

PROTAGONISTS OF RADICAL CHANGES
THROUGH INCLUSIVE PROCESSES.
COMMENTS ON THE “ECONOMY OF FRANCESCO”

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ABSTRACT

In May 2019, Pope Francis launched the initiative “Economy of Francesco” (EoF). In this note, I offer some reflections on the interventions by Pope Francis at the EoF events, as well as on the EoF final statement. I also discuss an example from my own research about the connection between the financial sector and the real economy, one of the themes addressed by the EoF. My central thesis is that EoF is an extremely fascinating initiative, with great potential to impact the lives and work of many young economists and challenge some of the current inadequate paradigms. However, to fully exploit this potential, it is important for the participants of the EoF movement to truly follow the Pope’s invitation to “reach the centres where ideas and paradigms are developed and decided”.

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1. INTRODUCTION

Let’s start with some facts. In May 2019, Pope Francis invited young economists and entrepreneurs to join him in the *Economy of Francesco (EoF)*:

An event that will allow me to encounter young men and women studying economics and interested in a different kind of economy: one that brings life, not death, one that is inclusive and not exclusive, humane and not dehumanizing, one that cares for the environment and does not despoil it. An event that will help bring us together and allow us to meet one another and eventually enter into a “covenant” to change today’s economy and to give a soul to the economy of tomorrow (Pope Francis, 2019).

The original event was scheduled for March 2020. The COVID pandemic imposed a change of plan, and the first event was held online in November 2020. More than 1,500 young economists from over 115 countries attended the 3-days event. The Pope delivered a video-message for the occasion, where he stated: “I consider this

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virtual meeting in Assisi, not as an endpoint, but rather the beginning of a process that we are asked to undertake together as a vocation, a culture, and a covenant” (Pope Francis, 2020).

At the end of the first online event, a final statement was released, in the form of a “message to economists, entrepreneurs, political decision-makers, workers and citizens of the world, to convey the joy, the experiences, the hopes and challenges that we have gained and gathered up in this period by listening to our people and to our hearts” (EoF, 2020).

The process continued in work and initiatives by the young economists, coordinated by some senior advisors, and organized around 12 “thematic villages”. Another EoF event is scheduled for September 2022.

In this brief note, I first intend to offer some comments on both interventions by Pope Francis, and on the final statement by the young economists of the EoF. I also would like to provide a short example from my own research, which is potentially relevant for the themes of the EoF. My perspective will be mostly one of an academic research economist, so I will comment less on the business/entrepreneurial aspects of the EoF.

In sum, my main thesis will be that EoF is an extremely fascinating initiative, with great potential to impact the life and work of many young economists and to challenge some of the current inadequate paradigms. However, in my opinion, to fully exploit this potential, it is also extremely important for the participants of the EoF movement to follow the Pope’s invitation:

you are called to have a concrete impact on cities and universities, workplaces and unions, businesses and movements, public and private offices, and to work with intelligence, commitment and conviction in order to reach the centres where ideas and paradigms are developed and decided. [...] You cannot absent yourselves from those places where the present and future are generated. You are either part of them, or history will pass you by (Pope Francis, 2020).

2. POPE FRANCIS’ INVITATION LETTER AND SPEECH

I heard about the invitation of Pope Francis and the launch of the EoF from 3 different friends, who enthusiastically texted me about the EoF initiative within days from the publication of the invitation letter in May 2019. Interestingly, none of these friends was an economist (to be precise, they were a doctor, a biologist, and a historian). I was myself excited and caught by surprise by Pope Francis’s invitation, which – to the best of my knowledge – is the first in history so explicitly targeted at economists.

Three things struck me in particular. The first was the call to be the protagonist of change. Quoting the Post-Synodal Apostolic Exhortation *Christus Vivit*, the Pope launched the following plea to the young economists:

Please, do not leave it to others to be protagonists of change. You are the ones who hold the future! Through you, the future enters into the world. I ask you also to be protagonists of this

transformation... I ask you to build the future, to work for a better world (No. 174) (Pope Francis, 2019).

The second one was the radicality of the call to change.

We need to correct models of growth incapable of guaranteeing respect for the environment, openness to life, concern for the family, social equality, the dignity of workers and the rights of future generations. Sadly, few have heard the appeal to acknowledge the gravity of the problems and, even more, to set in place a new economic model, the fruit of a culture of communion based on fraternity and equality (Pope Francis, 2019).

The third aspect that struck me was the inclusiveness, which is so typical of Francis's approach:

That is why I would like to meet you in Assisi: so that we can promote together, through a common "covenant", a process of global change. One in which not only believers but all men and women of good will, beyond differences of creed and nationality, can participate, inspired by an ideal of fraternity attentive above all to the poor and excluded (Pope Francis, 2019).

I expected, with curiosity, the first online event in November 2020. In the speech delivered by Pope Francis, I recognized those three distinctive aspects again. As for the call to be protagonists, I already mentioned the invitation to reach the "*centres where ideas and paradigms are developed and decided*". I found this particularly interesting (and surprising) because Pope Francis has always been the "*Pope of the peripheries*". The fact he suggested to the young economists to make every effort to "*reach the centres*", is in my opinion a very important fact that needs adequate consideration.

In terms of the radicality of the change proposed, this can be summarized by this call:

Deep down, we lack the culture required to inspire and encourage different visions marked by theoretical approaches, politics, educational programs, and indeed spirituality, that cannot be fit into a single dominant mindset. Given the urgent need to come up with answers, it is indispensable to promote and support leadership groups capable of shaping culture, sparking processes – remember that word: processes – blazing trails, broadening horizons, and building common bonds... Every effort to organize, care for and improve our common home, if it is to be meaningful, will also demand a change in "life-style, models of production and consumption, and established structures of power which today govern societies". Without this, you will accomplish nothing (Pope Francis, 2020).

Finally, in terms of inclusiveness, the Pope stressed that

You have experienced the urgently needed culture of encounter, which is the opposite of the throwaway culture now in vogue. This culture of encounter makes it possible for many voices to be heard around the same table, in order to dialogue, consider, discuss and formulate, in a polyhedral perspective, different aspects and possible responses to global problems involving our peoples and our democracies. It is not easy to move towards real solutions when those who do not think like ourselves are discredited, slandered, and misquoted! Discrediting, slandering, and misquoting are cowardly ways of refusing to make the decisions needed to solve many problems (Pope Francis, 2020).

3. THE EOF FINAL STATEMENT

At the end of the online event of November 2020, the EoF released a final statement in the form of 12 requests to “*economists, entrepreneurs, political decision-makers*”. Compared with the depth of Pope Francis’ provocations and suggestions, I honestly found the EoF Final Statement quite underwhelming. The statement contains 12 proposals, ranging from a call to “*choose to slow down the unbridled race that is suffocating the earth*” (point 1) to the “*abolition of tax heavens*” (point 6) to the “*introduction of independent ethics committee in the governance of large multinationals with a veto power related to the environment, justice and the impact on the poorest*” (point 8). In sum, this reads as a sort of “manifesto for change”. I see this manifesto as problematic not because it might seem “utopian”, but simply because it seems quite lazy. More specifically, it seems lacking precisely that “*work with intelligence, commitment and conviction in order to reach the centres where ideas and paradigms are developed and decided*” advocated by the Pope. Each of these points could and should be studied way more in depth. For each topic, for instance, serious research has been done and new serious research should be done. Paradigms can only be changed from within, not just rejecting the past to impose a new and supposedly better paradigm. The “processes” advocated by the Pope, in my view, cannot be akin to “revolutions”. They are slow moving processes, whose times of realization and fulfillment are not even in our hands.

I understand that EoF is a process, and the work in the thematic villages goes well beyond this final statement (a quick glance at the EoF website is enough to grasp this). I also think, however, that the final statement is hurting (quite a lot) the EoF movement. For instance, I did encounter dismissive judgments about the EoF purely based on this “manifesto”. Perhaps this is a limit of the economics profession, where people tend to form very quickly opinions about different initiatives and dismiss them as fast as papers are desk-rejected at top journals. However, this tendency is part of reality, and it cannot be ignored. Therefore, if the young economists of the EoF want to reach out to established members of the economics profession (especially in North America), I think they should consider replacing the current “manifesto” with a different *flagship document*, describing the richness of the EoF processes and initiatives synthetically.

Finally, I also think that the members of the EoF thematic villages should make any possible effort to reach out to the most prominent economists who are working on the different subjects addressed. These young economists would be surprised by how much some of these top economists could be receptive. Just to name a few, I’m thinking for instance about Raghuram Rajan, who recently published a phenomenal book (“*The Third Pillar*”), addressing the importance of “communities” as a key pillar for societies besides the State and the markets (Rajan, 2019). Another example is Mark Carney, who recently published a book on the need for values (Carney, 2021). Yet another example is Nick Bloom, a professor at Stanford who is studying (among many other things) the topic “working from home” (Barrero, Bloom and Davis, 2021).

4. ONE EXAMPLE OF ACADEMIC RESEARCH RELEVANT TO THE EOF THEMES

It might be a personal interpretation, but one of how I see the importance of “reaching the centres”, as advocated by the Pope, is that the research connected to the themes raised in the EoF villages should aim at being published in mainstream economic journals, not just in specific, dedicated journals that are perhaps not even read in the “centres”. I would like to offer one example of research dealing with a theme relevant to the EoF that, because of the way in which it was approached, resulted interesting for a mainstream journal’s editor (and the referees).

A theme that is often cited as an example of the economy that excludes and de-humanizes is the growing disconnection between finance and the real economy. In recent decades, the emergence of new players in the financial sector, collectively known as the “shadow banking system”, and a wave of innovations (particularly securitization) have increased the complexity and transformed the nature of the financial intermediation process. Many commentators have linked this increased complexity to the severity of the global financial crisis of 2007-2009.

One of the crisis results was the emergence of a debate on the role that a financial sector should play in a society (see Zingales, 2015). A recurring argument, supported by politicians and commentators, is that the financial sector should have as its main objective to “serve the real economy”. In essence, the main role of the financial industry is to channel the pool of savings in an economy towards the potentially most productive investments. However, to date, no metric allows assessing the extent to which a financial sector plays this role and thus “serves” the real economy.

As a first step in addressing this problem, in a recent article we proposed a measure of the *connection* between a financial institution and the real economy (Barattieri, Eden and Stevanovic, 2020). The measure we propose, the Share of Core Assets (SCA), measures the composition of assets – i.e., the share of credit granted to non-financial sectors (households, businesses, and governments) in the total amount of credit instruments on the balance sheet. Our article calculates the SCA for more than 3,700 US bank holding companies and studies some of its potential determinants and implications.

Our first result is that the (asset-weighted) average of our measure fell by 20 percentage points between the first quarter of 1995 and the fourth quarter of 2012 (from 76% to 56%). We also achieve similar results by using somewhat more refined measures, which consider so-called off-balance sheet items (such as letters of credit or derivatives). So, indeed, our research seems to support the thesis that in recent decades finance (at least in the United States) has progressively become more disconnected from the real economy.

Secondly, and academically most importantly, we examine to what extent risk-sharing and efficiency in capital allocation can explain the connection (or lack thereof) of a bank to the real economy. In theory, there are good reasons why a bank need not invest all its resources in financing the real economy. To understand better, let’s imagine a very simplified world where a country is composed of an archipelago of islands. Each isle lives a saving family, a bank, and an entrepreneur. We also imagine that the family can deposit their savings, and the entrepreneur can borrow only

from the island's bank. In the absence of an interbank market (and therefore securities traded between banks), the bank can only collect the family's savings and lend funds to the entrepreneur. Although the bank in this case is completely connected to the real economy, it is also totally subject to the risks of the local enterprise (therefore putting at risk also the savings of the family). In this context, an interbank market allows both the business risks of the various islands to be shared (and therefore mitigated, thanks to diversification) and the resources to go to the most deserving entrepreneurs. Therefore, risk diversification and efficiency in capital allocation are theoretical reasons why we might not want a complete "connection" between banks and the real economy. In our article, we try to identify how much these two channels can actually explain the dispersion of our SCA measure for US banks, and we find a rather modest result, around 10%-15%. This second result could imply that the decrease in the connection between banks and the real economy observed between 1995 and 2012 did not occur for valid economic reasons.

In the third step of our analysis, although preliminary, we explored whether there could be macroeconomic effects of a greater or lesser connection between banks and the real economy. Combining our measure with other macroeconomic aggregates for the United States, we estimate an econometric model whose conclusion is that an increase in the connection between banks and the real economy is associated with an increase in GDP. Therefore, our third result seems to indicate that a greater connection between finance and the real economy could have positive effects on economic growth.

This example did not mean to be a sort of self-promotion. The aim was to illustrate how it is important to "*speak the language of economists*" if one wants to bring to their attention specific (important) questions, such as those explored in the EoF villages.

5. CONCLUSIONS

I argued here that the EoF is an exciting initiative by pope Francis, who launched great provocations and suggestions to the young economists and entrepreneurs. I would summarize them in the following motto: be protagonists of radical changes through inclusive processes. I think it is important for all of us, and especially for the young economists, entrepreneurs, and change-makers who are part of this movement, to really face and be challenged by these provocations. Finally, I presented a small example of a principle that I believe to be important and valid more generally: it is not by rejecting modern economics that we will be able to make significant progress in the directions suggested by Pope Francis. On the contrary, I believe that the young scholars of the EoF are called to deepen research questions, to refine the methods, their models and their empirical analyses, not being afraid to make the necessary efforts to push further the frontier of research by exploring the topics suggested by the Pope. I always found fascinating a quote by C.S. Lewis: "The universe rings true wherever you fairly test it". This endeavor can then be embraced with serenity, confident that the best is still to come.

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