

Basel Manifesto on the Economic Enlightenment

For the past two years (2010/11) a group of scholars in the fields of theology, economics, business, cultural and media studies have worked together in the Center of Religion, Economics and Politics (ZRWP) at the University of Basel. The joint research was focused on understanding whether religious and near religious ideas, theories and ideologies determine today's economy and particularly the financial sector, and if so, how. The results of this interdisciplinary research are introduced in the anthology „Risk – Trust – Guilt“, which will be published in 2012. The Basel Manifesto on the Economic Enlightenment presented here tries to give a brief and pointed summary of the research group's considerations.

Marc Chesney

Paul Dembinski

Jochen Hörisch

Birger P. Priddat

Peter Seele

Christoph Weber-Berg

I

The market economy of Western countries has had an impressive success story. Despite all the obvious criticism (e.g., against ecological damage and social inequality) this is certain: since World War II the market economy has fostered previously unknown levels of mass prosperity, social equity, education and empowerment opportunities for many, relatively stable currencies and peaceful cooperation between the Western States.

In recent years, however, crisis symptoms and threats accumulate on the level of global economy. Suffice it to mention some keywords like the stock market crash of the New Economy, the barely averted collapse of the international financial sector in 2008, the current national debt crises, "Occupy Wall Street" demonstrations, but also the programless and disoriented youth riots in French suburbs, or the civil war-like conditions in London. They all illustrate the dangers threatening and already damaging peace and prosperity.

The authors of this statement are convinced of the advantages of a free and social market economy, particularly in light of the collapse of socialist state-planned economies in 1989. Precisely for this reason, they criticize quasi-religious excesses of the market, as it is worshiped by the neo-liberal doctrine and its economic policy. Left unquestioned, belief in the unlimited market efficiency and the perfect market undermines the possibilities to influence the market situation reasonably. One example of the tangible consequences of economic heresy is the Nobel prized theory of the particular efficiency and transparency of financial markets: that it is simply wrong, has been shown clearly – it is a market believing financial ideology.

We have grown from a society with a market-based economy into a financial society worshipping the false god of the self-organizing market. Free market economy

means to rely on the productivity of freedom of contract, scope of influence and responsible action - and not just on the fundamentalist belief that the invisible hand of the market will rule everything, because it ensures a state of equilibrium.

Economic theories attempt to acclimatize us to the fact that the market makes claims with absolute validity - "the market wants" deregulation, bonuses, payments for failed managers, low wages or privatization of education and safety: These formulas show that "the market" is declared to be a god-like staple, whose sublime reason people have to submit to. This contradicts the idea of freedom, which significantly legitimizes the market economy. Free market economy means being able to decide autonomously and responsibly. In this sense, this statement calls for (financial) economic enlightenment that keeps pace with the religious-theological one and reveals the danger of believing in an invisible hand.

II

In recent decades, the financial sector has decoupled more and more from the real economy – which simply means that there are undeniably many financial stocks which are not covered in the real economy (papers in bad banks, derivatives, junk bonds, Greek government bonds, pension promises, sub-prime loans, etc.). With the dominance of a partially delirious financial sector on the real economy, we are dealing with a new phenomenon. Individual households, businesses and public authorities have become dependent on the requirements of transnational exchanges, which means a loss of sovereignty for the state. It is threatened by the self-expropriation through progressive indebtedness, not least through the acquisition of the excessive debts of the banks. This debt management strategy is based solely on the belief in a progressive growth, which is now threatened by the crisis in the financial sector. The state as a "lender of last resort" shall save debt-ridden banks and finally realizes that it is in debt itself. Who rescues the rescuers?

The political establishment is in a dilemma: its ability to act depends more and more on the ability of the state to run into debt, which again is limited by the global financial markets. Politicians can no longer fill their democratic mandate fully. In view of the financial crisis politics has to be redefined, too. Forty years after the collapse of Bretton Woods we need new, global forms of political coordination that make it impossible for the financial industry to evade reasonable controls by escaping to other countries. That is the only way to prevent the speculative profits that are incessantly privatized while losses are socialized.

Credit is a religious term in the German language, just like „Schuldner“ (debtor) and „Gläubiger“ (creditor), „Erlös“ (revenue) and „Messe“ (fair, service), „Offenbarungseid“ (oath of disclosure) and „Unsichtbare Hand“ (invisible hand). It is based on trust, and financial markets need a culture of trust in principle, to be useful for society. However, many financial market participants make money through strategic distrust (such as naked sales, or bets on insolvency and crisis) and thereby destroy a culture of mutual and relationship-based trust.

Those market participants who systematically betray the trust, albeit legally, endanger productive functioning markets. Not everything that is legal is therefore

legitimate. We need a new legitimacy of markets with transparent and verifiable rules – the invisible hand’s workings (like the public sector) cannot and do not have to be religiously elevated, but should be discussed and negotiated reasonably. Similar to a legal system, the free market subsists on conditions it cannot guarantee by itself. That is precisely why we must make it clear that negotiations and influences are available (taxes, pensions, rules for the financial market, bonuses etc.).

The financial sphere is too important and too powerful to leave it to the priest-like, fiscal experts. The function of economic and finance theories, which often have highly problematic repercussions on the behavior of economic agents, has to be rethought. The deregulation of the recent decades has increased the complexity in economics and finance and has intensified imbalances. Financial markets are no longer capable of ensuring an efficient allocation of capital and risks. To the contrary: they create additional system risks.

III

The considerations outlined here lead to the following specific recommendations:

1. *Bank size and its monitoring:* Banks should be divided into investment banks and commercial banks – according to time-proven historical rules¹. The size of the banks should be limited in order to avoid the too-big-to-fail problem, which means nothing else than a risk insurance for profits that is borne by all, while it benefits only few.
2. *Approval of financial products:* Financial products should be certified just like products in the pharmaceutical, nutritional sector etc. We are highly sensitive to health and technical risks, but not to financial economic ones. Derivatives are useful as insurances, but dangerous as bets on a bankruptcy. Therefore this form should be banned (e.g. Naked CDS²).
3. *Market regulation:* OTC transactions³ should be banned. They create unacceptable risks. Only transactions in organized and transparent markets should be allowed. The 'gray' OTC market provides wild excesses and crises.
4. *Volatility limit:* To reduce the volatility and the volume of purely financial transactions, a transaction cost tax should be introduced: a tax of 0.1% is very low, but still high enough to reduce risky and unproductive transactions (remember the difference: ordinary real transactions in the EU have a VAT rate of up to 25%). Mainly high frequency trading⁴ could be limited by that.
5. *Incentive structures and their taxing:* bonuses are to be limited and accompanied by bonus-penalties to promote responsible business. Bonuses should be paid particularly for successful controlling and risk management. The tax system needs to be recreated transparently and efficiently.

¹ We refer, for example, to the Glass Steagall Act (1933), which was abolished in 1999.

² CDS: Credit-Default-Swap: Provides protection against the risk of an affiliate. *Naked* means that there is no basis of value that justifies this insurance.

³ OTC: Over-the-counter: Unregulated and opaque market transactions.

⁴ Huge financial transactions carried out by powerful computers in a few nanoseconds (also Algo- or Nano-trading).

6. *Debt reduction:* Global debt mountains (private and public) should be removed soon: 1. by a globally coordinated acquittance (those who speculate will be granted less capital) and 2. by the return of the financial transaction tax (see 4.). This is to prevent the debt process from developing anarchically and resulting in a huge social crises. For example: the revenue of the high frequency trading tax serves the state to reduce its debt.
7. *Conflict of interest:* The current regulations (Basel II, III) have delegated too much weight and power to the rating agencies. Due to the form of their financing, they are also in a fundamental conflict of interest. Institutional reforms are urgently needed.
8. *Education:* All of these measures are only useful if we train the future economic and political elites differently. The economic education has to be changed in a responsible spirit.

The religious idiom „one has to believe“ has an unpleasant double meaning in the German language: it also means „one has to bite the dust“. This double meaning suggests that we should consider whether we really have to bite the dust, if we keep on believing in false theoretical principles like the invisible hand or the homo oeconomicus. Economic theories (just like theological ones!) unleash powerful regeneration effects on the conditions described. Just the way enlightened theology and religious studies can change the beliefs of people, an enlightenment of the “quasi-religious” assumptions of the economic theory can lead to different, new, more productive, more ecological and more social forms of economic action.

Basel, 4. November 2011

The research college of the ZRWP – Center for Religion, Economics and Politics (Collegium Helveticum-Basel) – contributes to trans- and interdisciplinary research. It is a joint facility of the ZRWP and the Collegium Helveticum in Basel and is managed by a ZRWP board headed by Prof. Dr. Georg Pfeleiderer. The third fellow group of the ZRWP is entitled «Religion and Economy». The basic assumption of the research program Risks – Trust – Guilt is a link between the spheres of religion and economy.

Members of the fellow group „Religion and Economy“ are:

*Prof. Dr. Marc Chesney
Professor for Quantitative Finance
University of Zurich, Institute for Banking and Finance*

*Prof. Dr. Paul Dembinski
Professor for Economics
University of Fribourg, Observatory of Finance*

*Prof. Dr. Jochen Hörisch
Professor for New German Literature and Media Analysis
University of Mannheim, Department of German Philology*

*Prof. Dr. Birger P. Priddat
Professor for Political Economics
University Witten/Herdecke, Faculty of Economics*

*Prof. Dr. Peter Seele (moderation)
Assistant Professor for Economic Ethics, University of the Italian-speaking Switzerland Lugano.
Associated professor for Religion, Economics and Politics at the ZRWP, University of Basel*

*Dr. Christoph Weber-Berg
Senior lecturer of Economic Ethics and head of the Center for Corporate Social Responsibility,
HWZ, University of Applied Sciences in Business Administration Zurich*