, there is absolutely no reason for any person on Earth to be trapped in extreme poverty and hunger. What is falling short is the ethical, political, and institutional commitments to the poor.

Of the $104 trillion in the 2023 global output, roughly $27 trillion, or 26%, is being saved and invested for the future. This saving enables the world economy to develop further and, at least potentially, to achieve Sustainable Development, in which every part of the world generates the output, decent jobs, and other conditions to meet human needs and protect the planetary boundaries within which humanity can continue to develop and thrive for generations to come.

For this to succeed, the $27 trillion, plus a modest amount more, must be directed towards social priorities and away from destructive investments such as military armaments and environmentally destructive technologies. The saving needs to be directed to building schools, clinics, and hospitals, safe water and sewerage facilities, renewable energy systems, public transport, fast rail, digital connectivity for the poor, social housing, protected nature reserves, and other investments to achieve the Sustainable Development Goals, the Paris Climate Agreement, and the Kunming-Montreal Biodiversity Framework.

The Global Financial Architecture (or GFA) encompasses the myriad and varied institutions – including commercial and investment banks, insurance funds, sovereign wealth funds, international financial institutions, export credit agencies, corporate finance divisions, and others – that allocate the world's savings towards the world's investments. A well-functioning GFA will ensure that the world's saving is properly channeled to the world's priorities.

Three functions of the GFA are paramount.

First, the world's savings should be directed towards Global Goods such as renewable energy rather than towards Global Bads such as fossil-fuel energy causing global warming. This may be called the *allocation challenge*, directing the savings to the right ends.

Second, the world's savings should finance the needs of the poorer half of the world with urgent priorities to build schools, clinics, water and sanitation facilities, renewable energy systems, and other investment priorities needed to escape from poverty. This may be called the *development* challenge.

Third, the world's financial system should prevent future financial crises such as occurred in the Great Depression, the Developing Country Debt Crisis of the 1980s and 1990s, the 1997 Asian Financial Crisis, and the 2008 Great Recession, each of which was caused by a failure of the financial system itself. This may be called the *financial risk* challenge.;

We, members of the Program on Fraternal Economy of the Pontifical Academy of Social Sciences, call on the world's nations meeting at COP28 in Dubai, the 2024 Summit of the Future, and the 2024 meeting of the G21 nations in Brazil to act with urgency and solidarity to make the GFA fit for purpose, in order to meet the allocation, development, and financial risk challenges of our time.

The GFA is certainly not fit for purpose today. Far too much of the world's saving flows to Public Bads rather than to Public Goods; far too little flows to the world's poorer nations to enable them to meet urgent economic and social needs; and far too much risk is built into the financial system itself, revealed as punitively high-interest rates and frequent debt crises of the poorer countries.

Consider the allocation challenge. The International Energy Agency informs us that the world must direct the vast preponderance of future energy investments towards zero-carbon energy. Yet billions of dollars are flowing each year towards the expansion of fossil fuel production capacity, thereby undermining our own survival. This mal-investment must stop. Similarly, the raging wars around us recall to us Isaiah's enduring statement of the greatest allocation challenge of all: to beat our swords into ploughshares and our spears into pruning hooks.

Consider the development challenge. The world's poorer nations, including the 700 million people in Low-Income Countries (LICs) and 3,200 million people in Lower-Middle Income Countries (LMICs), constitute 52% of the world's population, but just 10% of the world's investments in 2023. This meager share is insufficient for these nations to meet the SDGs and Paris Agreement. While precise estimates vary, the LICs and LMICs need another $1-2 trillion per year of sustainable investments. This is not much, just 1-2% of world output, but the GFA is certainly not yet delivering the needed flows.

Consider the financial risk challenge. In highly developed financial markets, such as in the US, Europe, and Japan, various measures have been adopted to reduce the likelihood and possible costs of future financial crises. These preventative measures include the Lender-of-Last-Resort (LLR) lending by the central banks, the official deposit insurance systems to forestall bank runs, and highly developed secondary markets for public and private debts so that sovereign governments do not suffer debt crises.

Yet the poorer countries do not have such privileges. They borrow abroad in foreign currencies (dollars, Euros, and others) without the benefit of a Lender of Last Resort. They have banking systems that are highly vulnerable to self-fulfilling panics. Sovereign debt crises recur every generation or even more frequently.

The risk profile of global finance is, therefore, dangerously dysfunctional. When governments of poor countries take on loans from global capital markets, the interest rates are sky-high, and the repayment schedules are very short. Successful development requires decades to bring to fruition (just consider the 20 years or more needed for education through the tertiary level), yet development loans are often just for a few years. When those short-term debts come due, the countries are often pushed into default, even though their long-term economic prospects are very positive.

The Fraternal Economy program received evidence and recommendations from financial experts in both public and private institutions on the overhaul the GFA. Many kinds of reforms will be needed to help the world overcome poverty, environmental hazards, and wars and violence. There is no single magic bullet. What we need more than ever is the global determination, solidarity, dialogue, and innovation to succeed.

Regarding the allocation challenge, there is no substitute for effective public regulations to promote ecological transformation, including the transition to zero-carbon energy by mid-century. Voluntary actions are also needed. Generosity is needed. The engagement of civil society is crucial to win public awareness and support for policies for the common good.

We considered, in particular, the role of Environmental-Social-Governance (ESG) Investing in the context of the energy transition. While the term ESG is used in many ways, varying from an ethical meaning (investing aligned with values) to a legal-technical process (financial risk disclosure), the ESG mindset can help direct our saving towards the common good. Nonetheless, we must avoid overstating or misrepresenting how ESG, as currently practiced, supports meaningful action.[1]. To achieve this goal, ratings agencies and regulators must agree, in addition to environmental impact in the E category, on a concrete number of measurements in the S category in areas such as the misuse of technology and the dignity of workers.

The single most promising measure in the coming few years is to increase the flow of saving through the official International Finance Institutions (IFIs), including the IMF, the World Bank, the regional development banks (African Development Bank, Asian Development Bank, Asian Infrastructure Investment Bank, Inter-American Development Bank, Latin American Development Fund, Islamic Development Bank, and others).

In this approach, the High-Income Countries (HICs) and Upper-Middle Income Countries (HMICs) would invest new capital into the IFIs, and these institutions would then leverage the increased capital to borrow directly from the world financial markets. Properly capitalized IFIs can borrow long-term on excellent (AAA) terms, and then on-lend to their LIC and LMIC members on AAA terms. In this way, much more global saving, at least another $500 billion per year, can finance investments in the LICs and LMICs.

We therefore call on the UN member states meeting at COP28, G21, and the UN, to act with full urgency to increase the capital base of the IFIs in order to support several hundred billion dollars more per year to the poorer nations of the world.

Private companies should also direct more of their own direct investments to poorer regions and poorer portions of society. Many companies are seeking to make new investments in the LICs and LMICs because they see the true long-term economic growth potential of these nations. Yet successful foreign direct investment (FDI) in poorer countries is currently hampered by weak infrastructure and the insufficiency of highly trained workers. Thus, to increase FDI to the LICs and LMICs we need official financing to help build the skilled workforce and infrastructure on which successful business depends.

We learned of many creative new public-private partnerships to increase sustainable financial flows to the LICs and LMICs, and to create new sustainable supply chains. These innovations include new “investment platforms” and “country platforms” to bring together stakeholders from the public, private, and civil sectors to promote sustainable investments and to crack down on the institutional and personal corruption that undermine sustainable development in the rich and poor countries alike. They also include new networking among private-sector companies intent on rising to the sustainable development challenges.

We call on the major global financial institutions – private-sector banks, asset management funds, insurance funds, the IMF, World Bank, and national development banks – to cooperate actively on innovative new platforms guided by the SDGs and the global environmental goals.

At the core of success will be ethical discernment. We urgently need an escape from rampant materialism, greed, corruption, and violence that plague our world. We need to build a shared ethics deeply into our shared endeavors – in education, inside companies, in our daily lives. Here too, institutional innovations will be important. Businesses need to adopt ethical standards and ethics institutions within their firms to keep the common good in the forefront of their strategies and practices. Pope Francis recently told business leaders: “The first capital of your company is you: your heart, your virtues, your will to live, your justice.”

In his meeting with Latin American university presidents in September 2023, Pope Francis stated that "the market economy works, but on condition that it is social....The condition, to avoid a philosophy or an economic or social theory that favors degradation, is market social justice. You have to be very clear about that. The social market economy. Without social justice you cannot think about the development of a country or a person".[2] In that same meeting he announced the Laudate Deum apostolic exhortation, in which he emphasizes the need for a new global politics and reformed global institutions that are directed towards protection of our Common Home and towards the Common Good. In Pope Francis's words:

Our world has become so multipolar and at the same time so complex that a different framework for effective cooperation is required. It is not enough to think only of balances of power but also of the need to provide a response to new problems and to react with global mechanisms to the environmental, public health, cultural and social challenges, especially in order to consolidate respect for the most elementary human rights, social rights and the protection of our common home. It is a matter of establishing global and effective rules that can permit “providing for” this global safeguarding. (Laudate Deum, 42)

Pope Francis also stated that business can be a “noble vocation,” but only when it serves the common good. To that end, the Vatican’s “Vocation of the Business Leader” lists three ways this takes place: (i) through the production of *good goods*, goods that are truly good and services that truly serve: (ii) through *good work*, whereby businesses respect and promote the dignity and rights of workers; (ii) through *good wealth*, whereby businesses produce wealth sustainably and distribute it in line with justice.

[1] Sachs, Lisa and Mardirossian, Nora and Toledano, Perrine, Finance For Zero: Redefining Financial-Sector Action to Achieve Global Climate Goals (June 2023). Available at SSRN: https://ssrn.com/abstract=4512376 or http://dx.doi.org/10.2139/ssrn.4512376

[2] Cf. SS Francis, "Diálogo del Santo Padre con los rectores de las universidades de America

Latina", (in Spanish). September 21, 2023, Holy See, https://www.vatican.va/content/francesco/es/speeches/2023/september/documents/20230921-rettori.html)