

THE CREDIT CRISIS - a Christian analysis and response

INTRODUCTION

The current financial crisis that is global in its reach has been caused by a withdrawal of credit by the banks, especially but not exclusively in the rich nations. Developing economies and low income states are also affected by it. What caused this to happen? What lessons, financial, economic, political, moral and spiritual, need to be learnt from this episode in world history?

To many of those at the heart of the financial systems and institutions, the suggestion that there are moral and spiritual dimensions to this discussion will seem odd, if not irrelevant. To such people business and finance is an autonomous sphere of human activity in which religion has no place. This is a secular, dualistic perspective, which sees religion and faith as purely private matters that have little or no relevance to the aims, activities and achievements of their work. They would accept that there is a moral dimension to their business life; contracts should be honoured, debts paid, services delivered and trading undertaken honestly. The problem is, however, that the secular humanist worldview which gives rise to this perspective does not generate the values that are crucial to sustaining the market economy.

Fred Hirsch put it like this in his book, 'Social Limits to Growth', "Truth, trust, acceptance, restraint, obligation – these are among the virtues grounded in religious belief which are also now seen to play a central role in the functioning of an individualistic, contractual economy."¹ The American neo-conservative commentator, Irving Kristol, concurred with this judgement. "Capitalism survives because it still satisfies the basic, simple impulses of ordinary men and women. It will not continue to satisfy them however, without the bedrock provided by the Judeo-Christian tradition that ordinary men and women need – that we all need. It gives certain answers to ultimate questions that modern philosophy or modern thought of whatever kind cannot provide."² These quotations both appear in (Lord) Brian Griffith's book "Morality and the Market Place"³, in which he identifies "two critical moral standards which the market economy requires". These are individual responsibility and the value and dignity of human beings made in the image of God. Our Creator has made us the responsible stewards of his creation. We were never meant to operate exclusively on the basis of self-interest but to be concerned for the welfare of others and accountable to God for our stewardship. Then, if

¹ Fred Hirsch, *Social Limits to Growth*, (Routledge and Kegan Paul, 1977) p.141

² Irving Kristol, *The Disaffection from Capitalism*, in *Capitalism and Socialism*, (Michael Novak ed) American Enterprise Institute for Public Policy Research, (Washington DC, 1979) p.27

³ Brian Griffiths, *Morality and the Market Place; Christian alternatives to capitalism and socialism*, *The London Lectures in Contemporary Christianity 1980*, (Hodder & Stoughton 1982) p.37

our value and dignity are derived from bearing the image of God, they do not derive from our income and wealth.

Empirical evidence of the legitimacy of these points of view is not hard to find. As the influence of the Judeo-Christian worldview and morality has waned, so has the incidence of financial scandals. Governments have responded with new regulatory institutions but they always seem to be one step behind the greedy or corrupt practitioners, as the current crisis has exposed.

Thus it is entirely legitimate to attempt to produce a Christian analysis and response to the current financial crisis. It will not be easy, however, and **this paper is intended to initiate a conversation amongst evangelical Christians in search of a consensus, rather than pretending that it offers all the answers.**

WHAT CAUSED THE FINANCIAL CRISIS?

Two significant changes have occurred in national and international economic activity that has created the conditions in which the current financial crisis could happen.

The first of these is the movement to free up world trade. Since the 1939-45 war, free trade has been actively pursued by the developed economies and increasingly also by the developing nations. Protectionism was blamed for prolonging the depression of the 1930's and the World Trade Organisation was created to prevent any recurrence. The climate this created has encouraged the developed capitalist economies to outsource work to the low income and low wage economies of the two-thirds world in order to reduce their costs and make themselves competitive in world markets. This encouraged the developing economies to deregulate their capital markets, making it possible for capital to flow from the oil rich nations, China and the Pacific Rim economies to the Western industrial economies. This capital enabled the banks of America and Europe to create the financial bubble that has eventually burst.

The second change was the deregulation of business and banking in America and Europe, advocated by Margaret Thatcher and Ronald Reagan, to cut costs and to increase productivity and profitability. This freed banks from the requirement to hold sufficient capital to back a given level of lending. It saw many of the building societies, such as the UK's Halifax and Northern Rock to transform themselves from mutual societies into shareholder owned banks that specialised in mortgage lending.

Neither of these changes was inherently bad but they made possible activities that have caused the current crisis. One of these activities is *securitisation*. This is the practice of making up bundles of mortgage or other loans and selling them on to other financial institutions,

which would receive the interest due on the loans. This freed the banks to lend the receipts from these sales to further borrowers and in some cases it meant that the relationship between the funds lent and the capital to back these loans was insufficient. The drive to lend became so strong that loans were increasingly made that were imprudent, including, for example, 100% mortgages to clients for properties costing up to five times their annual income.

However, in the 1990's a form of credit insurance was devised to remove these high risks from the books of the banks and the investors who had bought the loans securitized by the banks. The risk of a borrower defaulting on a debt was transferred to a third party whom the bank or securitisation investors paid a fee, rather like an insurance premium. The risk was broken up and spread, which is why, when the credit bubble burst, no-one could be sure who was ultimately carrying the big risks.

Before this happened, however, these practices created a climate of recklessness, fuelled by the huge bonuses paid to those who made it all happen. The capital flowing into the American and European banks kept interest rates low. The rate of inflation was also low. This combination meant that money was cheap. Securitisation and credit default swaps took care of risk and there appeared to be nothing to curb bank lending. The procedures for vetting loan applications were simplified and speeded up. The result was that by 2007 the total of all financial assets such as stocks, bonds, loans and mortgages, were equal to something like four times the world's total output of goods and services. This was the bubble; what made it burst?

The ease of obtaining mortgages and relatively low interest rates had helped to push up house prices, whilst other factors had increased the demand for additional housing, which had the same effect. By 2007, house prices in America began to fall and some of those with large, 100% mortgages were asked to repay them, forcing them to sell up. The falling property prices that this caused meant that the sellers had negative equity; their mortgage being bigger than the market value of their property. Those who defaulted on their loans left the banks or investors holding the debt also in trouble and the damage spread far and wide amongst those who had bought or insured the risk. The situation was so complex and confused that banks began to refuse to lend money to anyone, including other banks and financial institutions. This, in turn, led to a crisis of confidence in the stock markets, as investors sold stocks and shares because they did not know who would be next to declare bankruptcy.

This financial crisis has now infected the economies of most countries. Unable to borrow from the banks, firms are unable to cover gaps in their cash flow. Low levels of confidence discourage investment in new equipment and the holding of large stocks of materials. High levels of personal indebtedness are also causing individuals and households to

reduce spending and the use of their credit cards. Overseas markets are also contracting so that some firms are unable to continue production. Thus American and European car manufacturers have excess stocks which they cannot sell and neither the capital nor demand to produce new models. The demand for Chinese toys has slumped to such an extent that it no longer needs to buy from Europe the recycled paper from which to produce the packaging in which to sell its toys. No nation in the world is immune from the consequences of the financial crisis or the economic recession that it has spawned.

BIBLICAL PERSPECTIVES ON ECONOMIC ACTIVITY

A biblical perspective on economic activity is rooted in the presupposition that God created the earth and everything in it, with which we produce goods and engage in trade and commerce. Genesis 1 says that he made humankind the stewards and caretakers of his creation, which includes the land, which we farm and mine for its many mineral resources, as well as the seas, which we fish and across which we conduct international trade. Humankind contributed nothing to the creation of the oil, coal, ores and many other natural resources which are the basis of wealth creation in the modern world. Of course it was human skill and talents that enabled us to use these raw materials to manufacture the products we sell and use, but it is another biblical presupposition that when God created us he endowed us with these skills and talents.⁴ The implication is that, "the creation narratives cannot be used to justify privatized, individually exclusive claims of ownership, since it is to humanity as a whole that the earth is entrusted."⁵ This is not to deny any scope for private ownership and enterprise, for it was God's will that Israel should divide the land he gave them between families, clans and tribes⁶ and the Jubilee principle established a continuing link between each family and the land allocated to them.⁷ The key lesson we can learn from the Old Testament is that ownership takes second place to human need. "Israelite law favoured persons over property and possessions".⁸ Wright gives a modern example of this moral principle being claimed in Honduras.⁹ From this perspective, a few bankers and investors earning millions whilst others live in dire poverty, is not the way God intended us to live.

Before we consider what should be done about this, it is necessary to ask whether those who use their entrepreneurial skills to satisfy demands in the market should not be free to earn large incomes from their highly profitable contributions to society. Does not meeting a need or providing an essential service merit a reward, which in a

⁴⁴ See, for example Exodus 35:30-35; Deuteronomy 8:18

⁵ C.J.H. Wright, "Old Testament Ethics for the People of God", (IVP 2004) page 147.

⁶ See for example, Joshua chapters 13-21.

⁷ See Leviticus 25:23-55; 1Kings 21:1-3.

⁸ Robert Gnuse, "You Shall Not Steal", page 48, quoted in C.J.H. Wright, *ibid* page 148.

⁹ C.J.H. Wright, *ibid*, footnote page 148.

business context will be a monetary reward? On the other hand, if that service involves using natural resources created by God, should not the reward accrue to him?

Raw materials, technological skill, financial capital, suitably skilled labour, entrepreneurial flair, and managerial competence are all unequally distributed so it is unavoidable that some people and organisations will be better able to produce specific goods and services than others. Then, how these goods and services are distributed to those who want them becomes a key issue in economics. In traditional societies particular skills, such as those of the blacksmith, the apothecary and the baker, were passed from one generation to the next and tended to remain within specific families. In authoritarian societies, such as the USSR, production and distribution were bureaucratically organised by the Government but such 'command economies' were very inefficient, producing surpluses of goods people did not want and shortages of goods they did want.

The market model that lies at the heart of capitalism has been much more efficient at relating the supply of goods and services to the demand for them but it is driven by the pursuit of self-interest, wherein lies both its the greatest strength and its greatest weakness. If there is a demand for something, meeting that demand potentially makes a profit for the entrepreneur, regardless of whether what is produced is life saving (e.g. medical services) or life threatening (e.g. addictive drugs). "It is the lure of gain, not the pull of tradition or the whip of authority, which steers each man to his task."¹⁰ It was the lure of large short term profits and bonuses that motivated bankers to sell mortgages and make loans that the borrowers could not afford when their circumstances changed. Moreover, it was a reluctance to interfere in the operation of the market system that prevented adequate regulation that should have ensured that these loans were backed by sufficient capital reserves.

The Christian economist, (Lord) Brian Griffiths has well understood the two faces of self-interest. "Self interest is a characteristic of the highest as well as the lowest kind of human behaviour...Indeed, as Christians we can go further and argue that self-interest as a characteristic of human behaviour cannot be divorced from that self-respect of which our Lord spoke when he told us to love our neighbours as ourselves."¹¹ Tragically, the financial institutions that created the current financial crisis are shaped more by the worldview and values of secular humanism than by Christian beliefs and values. This is evident in the consumerism that expects instant gratification of material desires, as a demonstration of one's wealth and status, paid for with a credit card that 'takes the waiting out of wanting'.

¹⁰ Robert Heilbroner, "The Worldly Philosophers" quoted in Roy McCloughry, "The Eye of the Needle", IVP 1990.

¹¹ Brian Griffiths, "The Creation of Wealth" (Hodder & Stoughton 1984) page 68

Jesus' response to this was, "be on your guard against all kinds of greed; a man's life does not consist in the abundance of his possessions."¹²

It would be bad enough if the harm done by the credit crisis was experienced only in the wealthier nations of the world that have the welfare systems in place to help those who have lost their jobs and homes as a result of the recession which it has triggered. Tragically, the financial crisis is global in its reach and the harm is also being felt in poorer nations that cannot afford the welfare safety nets. It is true that the rich nations have agreed to fund the International Monetary Fund so that it can help the poor nations but there is little hope that these funds will filter down to destitute families and peoples. Jesus' parable of the rich man and Lazarus is a relevant but uncomfortable commentary on this situation.¹³

The celebration of the bi-centenary of the abolition of the slave trade in 2007, and the recognition that the exploitation of child labour is wrong, both point to the conclusion that economics should not be treated as an autonomous sphere of human activity. At the very least, there are humane values that should set limits to the pursuit of self-interest. The Old Testament sets a high standard with a ban on all usury within one's own community, though it did permit taking interest on loans to foreigners.¹⁴ Jesus' parable of the Talents suggests that an interest bearing savings account is better than hiding one's money in the ground.¹⁵ However, the core of Jesus' teaching on money is, "Do not store up for yourselves treasures on earth, where moth and rust destroy, and where thieves break in and steal. But store up for yourselves treasures in heaven, where moth and rust do not destroy, and where thieves do not break in and steal. For where your treasure is, there your heart will be also."¹⁶ The challenge for Christians today is how we apply this not only in our private lives but also in public policy and business practice. Archbishop Temple suggested that, "It (religion) may declare the proper relation of the economic to the other activities of men, but it cannot claim to know what will be the purely economic effect of particular proposals. It is however entitled to say that some economic gains ought not to be sought because of the injuries involved to interests higher than economic; and this principle of the subordination of the whole economic sphere is not generally accepted."¹⁷

CONCLUSION

¹² See Luke 12:15-21

¹³ See Luke 16:19-31 and Luke 10:25-37

¹⁴ See Exodus 22:25-27; Leviticus 25:35-37; Deuteronomy 15:7-11; 23:19-20; Nehemiah 5:10-12; Ezekiel 18:7-8; Psalm 15:5

¹⁵ See Matthew 25:26-27

¹⁶ Matthew 6:19-21. See also Matthew 6:24; Luke 16:16-11; 14:33; Philippians 4:11-13.

¹⁷ William Temple, "Christianity and the Social Order" SPCK 1976, page 32

The credit crisis demonstrates very clearly the point made already on page 1, that markets need moral values to function well, that they do not generate for themselves. However, as Roy McCloughry has recognised, "Christian values cannot be introduced piecemeal in order to shore up capitalism. It is not possible to focus on individual responsibility, honesty and the mandate to create wealth while ignoring the insistence on justice for those who are poor and oppressed."¹⁸

Given wise and courageous leadership the financial crisis of 2007-9 and the recession it has created could be a defining experience for the generation that are living through it. Writing in 1990, McCloughry prophetically proposed three sets of values that must change if a new vision for economic life is to be developed and the current situation shows how relevant they are. He suggests that self-gratification must be replaced by contentment; conspicuous consumption by simplicity; and rapid growth in the name of progress must give way to sustainability. He concludes, "The choice is frightening, because we have divorced the economic from the spiritual and have no means or motivation to start again. Only by marrying the idolatries of the self and the system together does it become clear that any solution must begin, not with a change of policy, but with a change of heart."¹⁹ Is our understanding of Christian mission in today's world big enough to embrace this agenda? Are we prepared to campaign on this agenda, or something like it, at this crucial moment in European history?

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¹⁸ McCloughry ibid page 54

¹⁹ McCloughry ibid pages 57-8