Thoughts on the Financial Crisis

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Amongst the many traumatic side-effects of the American Financial Crisis — with knock-on effects around the world — is the sudden challenge to deeply held societal views: the most venerated class of workers, the men who run the banks, have turned out to be unworthy; and the most established of truths, the beneficence of competitive market pricing, has turned out to be wishful thinking. Nowhere was this twin turning more apparent than in the person and testimony of Alan Greenspan — for 19 years till 2006, Chairman of the US Federal Reserve, and revered denizen of the US financial system — at his first hostile Congressional hearing in October 2008. Invoking both scorn and pity, he claimed without remorse: “Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief”. The time has come, therefore, for societies to take stock, and recalibrate their compasses on what to believe about their economic systems and whom to trust.

The complex interconnected economic systems of our time are the fundamental means by which human societies enable themselves to be creative and productive (Gen 1:28), along with negotiating and sharing the associated benefits and vulnerabilities of taking such initiatives in an uncertain world. Driving this process are the habits and traditions of fallen human beings attempting to make choices not just for themselves, but also for others; and not just for the moment but also for the future. This essay suggests that Christian thinking could help to guide discernment of these events and times, and the appropriateness of

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the systems and by which we allow ourselves to be governed.

Constructing Solutions
As the dust settles on a calamitous series of events in the financial industry and markets, economists are not glossing over these events as being part of a routine — and therefore acceptable — cycle of ups, downs, and market corrections of normal economic activity. There has, however, been no clear agreement about who or what is to blame for what has been by any standards a major upheaval in the globalised mechanisms of banking and lending. The confusion and uncertainty has left citizens unable to discern the merits of political choices on the “way forward”, and politicians unable to discern the merits of conflicting experts on the same.

The onset of the crisis was a rare and historic opportunity for diverse ideas and suppressed vocabularies on social and economic functioning to find a new voice — mercifully halting the babel project for an ideologically driven consensus on the fundamental rules of an efficient economic system. Instead, the desperate desire for clear and unified policies, along with the stronger imperatives in influencing political and individual choice, has allowed the solution to be designed largely by those who might be most responsible for the problem, and with minimal rethinking of the traditional certainties. The opportunity for serious introspection and relevant reorientation seems to have been largely missed.

It follows, therefore, that people governed by these technical solutions cannot be overly soothed by hopes that the causes and consequences of financial fragility are being rightly rectified. Quite apart from the effort to rethink the “hard” technical mechanisms involved in national and global economic management, reflection is also needed on how the causes and consequences of the financial fragility depend on “soft” mechanisms, such as culture, values, and the underlying vulnerability of human choice.

Announcing the Gospel
Jesus announces his ministry with the famous words from Isaiah 61: “The Spirit of the Sovereign Lord is on me, because the Lord has anointed me to preach good news to the poor...”. Biblical teaching is particularly harsh against the exploitation of the poor, and the enrichment of some based on the impoverishment of others. The triggers of the financial crisis show how the mechanics of economic activity in the world — and even the solutions to the financial crisis — may have had Biblical priorities turned upside down. The problem can be described using an analogy from the world of “slumdog”.

Slumdog Millionaire is the recent Hollywood film that managed to generate popular global awareness on some of the disgusting realities of Indian slums. In Bombay for example millions of people live in slumdog conditions, while others live in apartment buildings that cost as much to rent as those in the upper west side of Manhattan, New York. Both the super rich and the middle class of Bombay enjoy the double benefits of having wealth in the midst of extreme poverty. Not only can they afford the very high priced dining of the Taj Palace Hotel, while ordinary folk save for months just to afford tea at the Taj, but they can also benefit from the availability of slumdogs at slave wages to do their cooking, cleaning, laundry and gardening on a daily basis.
Imagine a Bombay housing economy in which the government taxed the slumdogs one rupee each day, and built up a fund through which they gave cheap loans to the topdogs, so they could keep buying apartments. The technical "economic" logic behind this move would be the following: It is important to attract topdogs to Bombay — because topdogs increase the money being spent in Bombay, and in the process create employment and earning opportunities for others, including the slumdogs. Topdogs, unlike most others, have enormous choice with regard to where they can locate themselves, and therefore are very sensitive to the quality of conditions they are offered. For instance, the easier the access to credit to buy houses and the cheaper the labour of the slumdogs to work in these houses, the more attractive Bombay is for topdogs. Both of these are achieved by the credit scheme financed by taking money away from slumdogs. The technical logic will reason that eventually a critical mass of topdogs would be attracted to Bombay to keep them coming even at greater cost, and the government can then start putting back all that it borrowed from the slumdogs to improve their condition, as the topdogs pay off their housing loans.

However, if topdogs borrow rapaciously, take more housing loans than they can eventually afford to repay (mised by the hope that their house prices would rise exponentially in the future, as it has done for a period when the cheap loans increased housing demand), and then default on their loans, the poorest slum-dwellers of Bombay would have paid for the apartments housing the richest in the city. A scandal by any standards.

Even though the parallel cannot be exact, this is roughly what took place between the peasants of China and the rich middle-class of the United States. The Chinese government took away money that could have been invested in much needed infrastructure for Chinese peasants and lent it to the US, allowing the US middle-class to borrow cheaply for their housing — more cheaply than Chinese peasants could borrow for their farming. The Chinese peasants — migrating to urban ghettos and working for sweatshops wages to manufacture cheap goods for US consumers, whose appetite is fuelled by loans subsidized through the Chinese government — have become the equivalent of Global slumdogs. Because of the rapacious borrowing and spending in the US, the money lent by the Chinese government (by depriving the Chinese peasants) cannot now be recovered without losing much of its value.

The response to the financial crisis an economic stimulus package — worth almost a trillion dollars — in the US, for instance, is effectively financed in its entirety by the money lent to the US from the Chinese government. The positive signs of overcoming the financial crisis are not, therefore, good news to the poor Chinese peasants and workers. When Christians announce the gospel, the "good news", they cannot simply mean good news in an unearthly realm in the after-life future. The a-
The Call to Repentance

Much has been said about the ostensible greed of people, in precipitating the present financial crisis. The agency of bankers is often described as the "greed of Wall Street"; and the agency of home owners has also been described as greed — for buying and living beyond their means. The nature of desires in these two different agencies underlying the crisis, however, may also be described differently. Individual greed is, perhaps, too simple a diagnosis of the problem.

Greed involves impatience and an excessive desire to have more for oneself, and now, regardless of the relative plight of others or the consequences for the future. In contrast, the quality of Prudence involves acting with foresight to prevent difficulty in the future. "The prudent see danger and take refuge, but the simple keep going and suffer for it" (Prov 27:12).

As Jesus lists his criticism of the Pharisees, he identifies the sin of greed: "Woe to you, teachers of the law and Pharisees, you hypocrites! You clean the outside of the cup and dish, but inside they are full of greed and self-indulgence" (Matt 23:25). These words also echo the words of the Lord that came to Ezekiel: "My people come to you, as they usually do, and sit before you to listen to your words, but they do not put them into practice. With their mouths they express devotion, but their hearts are greedy for unjust gain" (Ezek 33:31).

The God of the Bible is just as, or more, concerned with perversion of desire to greed as he is about the misuse of the sexual appetite. Prudence, however, is a different quality from greed. While greed goes together with folly (Luke 12:15-21), prudence goes together with being wise (Prov 8:12).

In a situation where house prices are galloping up, both greed and prudence can motivate people to buy houses that are not quite needed in the present, at prices they can barely afford. This excess of greed when the goal is to speculatively accumulate excess housing in order to sell and make large profits as ever increasing prices in the future. But it is more like prudence, when the goal is to plan ahead and make provision for future needs, by buying early, before prices increase to impossibly high levels.

The reason for middle-class house owners to have mortgages that they were eventually unable to pay, as I will explain later, cannot be simply excused on the basis of prudence. But neither can that behaviour be simply equated with the short-term opportunism of property speculators and bankers that took high risks, often on zero-sum ("gambling") transactions, with money that they had borrowed ultimately
from the savings of vulnerable individuals all across the globe.

Blaming the bankers for being greedy and for gambling, if that is the only story we tell, will conceal the further agency of more systemic desires. Those who run banks are monitored, then rewarded or punished, through a system that signals daily, and moment by moment, a continuous assessment of their performance. The signal is the share price. The signals are generated collectively by a share-owning public who subconsciously the buying and selling of shares with their savings on the basis of very narrow criteria: the likelihood of maximising short-term returns (long-term returns being maximised often by focusing continuously on maximising short-term returns). Such a signalling system is inherently greedy and impatient. Bankers who aim to be prudent by avoiding trades in "bubble markets" will tend to be instantly punished as long as the bubble has not burst and others are opportunistically profiting by fuelling the bubble.

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It is right to ask and expect those with enormous pay and power, to act in ways that are trustworthy — with due care and consideration for the safety of people's savings placed at their disposal. But trust is not easily evaluated or measured on the basis of price-to-earnings ratios. When the activities of financial firms are so complex as to prevent a shared understanding of their merits, or those who trade shares are not literate about, or are too impatient to care about, the signals of trustworthiness, the confusion and perversion of desires is not just individual but also systemic. The Christian call for repentance in such a context is not just a call to individuals but also to the social conventions of our economic systems — to turn away from established bad practices and to be reformed on the basis of a new perspective.

The Process of Conversion

In the creation story of Adam and Eve, the temptation presented to humanity questions the constraints that God has placed — not to eat from the tree in the middle of the garden (Gen.3:4). One of the many underlying subtexts — of the "serpent" as it is of economists — is the idea that being able to exercise more choice can only lead to better results.

The fallen human psyche is invariably in conflict with itself. One way in which this conflict arises is in the conflict between present and future goals. What is desired for the present is often in conflict with what is desired for the future. Even the ability to sensibly understand the challenge of achieving goals set for ourselves in the future, can often be very difficult. It is a weakness of the psyche that is also very susceptible to exploitation by marketing.

The exploitation takes place by inducing people to exercise their freedom of choice in a way that is against their own overall interests. This was evident in the mortgage payment structures at the heart of the financial crisis — offering 100% financing, "buy now pay later" schemes with terms such as zero or nominal interest rates for about several years,
which jumped to upwards of 12% after. It is also evident in the roundane strategies of supermarket arrangements which have learned to exploit the subconscious weaknesses and the impulse factor of shoppers through careful research — for instance, the strategy of keeping chocolates and sweets at the checkout counter.

The reiteration that “the customer is King” and that people are “Free to choose” disguises the level of control that marketing mechanisms actually achieve over the choices that people are in fact allowed to make. The cunning of Eden’s serpent is comfortably ensconced in the marketing mechanisms of our economic systems.

In popular discussion, freedom as in the “freedom to choose”, is generally conceptualised as freedom from obstacles or interference from others. From the famous conceptualisation of freedom by Isaiah Berlin, this can be termed negative freedom. In contrast, positive freedom echoes the restoring hopes of Christian conversion: it is the freedom “to” pursue ends that are considered valuable. The constraints on positive freedom are not necessarily external; they are often internal. External factors such as other people can always be a threat to one’s negative freedom, but they can often also be the enablers of positive freedom.

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It is generally in community and in mutual sharing and encouragement (and not in isolation) that people find the ability, the emotional strength and the discernment to pursue ends they consider valuable. Paul sums up well the tension between negative and positive freedom through his lament: “I do not understand what I do. For what I want to do I do not do, but what I hate I do... For I have the desire to do what is good, but I cannot carry it out. For what I do is not the good I want to do; no, the evil I do not want to do — this I keep on doing” (Rom 7:15-19).

Perhaps the rich young ruler who walked away from Jesus suffered from a similar deficit in the positive freedom of conversion.

A standard economic understanding of freedom — as negative freedom — finds it hard to justify regulation and constraints, even to the marketing of cigarettes or even addictive drugs, except to ensure internalising of social costs, competitive market pricing and adequate information. A Christian understanding of freedom — as positive freedom — leaves room for the recognition that certain restrictions on choice can enable positive freedom, as has been repeatedly affirmed by people in the embracing of such restrictions. Examples abound, from adhering to externally forced retirement savings, to buying only small packages of tasty food in order to avoid overeating.

Within economic theory (as in the temptation story) it is not yet known how more choice can be demonstrated as being less good, and thus the related problem of lacking positive freedom has not yet been applied to economic analysis in policy. As a result, much of government policy — shaped more perhaps by economics than any other social science — is often blind to the human problem that should be the focus of collective mechanisms designed by public policy.
Therefore, the Christian hope of conversion for the economic systems of our societies, reconciling all things to Christ (Col 1:15-20), will involve embedding a fresh vocabulary of free choice within the analytical paradigms of economics. This should be a vocabulary that is equipped to negotiate the tyranny of excessive negative freedom, so that the freedom to share productivity is not at the same time a freedom to exploit vulnerability.

The Hope of Salvation
The social organisation prescribed by God through Moses, to the community and nation that was being forged after their rescue from slavery, has much to say about economic structures and the justice of wealth distribution as favoured by God’s concern for the world. Throughout the Old Testament story, the failure to live out these economic values is given as a primary reason for God’s judgement against his chosen people.

The economic values available from the Bible present private ownership and the profit motive — considered the cornerstones of modern capitalism, along with market-determined prices — as highly contingent to the salvation hopes of God’s mercy and justice. For example, farmers are instructed to subsume their profit motive by not fully reaping the harvest and leaving the gleanings for the poor (Lev 19:9-10; 23:22; Deut 24:19-21); and private ownership of land is severely curtailed by the Jubilee law, requiring all land to be returned to the family of its original owners in cycles of 50 years (Lev 25:8-13), thus circumscribing in time and extent the accumulation of wealth and inequality.

Today, these reflections of the hope of salvation can seem unattractive or outdated for their resonance with failed experiments in socialism. Since the disintegration of the Soviet Union, and the economic reforms of China that have gathered pace since 1979, “socialism” as a word is widely held to denote ideas that have been tried, demonstrated to have failed, and therefore are now defunct and discredited. This perception, however, is mistaken. Socialist principles and structures have been widely successful in the world — even though their success has not been within the countries that championed the ideas through radical alternatives to capitalism. Starting with Otto von Bismarck in Germany, the challenge of socialist ideas was met within capitalist economics by designing “welfare” structures that have since become the bedrock of the economies which have become affluent in the world.

The 2008 financial crisis has generated much discussion about the limits of capitalism, and how financial markets can be curtailed and regulated to prevent such meltdowns in the future. Important as this discussion is, it is also important to recognise that countries at the epicentre of the crisis have already been significantly cushioned by economic structures that do not depend on private ownership.
based entitlements, the profit motive or market prices. The provision of health care, education, transport, unemployment benefits, pensions, public services, utilities, security, law and order, environmental protection are all significantly arbitrated through direct public funding and decision making that is not based on markets or the other core principles of capitalism.

That is, economic structures that reflect the salvation hopes of mercy and justice are already an important part of the solutions and sanity for societies that have over-imagined their success as being based on the principles of capitalism.

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Keeping this hope within the economic system will involve ensuring that costs incurred today will not endanger the capacity to maintain these structures in the future. The poor of the world and the vulnerabilities of human choice need systemic interventions for economic justice and mercy, and not just in the present but also for the future.

Deconstructing Solutions

Economic crises, like natural disasters, become moments at which governments are able to push a slightly dazed and confused public into large-scale reform and change in existing structures of benefits and distributions. The swift introduction of large-scale changes in the provision of public schools and housing (previously resisted for decades) after Hurricane Katrina in New Orleans is a small but typical example. This has taken place on a large scale after the financial crisis, when whole nations have been frightened and bullied into providing mind-boggling subsidies (called “stimulus plans”) to the financial and banking industry.

The Treasury secretary (under the Bush presidency) Hank Paulson, the architect of the current “stimulus plan,” was previously the head of the financial firm Goldman Sachs. In effect, the relentlessly risk-seeking and chronically careless patient has vigorously self-medicating, and has likely chosen to take the pill that is best for accelerating the symptoms—rather than best for rooting out the causes, reducing the consequences, or preventing a relapse.

One of the most alarming aspects of the ongoing “solutions” in the trade-offs that are not being discussed. Every dollar lost to subsidies to banks and the bonuses of their bosses will for the most part come out of the potential for public spending on health care, welfare, pensions, education, etc., for the currently poor and for future generations. But these people who are being asked to make the greatest sacrifice, like the Chinese peasants, are also the least consulted in the choices made by their governments. The mechanisms of democracy cannot count the votes of tomorrow’s children who are being asked to sacrifice for the follies of the present; and where democracy has been subsumed in the lobbying of moneyed interests (the case of most affluent democracies), the poor are represented very poorly in government. What problems and whose problems these “solutions” will truly address is a question that remains to be answered.

In an increasingly interconnected and trading world, our destinies are intermingled
not only with those who come under one government — with shared institutions and taxes — but, through shared actions and transactions, also with those who live in far corners of the planet. The lifestyle and vocational choices we make affect those that are near and far in ways that we may not easily be able to imagine or understand. In this complex and uncertain world, the compass of biblical Christian calling provides not a precise, but a general sense of direction for our economic systems. It is to follow a God who becomes human and is born into poverty: embedding a deep concern and partiality towards the poor and the vulnerable. And it is to be disciples of Jesus who demonstrate what it is like to be truly human: showing up and being merciful towards the “unfreedom” of fallen human choices and preferences.

The current financial crisis and its aftermath has aptly demonstrated that decision making and the patronage structures of most economies, remain firmly entrenched in favour of a few with the means of wealth and power to direct the decisions of government. It shows how this power extends to the ability — through media, marketing and education — to direct the personal, economic and political choices of individuals who believe themselves to be responding with autonomy, within the lonely confines of negative freedom. The creativity and productivity of human society and the environment is desperately in need of better mechanisms to negotiate the distribution of its benefits, the consequences of uncertainty and the exposure to vulnerability. It is in need of better economic systems and conventions.

The financial crisis presented an opportunity for the dominant economic systems of our world to hear the call for repentance, to be reshaped by a process of conversion, and to be re-directed by salvation hopes, as affirmed within the traditions of Christian faith and thought. But instead, the crisis seems to have become an opportunity for reaffirming, in unformed fashion, the capitalist structures which were the principal causes of the crisis; and, frighteningly, for protecting them at the expense of important noncapitalist structures of social provision for the present and future generations. It is clear that the need to work towards being able to announce the good news of the gospel remains as great as ever.