Protestant Church
in Switzerland

10 Questions – 10 Answers

“Too big to fail”

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of the Protestant
Church in Switzerland

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Authors: Elio Jaillet, Stephan Jütte, Frank Mathwig
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The current banking crisis is a matter of concern for many people and preoccupies civil society. On this issue, the churches are guided by the principle formulated by the great Zurich business ethicist Arthur Rich: “What is not appropriate cannot be truly humane, and what contradicts what is humane cannot be appropriate.” Under this impression, the FSPC, forerunner of today”s PCS, presented a comprehensive study entitled “Just Action” in 2010, which was widely discussed*. Since then, several things have changed: Swiss banking secrecy has been abolished, UBS was rescued thanks to government aid, Greece”s sovereign default was averted, and regulations on capital and liquidity ratios for banks have been introduced. After the collapse of Credit Suisse, it is obvious that the existing regulations cannot prevent bank failures. The “too big to fail” regulations, which are designed to stabilize, restructure, or liquidate systemically important institutions that could otherwise endanger our national economy, do not work in the event of a crisis. Outrage and regulations have a short half-life due to complex relationships and dependencies.

We need more fundamental considerations that can guide the medium- and long-term actions of civil society and political actors.

For this, the theological considerations and ethically reflected solutions of the 2010 study continue to provide a good basis. A level of reflection by politicians similar to that of the solutions offered in this study is still pending, and a systematic discussion of the topic that goes beyond indignant and moralizing threats is needed today. These 10 Questions – 10 Answers are an up-to-date adaptation of this study to current issues, and were written in the hope that through them, the much more comprehensive study will receive the attention it still deserves.

* Hella Hoppe/Otto Schäfer: *Gerechtes Haushalten und faires Spiel. Studie zu den jüngsten Finanz- und Wirtschaftskrisen aus evangelischer Sicht,* published by the Federation of Swiss Protestant Churches FSPC, Bern 2010.

1 Who is to blame for the banking crisis?

Credit Suisse had complied with all capital and liquidity requirements that were established after the last banking collapse in 2008. The Swiss Financial Market Supervisory Authority did not find fault with its contingency plans and did not anticipate the collapse. But CS was powerless against the whirlwind bank run, during which large amounts of customer funds were quickly withdrawn. Its fate was sealed by the Saudi National Bank’s decision – which gained the particular attention of the media – not to invest any more money in Credit Suisse. There is no one guilty party. The collapse of Credit Suisse has multiple causes. But for years, Credit Suisse’s management had lost investors’ trust through scandals and bad investments. Banks and the economy in general depend on a resource that they cannot generate themselves: the trust of the people who conclude contracts, trade, invest their money, and invest in companies.

Sustainable economic success depends less on the promises made by a company than on the trust of actors in how a company fulfills these promises.

The higher the risks taken for success, the more important is the trust not that success will come, but that risks are calculated carefully and responsibly. Reliability takes precedence over surety of performance.

2 Why does the state rescue a bank?

Credit Suisse was an internationally active bank. Therefore, its bankruptcy would have affected other financial centers, especially the USA. The international pressure on politicians was high. At the same time, Swiss politicians were also pursuing their own interests.

Switzerland’s reputation as a banking center, trust in the Swiss financial market, and many thousands of jobs were at stake. It was not the outcome of the game but the playing field itself that was in danger.

The financial and economic crises of the recent past were systemic crises of trust. Trust means entering into a relationship or a business deal without knowing or being able to know all the circumstances. The more stable the shared basis of trust is, the more successful social coexistence and economic activity will be. Trust cannot be made, but arises through mutual practice in which such trust is experienced, confirmed and proven. Disappointments lead to a breach of trust and damage the social foundations for successful coexistence and cooperation. With the bank bailout, the state wished to counteract the loss of trust in Switzerland as a business location.

3 Do banks need to be more strictly regulated?

Control and regulation issues are typical crisis topics. Crises make problems tangible but at the same time distort their perception. As a Protestant Reformed church, we are familiar with both: the apocalyptic-escapist fantasies that can trigger crises and the temptation to hastily present morally simplified solutions.

Per se, insolvencies are a normal process of market economy self-purification. The possibility of failure explains why success and the absence of failure are so attractive. Switzerland particularly benefits from this game – although in a very unequal way – across all socio-economic strata. The prosperity of a country is measured not least by its opportunities for taking successful risks. The current discussion about more restrictive legal regulations must not be allowed to lead to a disabling of market mechanisms in the banking sector. Because trust cannot be enforced by the state, the conditions indispensable for a bank's existence cannot be guaranteed by law. The law can only sanction grossly negligent behavior and breaches of trust that are punishable by law.

State regulation must create the conditions for ensuring that bank insolvency is possible without causing unacceptable economic and social damage.

4 Are speculative risks a question of morality?

In principle, speculation is not reprehensible. Playing with risk is a part of business and an important aspect of successful economic activity. However, “too big to fail” shows that banks are not at all able to assume responsibility for the risks they take. In the case of very large banks, the state must pay for the damage. The ethical problem does not lie in the risks themselves. Because every action has implications for the future, it is risky by necessity. What are morally questionable, however, are risks that can neither be seriously estimated and weighed nor whose consequences can actually be borne. Incalculable risks confront society with an unacceptable situation: either society as a whole is endangered, or it is forced to assume responsibility for damages that lack legal obligation and democratic legitimation.

This precarious imbalance is unjust: investors profit from risks for which they are not liable in the event of losses.

Conversely, people must bear responsibility for risks from which they never expected any benefit. In a global market, the economic and social consequences of such damage affect people who are completely uninvolved and have no say in the matter. This has existential consequences particularly for people and groups in precarious socio-economic situations who have no means of coping with, or compensating for, the overall social and macroeconomic consequences. The political question is whether the state should be held liable for banks and commercial enterprises, as it is for large systemically important technologies such as nuclear power plants. Not by emergency law, but through a legal obligation. But then the systemically important banks would have to be subject to rigid state and international oversight similar to those for nuclear power plants.

5 What are banks responsible for?

The value added in the financial sector in 2020 amounted to around 68 billion Swiss francs, and there were approximately 208,800 persons employed in full-time equivalent jobs. Together with insurance companies, they generated around 10 % of the gross domestic product in the same year. Due to their economic importance, banks bear great social responsibility. Firstly, they have a responsibility to their customers and investors. Banks fulfill their duties of care by providing transparent information on financial products and advising customers to the best of their knowledge. The Board of Directors is responsible to shareholders for corporate strategies. Secondly, they are responsible for their employees, to whom they provide fair working conditions. Both areas are regulated by law, enshrined in internal codes of conduct, and practiced as part of a company’s corporate culture. Thirdly, they not only have economic but also political responsibility toward the national and international financial markets. Generally, all actors are responsible for their decisions and actions toward the institutions, groups, and individuals who are or can be affected by these actions.

Through their corporate culture, banks help contribute to social cohesion.

They are dependent on conditions that neither the market nor their business activities can create by themselves. Substantial factors in this respect are social peace and cohesion, cultures of interaction and information, and the will to participate politically. They should not be endangered by self-immunizing hierarchies, uncontrollable information gaps or excessive top salaries and bonuses.

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6 When does someone earn too much?

Differences in income are fundamentally unjust when people are paid differently for the same work. Globally, human rights and humanitarian minimum standards must be striven for. Within national economies, concrete demands are being made for wage justice and equal opportunities. Income and property are historically and objectively inseparable from civil liberties. Because civil liberties belong to every person unconditionally, the acquisition and use of property and income do not occur arbitrarily but are subject to general rules. If banks – such as UBS in 2008 and Credit Suisse in 2023 – provide the collateral for their customers and investors not by themselves but through state guarantees – i. e. through taxpayers’ money, the banks’ wage policy must not ignore the justified interests of those who must provide payment in the event of an emergency.

There needs to be a discussion about relative caps on the highest possible remuneration and the limits of the pay gap in state-guaranteed companies.

In a study on the financial crisis of 2008, the then Federation of Swiss Protestant Churches proposed a ratio of 1:40 between maximum and minimum wages.

7 Does wealth impose obligations, and if so, what are they?

Noblesse oblige, or: whoever is rich also bears responsibility, which is why wealth is subject to taxation and should be used for social welfare. The community should be able to benefit to a certain extent from the prosperity of individuals. The state acts as a redistributor, compensating for the inequalities inherent in the capitalist economic system. Despite all their efforts, the vast majority of female dishwashers will never become millionaires. Chances of achieving prosperity are not only completely different nationally and even more so globally, but are often distributed very unfairly.

State redistribution and insurance help ensure social peace under capitalist conditions. The state’s goal of social justice raises the question of the conditions under which, and the extent to which, one should be able to dispose of and use her wealth without restriction. In Switzerland, inheritances in particular create social classes whose membership is decoupled from a person’s achievements in real life. Moreover, the political question arises of whether and which solidarity payments should be required by the state as legal obligations, and which tasks of solidarity are dependent on the voluntary commitment of citizens as obligations of moral virtue.

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8 What does the Bible say about wealth?

Biblical wisdom literature and biblical stories testify to the idea that wealth is fleeting. No one should be conceited about her wealth but should strive for justice. However, neither poverty nor wealth are closer to justice. Shalom is the biblical standard for a good life in a comprehensive sense, which does not depend primarily on economic status. What is of key importance is that poverty and wealth do not exist indifferently side by side, but that they are mutually responsible for one another.

The Bible is interested exclusively in what poverty and wealth do to a person and whether and how both adversely affect the life opportunities of the person and community.

Thus, it is a matter of human attitudes and approaches, and not of poverty and wealth per se. The biblical view critically opposes a simple logic of merit that declares poverty and wealth to be measures of individual achievement and personal merit. According to the biblical understanding, scandal arises not when there is abundance or wealth, but when there is need and poverty. Wealth becomes a problem when it makes people blind toward the poor or becomes an idol (Mt 6:21: “For where your treasure is, there will your heart be also.”). Poverty becomes a scandal when it persists even though people have ways of eliminating it.

9 What does the Bible say about financial investments?

The people of the Bible knew neither the market economy and welfare state nor global financial markets and investment banking. Wealth was usually a question of inherited or fought-for political and economic power. Accordingly, success was measured much less in economic terms. Poverty and wealth were not a problem of distribution, but a question of mutual concern of the community. Paul noticeably addresses the issue of collections in the congregations (cf. Rom. 15:25-28; 1 Cor. 16:1-4; 2 Cor. 8:1-5; Acts 11:29-30). He does not ask who is entitled to what, but rather what promotes or endangers fellowship. Significantly, the apostle does not affirm any ethical obligations. The collection for the poor congregations is, in the truest sense of the word, an act of love *(charis)* and service to God.

A good investment is one that promotes the life possibilities of the community members.

Sharing is done out of a sense of closeness to the community (Greek *koinonia,* a characteristic of the church) and not out of principle. The modern term for this is solidarity. The Bible does not provide an investment portfolio for bank customers, but it does provide a perspective and a metacriterion for thinking about investments and evaluating their goals and intentions.

10 What are the consequences of the banking crisis?

The banking crisis fits seamlessly into the crisis-ridden present. Although the crisis triggers that are the “climate,” “pandemic,” “war,” “inflation” and “banks” refer to disparate phenomena and belong to different areas of society, they are perceived by many similarly, as having an existential dimension. Crises are not facts about the world, but interpretations of the world. Attention is distributed very differently throughout the globe. Climate change and the pandemic particularly affect people for whom bank insolvencies and the Ukraine war are far away. Conversely, people in Europe experience the war in their neighborhood and the banking crisis much more directly than global warming and the threat of the virus. From a biblical and theological standpoint, crises are both consequences of human freedom and characteristics of creaturely hubris. Depending on the case, they are perceived as tests of character or as transgressions of boundaries in an unredeemed world. There is no right or wrong interpretation since temporariness is inherent in our understanding, and since our interpretations remain a patchwork, just like our solutions and predictions (1 Cor. 13:9; cf. Job 38-42; Ps. 104). Nevertheless, the perceptions of crises and the way we deal with them are not arbitrary. Crises show us the ambivalence and equivocality of the world, which resists clear answers. Thus, it would be irrational to search for the one reasonable solution. The demand for tolerance of ambiguity is directed against a morally clear-cut understanding of systemic problems that is naïve. There is no one identifiable concrete agent to whom responsibility and blame can be ascribed.

The personalization of responsibility has only symbolic meaning. It plays on the illusion that the identification of perpetrators would make the crime go away. This mistake is common to both the climate and banking crises.

By contrast, a constructive way of dealing with crises is to view them as a mirror. Crises challenge us to behave not as observers and victims of undesired events and conditions, but as participants and actors.

Protestant Church in Switzerland PCS
Sulgenauweg 26, 3007 Bern, Switzerland
www.evref.ch