The Values of Money & The Just Economy

Salisbury Diocesan Synod 18th February 2012

Three Crises at present – Banking, Sovereign Debt and the Eurozone.
Three elements to them – Economic, Ethical and Cultural.

Background

When did the crises begin? ***Northern Rock, Lehmann's Peel's Banking Act? Jesus Huerta de Soto***
1989 Socialism Collapses and China embraces capitalism.

*Collapse of Communist eastern Bloc led to **Crisis of Socialism** as socialist policies discredited everywhere. One role of the left was to challenge champions of free markets and ameliorate it, so they had to embrace **Welfare Capitalism.** Resulting absence of critique meant too much trust in markets and human rationality*.

Absence of critique of free markets combined with de-regulation means no pressure towards Welfare Capitalism.

China had 8-9% growth per annum for 20 years. Huge trade surpluses in contrast to US and UK. Buying up Bonds. Cheap credit leads to rash loans. Prime to sub-prime to reckless to collapse.

But China needed the west to continue buying its goods, and so Beijing helped fund trade deficits by buying up assets, principally government bonds. Money flowed into the City of London and Wall Street. Cheap imports led to low inflation and low interest rates. The result was cheap credit.

The first to take advantage of this were the 'prime borrowers' – people with good salaries - who wanted to buy their homes. The result was rising house prices. But once that market was satisfied, mortgage lenders began to create a market of 'sub-prime' borrowers – people with insecure jobs and poor wages.

US Government passed legislation that made it illegal for banks to refuse loans on the ground that people were buying homes in poor areas with high unemployment. Fannie Mae and Freddie Mac, state-sponsored mortgage warehouses, had explicit targets for lending to the poor; 42% of loans were to be people below median income in 1996, 50% in 2000, 52% in 2005.

Why would any sane person lend money to someone with no income, job or assets? said one commentator on the crisis. 'Answer: because they were selling the loan on to somebody else, so they didn't care'.

Millions were persuaded into the housing market with loans that were initially manageable but eventually ruinous. Mortgage providers then mixed good loans with bad – securitization – and sold them on in worldwide financial markets. The banks found these complex derivatives irresistible. The risks seemed minimal and the rewards considerable. Until, that is, the housing market reached saturation point. Then house prices began to fall and for the first time searching questions were asked about the sub-prime debts: what was the relationship between the book-value of the derivatives and their market value? Nobody knew; and neither did they know the extent of the selling on. The debts were 'toxic'. Inevitably, from that point, everything began to unravel and the bubble burst. Will Hutton called what was exposed, a 'giant Ponzi scheme'. The bankers had not acted rationally but rashly.

Contributory Factors

- Money and People in a hurry. Credit speeds things up, summoning future to the present. No time for reflection. Average age of a trader is 31. ***And Male*** Terrible short-term thinking both shapes and reflects surrounding culture.
- Role of technology – fast and impersonal. *'The face of the other is the primary site of moral obligation'* Emmanuel Levinas
- Complexity of Financial Products - results in low scrutiny and even indifference.
- Money functions like a verb and not a noun and has its own 'grammar' eg Just Share's Charitable Bond.
- 90% of financial transactions are speculative – zero sum arbitrage trading. Is the Cash Point machine the only useful thing to emerge from the Financial Services Industry in the past 40 years?
- Banking is inherently unstable. IMF study shows 125 systemic banking crises 1975 – 2007. Fractional Reserve Banking – loaning the same money out endlessly. In 2007/08 US banking system supported deposits worth 100 times its reserves of cash = 100 people could lay claim to every dollar on deposit with a US bank.
- Limited effects of regulation. Banking the most regulated industry in the world prior to crisis; regulated but unethical. We need to slay the dragon, not chain it?
- Human fallibility; 70% of loans where there was early default involved 'Borrower Misrepresentation'. Governments lie as well as individuals.
- The hazards of an ethical vacuum
  When the unclean spirit has gone out of a person, it wanders through waterless regions looking for a resting-place, but not finding any, it says, "I will return to my house from which I came." When it comes, it finds it swept and put in order. Then it goes and brings seven other spirits more evil than itself, and they enter and live there; and the last state of that person is worse than the first.' Luke 11.24-26

Towards a Just Economy

'The only thing we can say is to repeat the central teachings of Christ. When men and women over-reach themselves…trouble often follows…the financial crisis is enormously complicated and I would hope we don't attempt to say too much'
Cardinal Pell of Sydney

1. Catholic notion of <u>The Common Good</u>.
   'The sum total of social conditions which allow people either as groups or individuals, to reach their fulfilment more fully and more easily' (Pontifical Council for Justice & Peace 2005)
   Economic structures exist for people not the other way round. What is economic activity *for?* ***To ask this question is to stop it being an idol.***
   (The 'Hamleys Test')
   Who benefits? Just Outcomes.
   St. Paul's Institute survey suggests financial community ill at ease and ready for change.

The statement that 'The return to shareholders should be the top priority in business decisions' received only 54% agreement, whilst 39% disagreed or strongly disagreed with it. For me these were the most illuminating responses of the whole survey. The need to maximise returns is a mantra so frequently trotted out for both businesses and charities, that I was surprised that the numbers of those agreeing with it were not much, much higher.

Once again I long to ask a supplementary question - if only 54% think that returns to shareholders is the top priority, it begs the question what else might be. In other words this part of the survey suggests that there is room to ask fundamental questions about what business decisions are actually <u>for.</u>

2. Money needs to be de-throned.
   The 'merciful economy of God contrasted with the merciless economy of money' – Peter Selby.
   Traherne and the values of abundance rather than scarcity. Primacy of overall utility rather than marginal value of exchange. (Water and diamonds)
3. Restoration of virtues: Fortitude, Justice, Temperance and Prudence. Sovereign debt an ethical issue since it is paid for tomorrow, so inter-generational debt = theft since next generation not consulted.
4. Our own contribution. Change needs to start with us.

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or
http://www.marlboroughanglicanteam.org.uk/latest-news.pdf pages 9-18