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MARIANISTI – AMMINISTRAZIONE GENERAL – Via Latina, 22 – 00179 Roma – Italia

The Global Economic Crisis

Witnessing an extraordinary financial year 2008

Responding prudently in 2009

2 February 2009

Feast of the Presentation of the Lord

Dear Brothers,

As I write these lines to you from Spain, kindly accept my fraternal greetings and my prayers for God's abundant grace for you, your community and ministry during 2009. Also know of the General Council's prayers for you during the celebration of the Eucharist at the Basilica of Our Lady of the Pillar on the feast of our Blessed Founder Father Chaminade.

In the past twelve months, no matter where we live in the world, we have witnessed extraordinary economic events. In the first six months of 2008 we have seen or heard of the economic growth that is occurring in parts of South America, Asia, Eastern Europe and Africa.

And yet in the same time frame we have also witnessed a near exponential rise in commodity prices worldwide. Led by the cost of oil, much of these increases in the raw materials of production and fuel for transport for the goods and services all of us rely on in our daily life resulted in significantly higher prices for so many of the staples we need. These price rises were hardest for those in the world that have the least and their plight was evidenced in heated, sometimes violent protests over access to food that the world has not seen in many years.

The equity markets during this time (actually for all of 2008) went from boom to bust almost on a daily basis. The instability was so pervasive and "regular" that it seemed to be the normative manner in which the markets worked. This new 'norm' of volatility of course is just the opposite of what the markets inherently require but worse, as we know now, this volatility was signaling the end to a decade of global economic expansion.

By the end of the of the year, most equity markets around the world shed more near forty percent of their value; many markets have lost fifty percent or more. The experts tell us that these losses over the last twelve months equal ten years of gains.

This year we also saw the institutions that were supposed to be the pillars of world's financial system relentlessly shaken with losses from scandal and appalling business

practices. Some actually collapsed under the weight of the losses. Many others found themselves on the brink of collapse. In response to this near disintegration of the global financial system there has been unprecedented global governmental cooperation in rescuing financial institutions and in trying to re-establish a sense of stability to their operations. The results of these actions have, by all accounts, just barely avoided a worldwide financial calamity.

And while the financial institutions were being infused with bail out funds what became clear is that the world, and in particular the economies in more “prosperous” countries, had moved into deep economic recession underpinned with an incredible uncertainty about the economic future.

Because so much of the crisis at first involved financial institutions, stock markets and macro economic functions that many ordinary people have generally little contact with, or perhaps understanding of, there was a tendency to sense that the crisis was distant and that it would probably have relatively little impact on everyday lives. In many areas of the world this distancing has been more pronounced as the recession took hold and there has been a rapid decline in prices for commodities, fuel, energy, and consumables, followed by lower levels of inflation.

Yet, the reality is that, although the most immediate effect was at the level of “high” finance, the results are rapidly and intensely being played out in the daily lives of ordinary people across the world. Our daily dose of news almost always begins with what the economic crisis has wrought: homes lost, unemployment and underemployment on the rise, the shuttering of businesses and industries, government services reduced, etc. I am sure each of us would have had an experience or two of how people we know have been affected by this crisis.

For example, I was struck with the report from Caritas at a recent meeting in our Parish, San Roque, in Almería. Since last year, the requests for assistance in all categories from utilities to medicines, to food, to clothing, have tripled and the office hours must be extended well beyond the normal times in order to accommodate those asking for help. In Vitoria the Bishop told us that the number of meals served to the poor has quadrupled over the last year and they estimate that many in the city only have one meal per day.

As the crisis progresses and the need of those affected increases across the world, the corresponding contraction of funds available to meet those needs is woefully real.

Fundamentally, this is a crisis that affects us all—there is no immunity!

The Impact on the Society of Mary

How have we been affected thus far as a Society? It is difficult to generalize because each country has entered the crisis differently and there are differences in how Units manage their finances, but it is clear that we as a Society have not been exempted from the effects of the crisis.

One of the first areas to see the effect has been the investment portfolios (the savings funds) that are held by Unit administrations and or their ministries. These funds are an important source of income for scholarships, operations and maintenance of the institutions, social programs and ministries, health care and retirement of the brothers, Unit administrative needs and formation, as well as the livelihoods and development of the younger Units of the Society.

The declining value of the financial markets has had a significant negative impact on the earnings of these investments undoubtedly affecting the ability of our Units to meet their budgetary needs. And depending on the management policies of the portfolios and the past spending patterns, the level of declines over the last twelve months could very well see current withdrawals encroaching on the corpus itself. Even in the Units that do not participate in the equity markets, the rates of interest for savings are at historic lows and while still producing income these non-equity financial instruments are doing so at very reduced levels.

We are experiencing the same situation at the General Administration. Most of our financial needs are met with income derived from the investment portfolio that was largely augmented in late 1980s by the proceeds from the sale of Regina Mundi. As we know, the portfolio is intended to support the operations of the GA, contribute to the formation fund and to what we now call the solidarity fund. Only twenty five percent of the GA budget is met by the annual contributions from the Units.

The investment portfolio is largely held in US dollars in the United States with a smaller portion of about ten to twelve percent held in Euros in Geneva. Up until 2007, a major portion of the portfolio was held in equity instruments. With the advice of the financial consultants and in agreement with the Temporalities Committee of the Society, in the first six months of 2008 we moved to rebalance the holdings to reflect a more conservative bias of forty five percent in fixed investment instruments.

At the close of 2007 (the financial year of the GA coincides with the calendar year), the results of the portfolio were flat; that is to say we had no loss but no gain either. At the close of 2008 and despite the rebalancing exercise, the portfolio saw a thirty one percent decline in its value. In addition to this loss in value, we were informed in December by

Santander Private Banking in Geneva that one of our investments in their Optimal Fund of about one hundred thousand U.S. dollars, which was purchased in 2004, was totally exposed to the Madoff fund and for all practical purposes is lost (That said, this past week there was an announcement that Banco Santander has a plan to reimburse the losses with restrictive preferred shares in the bank. Whether this will fully reinstate the principal of the investment and its liquidity remains to be seen). The bottom line is that the finances of the GA at this juncture are delicate and require careful monitoring and management.

Responding to the Crisis

What is the way forward and how do we respond? I believe that the words of our Blessed Founder Father Chaminade give us ample counsel. In a letter (January 7, 1820; letter 130; vol. 1) to Louis Rothéa he gives the following direction about the way in which the finances of the school and community should be managed.

The financial project is made up of what we are to receive and of what we have to spend, period by period, long or short, according to the will of the one who makes up the account, but always in such a way that the receipts precede the expenses.

And Father Chaminade continues counseling Rothéa on the use of credit to fund the needs of the institution:

Here is the project that I am asking for.

On the bill of the boarding house, you have the dates when the payments of the pupils will be due.

You have a list of the expenses involved in the accounts of the times which have preceded you, or you may be able to foresee these.

State what you will have to spend and how you will provide for it, by your receipts and not by your borrowings. These last come to the rescue of ruined finances and are not part of well-kept finances.

In both situations, our Blessed Founder offers us an example of abundant prudence in dealing with financial resources. He counsels us not to live beyond our means and to keep the focus of the mission as our guide in making our financial decisions.

In this current economic climate not exceeding our means is the most basic and efficacious response that we can make. For the General Administration this entails a careful review of our expenses and making the necessary reductions to conserve financial resources, at the same time weighing what the mission requires of us and ensuring that the reductions we make do not harm our ability to respond effectively to God's call in our mission.

This is not an easy task, as the financial situation necessitates a reduction of our expenses of at least 15-25%. As a part of this process to conserve financial resources we have relocated the General Leadership Assembly to *Via Latina* taking advantage of our facilities and staff for the duration of the Assembly. We have also rebalanced the funding commitments to the Formation and Solidarity funds given the limited resources available. And we are in the process of restricting capital replacement and augmentation to what is absolutely necessary for the foreseeable future.

Using Blessed Chaminade's advice, is there a common response for the Society as a whole? As I mentioned earlier in this letter, because of the diversity of how the economic crisis is developing from country to country it is difficult to generalize. We know that many ministries and indeed some of our Units have already crafted strategies to respond to the crisis. Many of these actions are efficacious and in the spirit of the prudence advised by our Holy Founder. Building on these and in the spirit of his advice, perhaps the following suggestions will be of some help in framing further action in the Society.

- Coupled with the counsel to live within our means is the ever-present evangelical call of our religious vocation to a simple style of life. So as to respond to this call and to be in solidarity with our brothers and sisters affected by the crisis could we at all levels (personal, community, Unit) of the Society begin a process of reducing our consumption (expenses) at least 10-15% if not 25% in 2009 and 2010 understanding that these reductions should not adversely affect our ability to carry out our mission?

The savings from these reductions could then be put in the service of the mission locally, within the Unit or in solidarity with other Units who may need the assistance. The savings may also reduce the demand on subsidies from the Unit or provide additional resources to the Unit through enhanced local contribution thereby relieving pressure on the portfolio.

- It seems realistic in this economic climate to undertake a review of all capital projects in progress or planned (in the ministries and in the Units) in the near to medium term to ensure their viability and that they do not cause strain on the

limited resources available. Approaching the credit markets in these times should be done with care and prudence.

- In service of the mission and taking into account what funds are available, making additional financial resources available to our students and those we serve who are severely affected by the crisis is critical at this time. As religious, we are called to actively engage those in need with solidarity of presence, prayer and tangible assistance.
- For the longer term, perhaps we can use our educational efforts to help the coming generation understand the pitfalls of economic decisions not based on the common good. As the Holy Father reminds us in his message for celebration of the World Day of Peace 2009 it is incumbent on the Christian community to support the entire human family “through gestures of creative solidarity, not only giving from one’s surplus but above all by a change of life-styles, of models of production and consumption, and established structures of power...”

Brothers, this has been a challenging letter to write because the message is obviously bleak and demands actions of us that are not easy to undertake. But I take consolation in the hope that our faith engenders in us that God works all things for good. Our fraternity is a pillar of this hope giving us the assurance that together we can respond not only with prudence but also with apostolic boldness that was characteristic of our Holy Founder. Let us pray for the courage and fortitude to undertake this task.

Fraternally,



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