

Vatican newspaper says crisis shows failure of 'new economy'

VATICAN CITY - The current financial crisis pummeling the United States and beyond is a sign that the so-called "new economy" and its risky investments have failed, the Vatican newspaper said.

The booming growth of financial markets did not correspond to real growth or concrete development for society because it created an artificially robust gross national product, said a Sept. 24 article in L'Osservatore Romano.

The only real growth registered in this crisis has been "the commissions, profits of the banks and bonuses for the managers," it said.

The article, with the headline "A costly illusion," was written by Ettore Gotti Tedeschi, an Italian economist and professor of financial ethics at the Catholic University of the Sacred Heart in Milan, Italy.

The U.S. financial meltdown has been blamed on "the greed of managers and lack of regulations. But curiously, no one ever refers to the indirect responsibility of the government's economic policy" which, he wrote, tried to cover the lack of any real economic development with a booming Wall Street.

He said the U.S. government's proposed bailout may stave off any worst-case scenario for its troubled financial markets, but it will not repair the root causes of the crisis.

"Despite various attempts, the Western world does not know how to map out a model of development that is capable of guaranteeing stable wealth," the article said.

The West has "not succeeded with its new economy project, it did not succeed with accelerating growth in Asia by transferring low-cost production (there), and it did not succeed after inventing a boom in the GNP through risky financial models that were poorly conceived and badly regulated," it said.

“In order to maintain this sham GNP, the banks financed things that were not guaranteed” and that should not have been financed, like the subprime loans, it said. Financial institutions created an “economic growth out of debt and, therefore, (created something) very risky,” it added.

The article said the lesson to be learned is that nations cannot build a healthy economy or experience real development if it is not based on “balanced demographic growth.”

It said the world economy also needs to be run responsibly and transparently with precise rules.

The L'Osservatore Romano article ran the same day Rome's Pontifical Gregorian University hosted a seminar.

Sponsored in part by the international investment bank Barclays Capital, the seminar gathered speakers from Italy's religious, political and economic fields to discuss social development, environmental protection and financial markets.

Giulio Gallazzi, founder and president of the financial and business consulting firm Socially Responsible Italia, was one of the conference speakers.

He said when an economy is based predominantly on the health of its financial markets and not on growth in the industrial, manufacturing and service sectors, the bubble of wealth that is generated is more difficult to distribute to the rest of society.

The seemingly paradoxical term “jobless growth,” he said, indicates this problem in which a nation's GNP increases without an increase in employment, which means much of the new wealth does not trickle down to the working classes.

Nations need to reconsider now-debunked economic theories from the last century and create new rules that favor long-term growth and investments that involve “measured and manageable risk,” he said.

Businesses and stockholders should also engage in “value sharing” in which they choose investment opportunities not solely for their chances at reaping a profit “but

as an opportunity to contribute to the common good” and sustainable development.

He and other speakers emphasized the importance of having banking institutions and foundations concentrate on helping the local communities in which they are based.

Besides offering microcredit and small-business loans, local projects should also include scientific, humanistic and cultural initiatives that foster a person’s “full development,” the speakers said.