

Underlying causes of the global economic crisis

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In speaking about the present crisis, we have, in my view, to deal firstly with a somewhat peculiar, but nevertheless almost general, public impression, namely that the present financial and economic crisis will be a relatively short one, so that, after one or two painful years, we can again pick up our normal patterns of economic behaviour, going back again to 'business as usual'. For me, and perhaps also for you, that looks very improbable.

Not only the size and the impact of the present crisis is severe, but it is indeed a crisis which creeps through the entire economy: banks were first, auto concerns and the building sector followed soon, but now signs of firms closing and loss of jobs come to us from the remote corners of our countries. But next to that this crisis seems also to infringe in the depth of the human mind. Most business-people, politicians, and well educated citizens thought until this summer that we had already learnt enough from the crisis of the thirties to prevent something like this ever happening again. Somehow or somewhere a toolkit would always be available to bring our economy rapidly back to its trace, especially in times of a nearing recession.

But the toolkit now looks more and more empty. It looks as if the huge amounts of money which were given by the governments to the banks did just evaporate there; that they were absorbed by them without actually stopping the credit crunch. Which is not only painful but also very disturbing. For this public financial bleeding also implies that most western governments now lack the necessary budgetary means to come to the rescue of our staggering *real* economies. The fear for a coming relatively deep economic depression grows, and that is a mighty blow for our self-esteem. That our high speed economic train could be hampered, and would even come here and there to a complete standstill –that was almost the last thing which we expected.

All this brings us to the inevitable question – why? – the question of the underlying causes of what happened. Many bankers and financial experts declared that this crisis could not be predicted. But then what did make this crisis so unpredictable, as if a kind of fate came over us? For, if so, it can sooner or later come over us again, with even heavier consequences. That is the deep insecurity of our time, and it seems to mark to some extent also a break in history. In other words, there no longer exists something like 'business as usual'. It looks as if a kind of watershed has occurred, which implies that the future could be remarkably different from times as we know them...

The search for the deeper underlying causes brings us however to levels which are usually not well discussed. They are even evaded by most analysts. These levels or layers are not only related to the mysterious field of strong but false human expectations sudden fears, and panic. They also have to do with a lot of very different spiritual and ideological roots of human actions, which may be mingled with elements of illusion, fundamental short-sightedness and even forms of collective hypnosis. And that is certainly not a welcome type of analysis.

But churches, and here we are taking part in an event of living churches, should be expected to be open to also these possible underlying causes and layers. They should not try to evade them. This is because it can not only help us to understand our society and ourselves somewhat better, eventually in a self-critical way, but also and even mainly because we may expect that some kind of a link exists between a good and fair diagnosis on the one side and a possible therapy on the other side. A good analysis may also lead to possible ways out.

Its effect perhaps goes even further. At the deepest level of such an analysis a correlation may pop up between the acknowledgement of the existence of public guilt or evil and the possibility of collective healing and redemption. Healing, redemption, reconciliation: these are words, as Desmond Tutu taught us, which should not be reserved for the sphere of personal faith. They need also to infringe into our political life and economic life before we can expect true and lasting solutions.

Let us therefore now try to go the way of searching for these underlying roots and causes. And let us start with the outburst of the financial crisis, because that crisis formed the trigger for the present deepening economic crisis. Was that financial crisis only a crisis in the financial system, or was and is it also a crisis of the system, as Susan George recently stated? And if so, how could such a crisis have developed? What were its cultural, structural or even spiritual underlying causes?

The relationship between our modern society and the role and creation of money has always been somewhat intriguing. We probably all know that in the past the coining of money was almost always done by public authorities. The image of the lord or seigneur of the country was stamped upon a piece of gold or silver, and that action turned that piece of metal into generally accepted money. But then fiduciary money came, and its coming implied that increasingly general private banks could take over a substantial part of the role of money creation, namely by issuing credit money or debt money. And so, to make a long story very short, it became possible for private parts of the process of money-creation effectively to explode in the last ten to fifteen years.

That process was mainly driven by the perspective of enormous gains and short term profits, also in the form of banks giving lucrative credits to each other and to so called hedge funds or private-equity funds. The statistics about the accelerated total growth of debt-money in recent years have not been officially published; in the US they are seen as secret, which is already a sign on the wall. But recent estimates go in the direction of an annual growth of credit-money in the last ten years being, on average, a fourfold of the growth-rate of the so called real economy. Most of that newly created money ended in the development of and speculation with so-called derivatives, a word which stands for all kinds of new financial "goods" like swaps and various packets or slices of mortgages.

Money itself has obviously become something which you can buy and sell as a good, it has become a tradable commodity. So the financial assets could indeed grow by a multiple of the growth of the real economy. Herman Daly, the well known American economist, calculated recently that the amount of paper exchanging for paper is now 20 times greater than exchanges of paper for real commodities. An enormous balloon of collective speculation has grown and has now burst. Trust is lost, and the real economy is now also fully threatened.

It is almost generally acknowledged that this entire process has been fed by the enormous driving power of the lust for money. The weekly journal *Time*, in September 2008, the month of the deep fall of Wall Street, carried on its cover the words "*the price of greed*" and that was not only the price for private or collective speculators, but also for previously

very trustworthy banks. Banks which on the one hand could create enormous amounts of money but, on the other hand, took part fully in the speculation process to earn their money back with big surpluses.

But is it only greed? We now come to a deeper level. Money and magic had always something to do with each other. Already in Goethe's *Faust* that connection is made clear: Dr Faust is tempted by Mephistoteles to use the magic of printed money to expand his power in an infinite way. And not in vain! For Goethe, who by the way was himself once minister of Finance in Weimar, knew that printed money - now electronic money – always suggests to the human mind some kind of economic value. It is therefore a mighty magic instrument to obtain more wealth and luxury for yourself.

For that devilish seduction Dr Faust collapsed. But the question arises: did our modern economies not give into a very similar temptation, with this crisis as the result? The answer is, I think, in the affirmative. For money is more than just a facilitating medium. It is able to build structures (like new financial markets) and institutions (like derivatives) around itself. It has indeed now grown into a separate and even crucial domain in our modern society. Also, because money, the empire of Money, is capable of setting people, firms and markets into continual motion. It has by its utmost modern character also become the most important dynamic structure within our modern societies.

Just look with me to the facts. Financial markets have been able in recent years to take over the control of a substantial part of our real economies. These markets, with hedge funds as their exponents, could just order firms or concerns to reorient their entire behaviour towards a higher level of short term financial profitability, and even to merge or to split if the financial results were only a little bit too low. Even politicians (declared only a few years ago the president of the German Federal Bank with deep satisfaction), even politicians and their governments have now been brought under the control of the financial markets. And indeed, a lot of countries, especially in the South, have learnt to live in constant fear for what huge money flows can do with their economies. The possibility of a sudden break down of their economies, because of capital flight leaving overnight, is sometimes called the new Big Brother syndrome.

I think that all this should ring a bell for us. Here we meet the signs of what the Scriptures describe as the kind of fear which is connected with the service of alien gods. Money itself is in principle a serviceable instrument to facilitate transactions in our real economy, and so it should be. But we should not forget that money is not a part of God's own good creation. It is created by man, and it can therefore easily grow into an awful tyrant, especially if it is seen and accepted by us as a kind of master. For as soon as money-flows are seen as a decisive guide for all economies, it takes a position in the driver's seat, as George Soros calls it. From there, it starts to show some treats of terror and, in the end, can fundamentally betray all its servants or adepts.

The essence of idolatry is always a combination of exalted self-centred expectations mixed up with fear. On the one side the adoration of money tends to narrow the common perceptions of reality, as if the law of self-made magnificent financial dynamics is the only, or the ultimate rule. But, on the other side, a delegation of power and influence inevitably also takes place. The new god is allowed to take the lead and can thus force even an entire society into patterns of obedience. In this line of thought, financial markets get the control over the real economy.

Even now some financial experts insist that we have to put our trust in the full come-back of the financial markets themselves, for only they can and will save our real economies. But their claims sound increasingly hollow. The general public has become aware that

banks were given full financial priority in receiving government assistance, rather than suffering house-owners or threatened smaller firms. For banks were obviously seen as the cornerstone of our entire modern economies. But did that kind of support actually prevent our present economic crisis? No, most banks are now just hoarding these enormous amounts of financial support to increase their own capital base.

Obviously this idol of an acquisitive financial culture is now staggering, as idols in the end usually do, and we can also observe signs of deep betrayal. The deepest underlying cause of our present financial crisis looks to me like the sudden betrayal of a self-made god. This betrayal also has its good side: for it has now become highly improbable that the same unconditional trust will be given again soon to such a deeply untrustworthy guide. Money needs to be our servant, not our master.

But what about the condition and the future of our real economy? Is it enough just to swear off that alien god to see immediately a full restoration of our real economies and thus also the end of the present economic crisis? I don't think so. The persistency of the present economic crisis shows that it also has its own endemic roots. So let us try to also find these deeper underlying structural causes.

Perhaps I may start here with a metaphor. It is the Dutch metaphor of a cyclist. Usually everything goes well with riding your bicycle as long as you have enough speed. But as soon as your speed becomes too slow, you just fall from your bike. Well, almost the same is true for our modern market-oriented economies with their enormous technology and efficiency drives. That constant drive, which year after year has led to an almost constant increase of our average labour-productivity, has brought many good things to us, there is no doubt about that. But that pushing power has also its down sides.

These immediately come to the fore if the growth of our expenditure slows down; if, in other words, the demand side of our economies are shrinking, as now. For the productive potential in our society, the capacity to supply goods, expands each year by let us say at least a 2% or 3%, because of the annual increase of our average labour-productivity. As soon as the annual growth of our annual expenditures, our effective demand, drops to less than this 3%, we effectively fall from our economic bike, and are confronted with a growth of unemployment. And that is in fact a very strange situation. For it implies that we are obviously enforced, doomed, to a substantial annual growth in our consumption levels - just to keep our economy in motion!

It is as if we can still hear President Eisenhower when he spoke his famous words at the moment that the American economy was slowing down: "It is a duty of every American to consume". A duty to consume! This is already by itself an adverse expression, but it now sounds even more strange and less fitting than ever before. For let me just remind you that according to most scientists we in the West we are living in a situation of overconsumption or of material over-development. We are all gradually becoming aware that the constant high-level growth of our material production and consumption may indeed threaten the future of 'mother nature' and perhaps also of our own children and grandchildren. For the present expansion of production in the world increases about sevenfold every forty years, while the corresponding use of fossil energy grows fivefold in the same period (Corson). But that is simply too high to be compensated for by technological improvements in, for instance, energy saving. These improvements cannot and will not prevent a growing scarcity of natural resources, nor a lot of military tensions about their possible access, nor an ongoing decline of living species.

But what then to do? It looks as if we have entered into a deadlock. On the basis of our growing productivity, given the social interest to maintain a level of enough employment

for everyone, there exists in our societies a structural need for an ongoing annual economic growth of several percentage points per year which, if based on an annual productivity growth of let us say 3.5 % per year, implies that each twenty years our levels of production and consumption will double. But that is simply devastating for our environment, for poorer countries, and for the preservation of peace in still resource-rich regions. Are we therefore structurally doomed to strive for infinite material economic growth, and to return in this time of recession to that path as soon as possible?

No, of course not! But I hope that you will agree with me, that on the basis of what we just saw no real change seems possible without severe, as well as structural consequences. But there is also another side. Perhaps it is this *kairos*, this very moment of a deep financial and economic crisis which also gives us, however painful it may be, the opportunity to reflect upon those consequences and also to start to implement some structural changes. Because I do hope that the churches of the West and their members are willing to take the lead in this discussion.

I would like to start this last section of my contribution with a very special quotation. It is taken from a public letter, written in Bangkok in 1999 on an ecumenical conference by the Asian churches in the heat of the so called Asian Crisis, a letter which was addressed to the churches of the North. It runs like this:

Next to the pain and suffering here in the South, there are the threats in the North. We heard about poverty, coming back in even your richest societies; we received reports about environmental destruction also in your midst, and about alienation, loneliness and the abuse of women and children. And all that, while most of your churches are losing members. And we asked ourselves: is most of that not also related to being rich and desiring to become richer than most of you already are? Is there not in the western view of human beings and society a delusion, which always looks to the future and wants to improve it, even when it implies an increase of suffering in your own societies and in the South? Have you not forgotten the richness which is related to sufficiency? If, according to Ephesians 1, God is preparing in human history to bring everyone and everything under the lordship of Jesus Christ, his shepherd-king – God's own globalization! – shouldn't caring (for nature) and sharing with each other be the main characteristic of our lifestyle, instead of giving fully in to the secular trend of a growing consumerism?

At first sight it seems odd to refer to this text. For it appears to deal far more with the Asian perception of our modern Western reality than with dilemmas within that reality itself. But is that entirely true? "The delusion to improve always our own future", is that for instance also not the drive behind the ongoing rise of our primarily market-oriented labour-productivity? And is that drive not also the source that we look compelled to have, in order to maintain an always ongoing substantial material economic growth, and which now presents so many difficulties to escape from our present crisis? This is not the time and place to work out concrete solutions. But perhaps I may offer two short reflections about a possible alternative way of thinking about our present financial and economic misery.

Firstly we need to be aware that there is no inherent need in the development of human technology, as if it should always be primarily oriented to the increase of productivity and efficiency as seen and valued by the market-place. Many and very heavy financial and commercial interests these days bind our technological possibilities and channel them firstly and almost entirely into directly-profitable purposes. Technology needs to be liberated before it is able to serve us primarily, not only in the care of nature and in the saving of energy, but also in the increase of the quality of work in labour-situations and in the adaption to technological needs of poorer nations. A transformation which could also

afford us with a lot of new, meaningful employment! But the price of such a liberation is also a cultural price. And that price is in fact indicated in the last quoted sentence of the letter of the churches of the South. We have then to fight against the ongoing trend of a growing materialism and consumerism. Especially where it leads again and again in our societies to hard claims for an ever rising disposable consumption-income level for ourselves and others: higher wages, profits, bonuses all included. For only if that process stops can an economic trade-off become possible between the too high potential growth of our consumption on the one side, and the kind of collective savings on the other side – forced or voluntarily made – which are destined to increase our investments for the preservation of life and humanity, in quantity as well as in quality.

Lord Keynes said very similar things in his brochure *“How to pay for the War”*. He was aware that the necessity to fight for peace would imply a deep reorientation of the British economy, and so he made several proposals – like “forced savings” - to reach that goal with as his main argument: “In war we move back from the age of plenty to the age of scarcity”. Indeed, also now an age of plenty is ending, while also now, in this new age of scarcities, a war has to be fought for the preservation of nature and justice in this world. And that inevitably asks for a less stressful and more sustainable type of economic ordering than that which we now find around us.

Secondly, it is very remarkable to see that the word “sufficiency” in this letter is combined with another word, and that is “richness”. It is wonderful to see that in the view of the churches of the South, “sufficiency” is not primarily related to misery and sacrifices, but far more to the joy of saturation, or bliss.

This relates indeed immediately to what we could describe as the new educational task of churches. Our happiness no longer increases by a prolonged further expansion of our material consumption and earned financial profits. Several statistics, like the index of social and economic welfare (ISEW) prove this. What our society needs most, especially in this time of crisis, is therefore the perspective of shalom combined with relief. If the bicycle no longer helps us we can also choose a more pleasant walk. In any case we cannot and should not accept that we are driven by our present financial and economic system to always produce and consume more. For such a drive stands over and against our mandate to take care for people, to strive for peace and to take heed of God’s creation. In the fulfilment of that mandate there is in my view also a hidden promise. It is the promise of a more meaningful employment for our children and, for nature, the promise of a lesser degree of global warming as is now predicted.