



Franciscan Action Network

Transforming the World in the Spirit of St. Francis and St. Clare

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Franciscans and Revenue Generation: Paying for our Economic Recovery

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Congress has passed, and the President has signed, the “American Recovery and Reinvestment Act of 2009” It is an extraordinary response to a crisis unlike any since the Great Depression. By any measure, it is an unprecedented effort to jumpstart a failing economy with hundreds of billions of dollars. Much of our attention thus far has been focused on how and where to spend these billions of stimulus dollars. Little attention has been paid on ways we (and not the next generation) can pay for this rescue and recovery. This paper looks at revenue generation as an economic necessity and as an extension of the Franciscan principles of the fraternal economy, especially that of equity.

In a previous essay for the *Franciscan Action Network*, I reviewed the origins of our global financial crisis.¹ I suggested that the first step to a true economic recovery starts with the recognition that we cannot go back to previous habits of debt-based borrowing and squandering. Restoring fiscal health must be a Catholic conviction that confronts a “culture of debt” that cripples growth today and leaves a tragic legacy of unserviceable and unsustainable obligation for generations to come. We need to get beyond our paralysis of economic privacy and begin sustained conversations on the causes of this global crisis so that our solutions are not simply reactive, but truly transformative. To that end, we proposed “common security clubs” as one way to jumpstart dialogue at the grassroots level (www.commonsecurityclub.com). By using our “instinct for the commons,” Franciscans can gather men and women at the most local levels, in churches and neighborhoods, to speak about their economic fears and challenges. A three-step process of reflection, mutual aid and social action can go a long way in building a stronger and more lasting foundation of economic security. We can work together to assure that this first ever global recession doesn’t turn into a catastrophic global depression.

But, what should the government do? The new administration has announced that it will make major investments to provide capital to banks and targeted industries in order to jumpstart broad-based economic activity. To accomplish this, the Obama administration proposes that we go further into debt. During the 2010 federal fiscal year, the national debt is estimated to top \$12 trillion. This massive infusion of borrowed money has to provide a short-term stimulus to economic activity in order to avert a wholesale deterioration of our banking system. It has to re-establish basic trust in our banks and re-engage investors in the market. To be successful beyond

¹ David B. Couturier, “Franciscans and the Financial Crisis: What we can do to Help,” http://www.franciscanaction.org/Upload_Module/upload/Franciscans%20and%20the%20Financial%20Crisis_Couturier_Feb%2009.pdf

the short term, however, this comprehensive recovery plan must begin to address the long-deferred but explosive threats to our long-term economic security, such as our crumbling infrastructure (bridges, roads, mass transit and schools), our ballooning health care liabilities (i.e., Medicare and Social Security), and an antiquated energy infrastructure that keeps us dependent on foreign oil, thus imperiling our ecological health as a planet.

Much of our immediate attention thus far has been on how and where to spend the billions of bail-out dollars. Little attention has been paid on the revenue side of the equation.

This is not new. Our failure to look at the revenue side of our lives got us into this predicament. The subprime loan debacle was premised on the myth that revenue generation (the ability to pay back the loan) was a non-consequential or, at the very least, a largely deferrable issue. How did we ever arrive at this assumption? Ordinary Americans learned this bad behavior by watching a government that expanded its operations and initiated two wars on borrowed money (largely from China). Instead of asking Americans to pay today for its “war on terrorism,” the government simply deferred the burden to the next generation, saddling America’s children and grandchildren with the financial obligations and sacrifices we were unwilling to bear ourselves. If there is a lesson to be learned from this crisis it is this: it’s time for us to pay for what we want and to pay as we go.

At the same time, however, a broad based attempt to raise taxes on the American people now would be counterproductive. As stated in my previous essay, ordinary Americans have seen their wealth decrease by upwards of 20-30% in just the last few months. (The situation is even grimmer in our minority communities who have been in a silent depression, not just a recession, for the past several years!)² Even though Americans have been working harder and longer than ever before, their spending power remains weak, for one simple reason. Despite the ever increasing cost of food, gasoline, health care, and college, among other things, wages for the majority of Americans have remained distressingly stagnant for the last 20 years. Americans can’t seem to get ahead of this depressing financial curve. Burdening the middle and lower middle class with a broad based tax scheme at this point only adds insult to economic injury.

The *Institute for Policy Studies* in Washington, DC, recently published some helpful suggestions for new revenue generation that could help strengthen our basic economic foundation, without depressing the ability of ordinary Americans to spend wisely.³ The burden of this new revenue generation falls squarely on the wealthy. It’s time for the wealthiest Americans to pay their fair share, after years of tax cuts and economic breaks. As the IPS report indicates, “Over these years, grand concentrations of private wealth have been the engines behind the high-risk, high-return speculation that fueled economic bubbles in technology, housing, and commodities. Reducing these grand concentrations of wealth will help discourage future economic bubbles.”⁴

² cf. Amaad Rivera et al., *The State of the Dream 2009: A Silent Depression* (Washington, DC: United for a Fair Economy, 2009), accessed at: www.faireconomy.org/files/pdf/state_of_dream_2009.pdf.

³ John Cavanagh et al., *Paying for a Strong Economy* (Washington, DC: The Institute for Policy Studies, 2009). Readers can access the document at- www.ips-dc.org/getfile.php?id=341.

⁴ *ibid.*, p. 6.

The Obama administration has decided to invest hundreds of billions of dollars on public infrastructure, energy renewal and transformation, education and health care. This is a positive step. However, borrowing to pay for these necessary investments in our future keeps us in the same “monopoly of imagination” that got us into this financial crisis in the first place.⁵ As an alternative, the *Institute for Policy Studies* suggests we tax the top economic tier of our country, the wealthiest Americans who have been the exclusive beneficiaries of globalization and wealth creation for the past 30 years.⁶ The seven proposals they suggest would raise over \$500 billion a year and over \$3 trillion over the next five years. They are:

1. **Repeal tax breaks for households with annual incomes over \$250,000.** This would generate \$43 billion per year.
2. **Tax speculative financial transactions that involve the buying and selling of stock** and other financial products (a penny for every \$4 traded). This would generate \$100 billion per year.
3. **Eliminate the high-income tax preference for capital gains and dividends.** This would garner about \$95 billion per year.
4. **Levy a significant estate tax on grand fortunes** (i.e., larger than \$2 million per individual and \$4 million per couple). This would generate \$40 billion immediately and over \$100 billion a year a decade from now.
5. **Establish a recovery emergency tax rate on extremely high incomes.** This would generate an estimated \$60 billion a year and \$300 billion over the next five years.
6. **End overseas tax havens.** At present American tax payers evade between \$40 and \$70 billion in US taxes through offshore shelters. U.S. corporations evade another \$30 billion per year. This reversal would generate about \$100 billion annually from wealthy individuals and corporations.
7. **Eliminate subsidies for excessive executive compensation.** This would generate \$18 billion per year.

Franciscans and Revenue Generation

Recent studies in Franciscan history indicate that our earliest experiments in the asceticism of poverty in the 12th and 13th centuries were intimately tied to the social dynamics of power in the Church and society.⁷ Sts. Francis and Clare, Br. Elias and St. Bonaventure knew the deep connections between wealth and influence, ownership and class, learning and authority. To their mind, Franciscan poverty was meant to deepen relationships, not destroy them, and to strengthen economic security, not weaken it. This insight about the fundamentally relational and not competitive foundation of sound economics is key to our Franciscan proposals about a renewed and re-invigorated 21st century economy. We find five principles at work in the development of the fraternal economy:

1. Transparency

⁵ Cf. “monopoly of imagination” in W. Brueggemann, *Interpretation and Obedience* (Philadelphia: Fortress, Press, 1991), p. 191.

⁶ Chuck Collins and Mary Wright, *The Moral Measure of the Economy* (Maryknoll: Orbis Books, 2007), p. 59-78.

⁷ Jacques Dalarun, *Francis of Assisi and Power* (St. Bonaventure, NY: The Franciscan Institute, 2007).

2. Equity
3. Participation
4. Solidarity
5. Austerity⁸

Franciscans, using the principles of the fraternal economy, can enter the debate about revenue generation with specific and targeted questions.

Transparency indicates that economic relationships will be honest and open, not sometimes but all the time. A new progressive tax on the wealthiest Americans is controversial. It requires that all sides of the debate be heard and participate in the discussion of ways to increase our shared responsibility for this economic rescue and recovery. Transparency opens the question of accountability.

For example, does a progressive tax on the wealthiest Americans increase *transparency* and accountability in the economic system? Closing corporate tax loopholes and eliminating tax havens would seem to be a reasonable goal in our efforts of economic rescue and recovery. Perhaps all sides can agree as a first step that hiding taxable revenue in tax havens should not be part of the practice of those companies receiving huge infusions of government stimulus money, i.e. Morgan Stanley, Citigroup and Bank of America. A recent GAO report indicated that 83 of the largest 100 publicly traded U.S. corporations had placed subsidiaries in tax haven jurisdictions ostensibly to pay less on their tax bills.⁹

Participation suggests that decisions for the many not be made solely by the few. Nets of discussion and consideration are cast as widely as possible. As previously noted, Franciscans should encourage their communities and congregations to join the national discussion of ways to recover and renew our economic security.

Solidarity insures that those with the least access to the goods of society and to society's levers of power have influence on their fate through affirmative acts of inclusion. Franciscans should be the first to ask how new economic initiatives are likely to impact the poorest among us. Franciscans should find ways to allow the poor to speak for themselves during hard economic times. The experience and wisdom of the poorest among us is key to true economic recovery. Franciscans should utilize our international agencies, especially *Franciscans International*, to elicit action research on the impact of this global economic crisis on the poor.¹⁰ FI already provides a platform for the poor to speak to the diplomats of the world on issues of human rights. Franciscans around the world should cooperate more fully with these initiatives and find creative ways to help the poor address the diplomats of the world directly on the ramifications of this global recession. Their insights on revenue generation in these hard times would be invaluable.

Relationships with the poorest among us will necessarily elicit the need for the principle of austerity. *Austerity*, perhaps the hardest principle of all, suggests self-restraint. Here, acquisitive needs of some are reined in for the sake of both those in greatest peril and for the common good. Only in a relational system that is transparent, participative, and responsive to the needs of the poorest among us can the inevitability and redemptive quality of the question of austerity be heard. Can we live more simply so that others can simply live?

⁸ David B. Couturier, "The Rise of the Relational Economy in the Capuchin Franciscan Order," in Alessandra Aula and Michael Mutzner (eds.), *World Poverty: Franciscan Reflections* (Geneva: Franciscans International Press, 2007), pp. 7-16.

⁹ Cf. *International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions* (December 18, 2008) at www.gao.gov/products/GAO-09-157.

¹⁰ *Franciscans International* is an NGO accredited at the United Nations, cf. www.franciscansinternational.com.

Equity is an ethical principle about fairness in our economic relationships. At work and in our commercial relationships, we want to know that there is a level playing field of opportunity that drives (and doesn't jeopardize) the entrepreneurial spirit. In other words, the deck shouldn't be stacked against the creativity, industry and ingenuity of ordinary citizens. Equity suggests that wealth creation cannot be uni-directional. An economic system where wealth flows only upwards is misdirected. Equity requires that both the burdens and the benefits of the economy are shared. Unfortunately, our recent experience tells us that the 20th century ended and the 21st century began with the economy's benefits accruing mainly for the wealthy and the burdens falling largely on the poor.¹¹

Equity provides the presumption of fairness that ties the other principles of the fraternal economy together and secures them. Carrell and Dittrich offer three main assumptions about the balance of equity in business:

1. Workers expect a fair return on what they contribute to their jobs, what is called the "equity norm."
2. Workers determine when a fair return is at play, after they compare their own work contributions and results to those of their coworkers, in a dynamic called "social comparison."
3. When workers judge themselves to be in an unfair situation, they will try to reduce the inequity in one of three ways: (a) by distorting work inputs and outcomes in their own minds (what is called "cognitive distortion"), (b) by directly changing inputs and outputs, or (c) by leaving the organization.¹² People will take action at work if the situation is judged to be unfair or imbalanced.

In short, perceived inequity is not only bad for morale, it is bad for business. Sustaining a system of inequity in the economy stalls growth and impedes real progress. Economic development needs more than an attitude of "the winner takes all." It requires systemic fairness, or, in other words, equity between us.

It is in the best interest of the new administration and our country that Americans believe that the economy is fundamentally fair, that industriousness is rewarded and that opportunity is readily available for those who work hard and play by rules that apply evenhandedly to all. A renewed system of revenue generation can rebalance equity and provide a moral measure for a just economy. Franciscans should enter the lively debate about what the economic recovery requires of the wealthy.

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¹¹ Robert Kuttner, *The Squandering of America: How the Failure of Our Politics Undermines Our Prosperity*. (New York: First Vintage Books, Random House, 2008); James Lardner, ed., *Inequality Matters: The Growing Economic Divide in American and its Poisonous Consequences*. (New York: New Press, 2006); Robert H. Frank, *Falling Behind: How Rising Inequality Harms the Middle Class*. (Berkeley, CA: University of California Press, 2006); Barbara Ehrenreich, *This Land is Their Land: Reports from a Divided Nation*. (New York: Henry Holt & Company, 2008).

¹² M.R. Carrell and J.E. Dittrich, "Equity Theory: The Recent Literature, Methodological Considerations and New Directions," *The Academy of Management Review* 3:2 (1978), p. 202-210.