Debtonation: The Global Financial Crisis

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"Credit, usury and political power: chasing the moneylenders from the temple that is our democracy."

EBOR Lecture delivered at York St. John University, York, Wednesday, 25th November, 2009.

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Introduction

> "And He found in the temple those who sold oxen and sheep and doves, and the money changers doing business. When He had made a whip of cords, He drove them all out of the temple, with the sheep and the oxen, and poured out the changers' money and overturned the tables. And said unto them that sold doves, Take these things hence; make not my Father's house an house of merchandise. "
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> **John 2:14**
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> "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury
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> **Deut. 23:19**
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> And forgive us our debts, as we forgive our debtors .
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> **Matthew 6:12**

I have chosen to begin tonight's lecture with John's report of what a York policeman would today describe in his notebook as an 'incident' at a temple in Jerusalem . One in which a young man appeared to mindlessly vandalise the small but thriving market that had grown up inside its holy walls. I favour John's account of this event because he conveys far more directly than either Matthew or Mark the depth and intensity of Christ's anger; the calculated gathering of cords for the making of a whip – and then the deliberate but systematic driving out of the money changers' from the temple, scattering their self-serving gains.

Finally, his violent and probably quite unnecessary overturning of tables.

For me this is one of the most powerful passages of the gospel. One that Christians throughout the ages neglected at their peril. A message that has a powerful relevance to today's financial crisis, and to the usurious rates of interest charged by money-lenders. As Ched Myers has argued: any theology that refuses to reckon with the role of money-lenders in our economy and society "is both cruel and irrelevant". 1

We, I want to assert loudly tonight, have a moral duty as Christians to reckon with the role of money-lenders. To understand the workings of the financial system, and the theories of economics that underpin our financial system, and once having understood, to practise economics as if Christianity mattered.

Society is crying out for people of faith and integrity to rediscover "a radically different vision of economic and social and political practice". 2

Society is yearning for political leaders, for elected representatives, for leading commentators and thinkers, and indeed for faith leaders to exhibit the same principled determination, indignation and righteous anger that Christ expressed early on in his ministry, on that day in Jerusalem.

Anger at the way in which our institutions – financial and political – have been captured and corrupted by the elites that are today's 'money changers'.

Anger at society's failure to mobilise the political will to rid the temple that is our democracy of finance's terrible influence and power.

For in truth the money-lenders have only been doing what comes naturally. Successive governments – acting on our mandates - capitulated to their demands and values, and gave them more and more power. And we let it happen – revelling in the use of credit cards and the easy availability of debt.

My lecture tonight will major on the theme that we, the people, need to drive the money-lenders out of the democratic institutions that were created to defend the interests not just of the few, but of the many. Democratic institutions that many generations fought and died for. Institutions built to defend the interests of the poor and of the vulnerable; the interests of women as well as men; the interests of God's creatures as well as his people; the interests of the ecosystem as well as the economy.

We need to recognise that both our political and our financial regulatory institutions for which we have fought so hard have been captured by the very same people the institutions were set up to regulate.

As Simon Johnson, until recently a chief economist at the IMF noted in a now-famous article in Atlantic Magazine:

> "Elite business interests—financiers, in the case of the U.S.—played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse. More alarming, they are now using their influence to prevent precisely the sorts of reforms that are needed, and fast, to pull the economy out of its nosedive. The government seems helpless, or

> unwilling, to act against them." ('The Quiet Coup'. Atlantic Magazine, May, 2009.)

We are now effectively governed by a financial oligarchy.

As a result, and in the words of Martin Luther,

> "......*usury and avarice have burst in like a flood,* and have become lawful; wantonness, lewdness, extravagance in dress, gluttony, gambling, idle display, with all kinds of bad habits and wickedness, insubordination of subjects, of domestics and labourers of every trade. . . have so increased that they cannot be rectified by ten Councils and twenty Diets."
>
> (The Smalcald Articles of Christian Doctrine. Preface by Dr. Martin Luther. [3])

I believe we can only challenge today's oligarchical political estate – the money-lenders that have occupied the temple that is our democracy - if the population as a whole gains a deeper understanding of the economic policies that have eroded and undermined widely-held values and helped expand the finance sector.

And then equipped with that understanding to challenge the dominant, but corrupting economic theories that permeate all our financial, political and even academic institutions.

I know this can be done. When we began the Jubilee 2000 campaign, our efforts were met with much scepticism. We were told that it would not be possible to spread understanding of the complexities and policy nuances of sovereign debt and international finance.

That to expect ordinary people to be able to distinguish between multilateral and Paris Club debt; between pre- and post-cut-off-date debt; between nominal and net present values for the debt – was utopian.

That the population was suffering from a phenomenon then defined as 'aid fatigue' – that people had imbibed selfish values and had no concern for the poor of the low income countries. That international finance was too difficult for ordinary people to follow and understand.

How wrong they were. In the middle of the 'loads of money' 90s – we disproved the cynics. We mobilised millions of people – not just in the UK, but also internationally – by educating them in, and informing them of, the complex issues of international finance, sovereign debt and geo-political power relationships.

Armed with data, information and rigorously assembled arguments, those campaigners were empowered – and acted with a strength and determination that was breathtaking for us and frightening to the powers that be: the leaders of the G8, central bankers and the senior officials of –the international financial institutions in Washington, London, Tokyo and Frankfurt.

We can do it again. We can spread a sound and rigorous understanding of today's economic and financial systems – and end the ignorance surrounding much of our financial system. For it is surprising how few people understand e.g. that credit – in the form of quantitative easing - has been created by the Bank of England and the banking system since 1694.

That credit is not the *result* of economic activity. That contrary to much of classical economic thinking, credit *creates* economic activity.

That banks are not intermediaries between lenders and borrowers. As this crisis has shown, the gulf between savings and borrowings has grown vast – while savings turned negative in the Anglo-American economies, borrowing continued to soar.

Few understand that the banking system has a power that you and I lack: it has the power to create credit out of thin air– and that this credit in turn *creates* deposits and savings.

Most of us believe that credit only becomes available, once savings have been deposited in the bank. Not so.

Quantitative Easing has alerted us to the fact that the banking system is able to create extraordinary levels of credit, without new deposits, taxation or borrowing.

Still, we find it hard to believe that credit can be created out of thin air.

While many may understand that the banking system enjoys an awesome power, few understand how it can be properly regulated in the interests of society as whole.

We must spread that understanding.

But before we can spread further understanding of finance and economics, we must begin by first dismantling and discrediting the economic theories and policies that have contributed substantially to global economic failure.

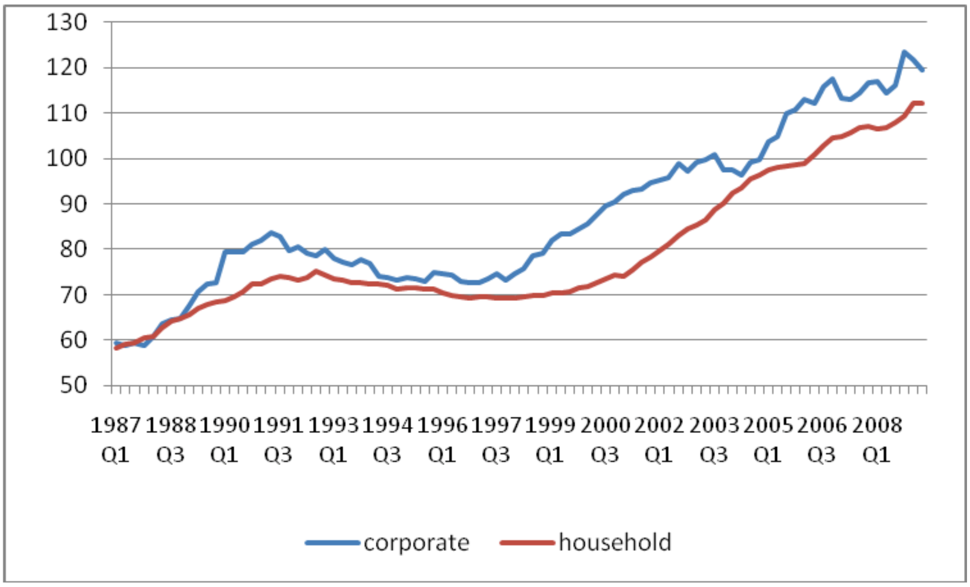
For example the theory – often held as a firm belief – that the invisible hand of the market is best placed to decide on lending and borrowing – and on the price of lending and borrowing – the rate of interest – even when credit is created out of thin air.

That the market can determine the economic , social and political priorities of a nation of sixty million people; that the market is best placed to help us tackle climate change; and that the effortless creation of mountains of credit/debt, and the exponential capital gains that can be made from effortless credit-creation – are beneficial to society.

We must discredit these theories based on greed and self-interest, and revive economic theories based on the values that we as Christians esteem. We must do this with urgency because we are living through extraordinary, and politically dangerous times.

Times when Fair is seen to be Foul and Foul is seen to be Fair. We have a duty to clear the mists of economic confusion, and establish truth – and then speak truth to power.

We need to denounce the injustice of the innocent and vulnerable being required to suffer the consequences and bear the costs of one of the most reckless, frenzied and self-serving financial expansions of the modern era – an expansion driven and inflated by a small elite of money-lenders in the world's financial capitals – and encouraged by professional economists and politicians.



Source: ***UK Economic Accounts*** **tables A57 and A64; corporate debt is shorthand for non-equity liabilities of private non-financial corporations**

As a result of their unregulated activities, over the past twenty years, businesses and households have become increasingly more indebted – even more so than in the 1930s.

Today that debt bubble has burst. The world economy is trapped in a debt-deflationary spiral – as unpayable debts inevitably result in bankruptcy, write-off s or write-downs – and as excess capacity (financed by debt), rising unemployment, bankruptcies and home re-possessions lead to further falls in prices – of assets, goods and services, and incomes.

Over-indebted and over-stocked businesses have had no choice but to prioritise debt repayments; scrap investment plans, cut inventories, reduce wages, sack employees and at worst go bankrupt. Households have had to confront the reality of their debts, especially as house prices collapsed and jobs were lost. Employment across the world has collapsed.

This is the price of debt deflation, as the massive liabilities and inventories built up during the bubble years of debt-creation and over-investment are written off through price-deflation, bankruptcy and failure.

In the wake of corporate bankruptcies, British households are going bankrupt on a scale without historical precedent (see figure below).

Source: BIS, Insolvency Service; ONS *Financial Statistics*, table 6.1A

As a result of rising unemployment, fears of unemployment and the reality of debt, household incomes and spending power are drastically reduced, which in turn affects the demand for the goods and services produced by businesses, further adding to the pressure on the corporate sector. These are the conditions of price deflation, as too little money chases too many goods.

Few of us understand the full force of this truth; but price deflation is a frightening thing: it *raises* the cost and burden of debts. Inflation, by contrast, *erodes t*he cost of debt as those of us who borrowed during inflationary times can attest. Today, household incomes and corporate revenues fall in real terms - but the costs of debts do not. Indeed they rise relative to incomes, further enslaving borrowers to a life of debt bondage.

The truth is this: deflation is good for creditors, because it increases the value of their assets – outstanding debts. It is very bad for debtors.

Inflation is bad for creditors, as it reduces the value of outstanding debts – which is why it is beneficial to debtors.

Today we are living through a quite terrifying debt-deflationary spiral that is little understood by ordinary punters, or by economists, Treasury Ministers or even, dare I say it, by central bankers.

Few understand that it is debt-deflation that is at the heart of global economic failure, and of the suffering of millions of unemployed, low-wage people in the global economy.

And let us not be complacent. Debt deflation has been at the heart of Japan's economic failures for twenty years now - since 1989. Twenty years after the bursting of Japan's credit bubble, house prices are still falling.

The suffering of individuals, households and businessmen and women must be contrasted with the bonuses and capital gains of those who recklessly peddled debts in the first place.

The fact is this: today's moneylenders are unrepentant – and largely unrestrained by biblical law, by public disapproval – or by government regulation.

On the 20th October this year, Brian Griffiths of Goldman Sachs could without fear of retribution enter the temple to our faith that is St. Paul's and during a discussion whose theme was 'the place of morality in the marketplace' declare that:

> "We have to tolerate inequality as a way to achieve greater prosperity and opportunity for all." [4]

His remark brought to my mind a comment by Dorothy Parker :

> "If you really want to know what God thinks about money, just look at the people he gave it to."

For Brian Griffiths, once an adviser to Mrs Thatcher is now an international adviser and employee of Goldman Sachs, a bank that made vast capital gains while the debt-bubble expanded; a bank that benefitted from a taxpayer-funded bail-out in 2008; and which paid $16.7 billion to its employees in the form of compensation and benefits in the first nine months of 2009 - an increase up 46% from a year earlier, and enough to pay each worker $527,192 for the period. [5]

Private is Public and Public is Private

Right now we in Britain are living through a strange lull in this crisis. Strange times indeed. Times during which things are not as they appear. Losses that we thought of as private liabilities are now public liabilities. That which we thought of as publicly owned has been privatised.

A report from ESCRC at the University of Manchester noted recently 6 that the British Treasury, once a proud governmental institution, transformed itself during the crisis, into something quite different: into an institution resembling a massive private investment fund.

This was deliberate policy by Treasury Ministers who approached the taxpayer bail-out and nationalisation of distressed banks, like Northern Rock and then RBS, as if the government department they ran were a traditional, if well-endowed, private investment fund.

In other words, as if Northern Rock were just a private equity style turn-around – and the fund's (for which read Treasury's) goal was not to promote the public interest – but to extract shareholder value. To quote from the Treasury's 2008 Report:

> " Managing investments in RBS and Lloyds at arm's-length and commercially, rather than nationalising them, was a deliberate decision of Government to facilitate their return to private ownership" - (UKFI Annual Report for 2008-9.page 7)

Through this arm's-length institution - UK Financial Investments - the Treasury as of 3rd November, 2009 has an 84% stake in a bank that had massively over-reached itself – the Royal Bank of Scotland, and suffered the biggest loss in British corporate history – more than £24bn. This failed private enterprise had to be bailed out by taxpayers, and recently received another injection of £25 billion from the Treasury.

Under the direction of UK Financial Investments, led by a government appointee, one John Kingman, the new chief executive of RBS will earn an incentive payment of £6.9 million if he doubles the share price of this bank that is virtually publicly owned. (FT 23rd June 2009) That is in line with UKFI's ambition, because the

> "overarching objective [is] protecting and creating value for the taxpayer as shareholder" (UKFI, 2009, p.13). [8]

But the taxpayer is not a shareholder.

Fair is not foul and foul is not fair.

The taxpayer is an investor in UK PLC, and has broader interests than that of mere monetary gain. The taxpayer, for example has a great interest in banks helping to end the trauma of the 2008 meltdown, by assuming the responsibilities of a bank: lending to small and large businesses, homeowners and communities – at low, and sustainable rates of interest.

Above all the taxpayer has an interest in nationalised banks lending wisely.

Two small NGOs, People and Planet and the World Development Movement are currently suing the government for allowing a nationalised bank, RBS, which includes Nat West, to finance tar sands extraction in Alberta, Canada – described as 'bloody oil' for "destroying the homelands and polluting the drinking water of First Nation communities" in Canada.

The fact is the Treasury is not a private investment fund. It is publicly owned institution that exists to protect and promote the wider public interest.

It is not doing that, because the UKFI is largely run by the 'oligarchs' referred to in Simon Johnson's article: bankers and unelected members of the House of Lords.

We should not be surprised to read therefore, in a report in the Financial Times on the 13th November, that the renowned bank, Rothschild is poised to recruit Mr John Kingman – the chief executive of UKFI, and the public servant appointed to protect the taxpayer interest in Northern Rock, RBS and Lloyds Banks.

> "John Kingman " according to the FT "has been pondering for weeks whether to accept the Rothschild offer of a managing director position, or succumb to rivals, including Morgan Stanley, which has discussed a senior role with him. Lazard and Goldman Sachs are understood to be among other banks with which he has had exploratory talks".

Fair is Foul and Foul is Fair. The distinction between public service and private interest is abandoned, and private interest becomes public service, while public service serves private interest.

Never have so few been owed so much by so many

We are living through what I would regard as a 'phoney' period, during which those guilty of the frenzied expansion which in turn led to economic failure – have not been found guilty, and continue to act, and to make capital gains, with impunity.

Not only have bankers like those that ran RBS avoided punishment for their irresponsibility, but as a body the finance sector continues to enjoy even greater financial rewards now that banks and other financial institutions have access to taxpayer-guaranteed resources.

These include the following: a) 'free money' i.e. rates of interest that are effectively negative b) central bank liquidity in the form of 'quantitative easing'; and c) government-financed capital injections and guarantees.

These resources have been made available to banks almost unconditionally. The governor of the Bank of England, Mervyn King, not known for his radical views, recently observed that:

> "The sheer scale of support to the banking sector is breathtaking. In the UK, in the form of direct or guaranteed loans and equity investment, it is not far short of a trillion (that is, one thousand billion) pounds, close to two-thirds of the annual output of the entire economy.
>
> To paraphrase a great wartime leader, never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform." (Governor of the Bank of England, in a speech, 20 October, 2009.)

Before the crisis, banks were gambling with their own funds. Today, because of the failure to reform or regulate their activities they are still gambling - 'betting the farm' as the Americans say. But this time they are doing so armed with, and protected by, taxpayer-backed funds and guarantees.

Of all the moral hazards, that is the greatest.

So that the bank for which Brian Griffiths acts as an adviser – Goldman Sachs, was before the crisis, an investment bank active in proprietary trading and investments. During the crisis, investors lost confidence in Goldman Sachs and began 'shorting' its shares – so that the share price fell precipitously. After a couple of phone calls, and with a simple wave of the Treasury and Federal Reserve wand, Goldman Sachs was transformed into a holding bank, which meant that it had access to a variety of Federal Reserve protections and financial lifelines, during the threat of meltdown.

What was risked privately quickly became publicly guaranteed.

Furthermore, after the collapse of Lehman, the rescue of Goldman Sachs sent a signal that this bank was too big to fail – and its risk-taking would always be underpinned by taxpayers. "A priceless endorsement" as Raymond Learsey has noted. 9

These resources – in particular very, very low lending rates - were set by Central Banks to help commercial banks clean up their balance sheets – ridding these of 'toxic assets' – the unpayable debts they had accumulated. Furthermore governments and central banks expected, but did not require the commercial banks to provide loans at reasonable rates to companies and households in distress as a result of the financial crisis.

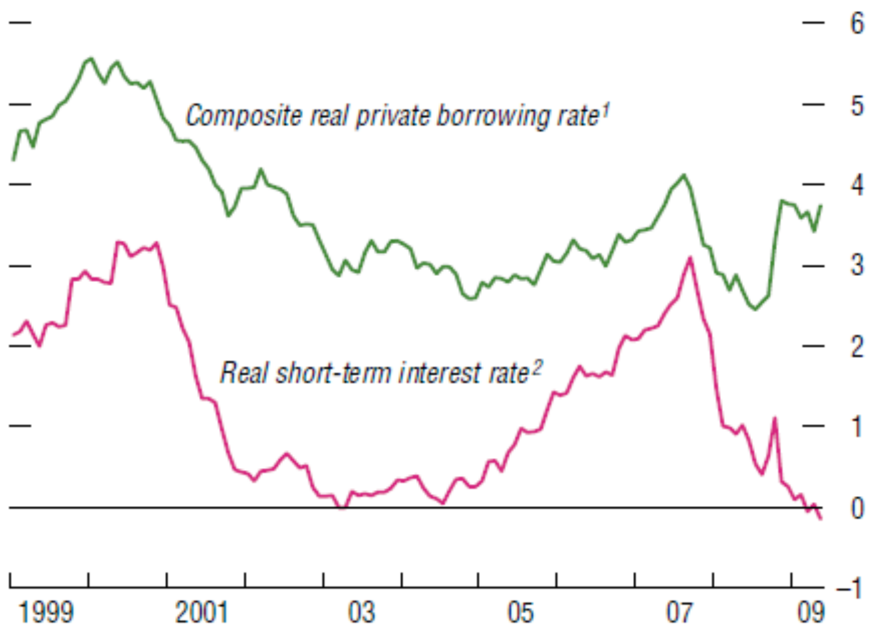
Instead the banks have effectively declined to lend at low rates to the productive sector of the economy. Where credit is provided, interest rates are high in real terms.

The failure of commercial bankers to pass on the benefits of low central bank rates and provide low-cost loans to small businesses, is hurting both those businesses and also the wider economy. But ultimately, it will hurt the banks – as the steady rise in unemployment, insolvencies and home repossessions is ultimately destructive of creditor assets.

But bankers – today's money-changers – are doing worse. In the midst of this grave financial crisis, they are using their power over the real economy – where goods and services are grown and produced – to hike up interest rates.

The International Monetary Fund in its October 2009 Global Financial Stability Report has provided a helpful chart that illustrates just what is happening to interest rates in the major economies.

Figure 1.6. Composite Real Private Borrowing Rate and Short-Term Interest Rates
(In percent)



The chart is from the IMF's October 2009 Global Financial Stability Report. The composite real private borrowing rate (RPBR) is a GDP-weighted average of the U.S., Japan, euro area, and U.K. RPBRs.

This chart shows (in pink) the low rates of interest rate paid on borrowing by banks (to the Fed and other central banks) - and the rates (in green) that the banks, in turn, charge to companies, households and individuals.

Note how the rates for those of us active in the real economy are always higher than they are for bankers borrowing direct from the Fed.

Then note how much they diverge after 2008. Bank borrowing costs fall, and private borrowing costs soar. No wonder bank profits are ballooning.

These rates are not just unfair. They are usurious. In the middle of the gravest financial crisis since the war, banks are – effortlessly and immensely profitably - extracting assets from distressed companies, households and individuals.

All the major faiths have strict prohibitions against usury. Of all the faiths, Islam, in my humble view, is the most rigorous in its condemnation of usury. The Qu'ran is clear:

> "Those who take Riba shall be raised like those who have been driven to madness by the touch of the Devil; this is because they say: "Trade is just like interest" while God has permitted trade and forbidden interest." **Surah al-Baqarah, verses 275-281**

"O believers, take not doubled and redoubled Riba, and fear Allah so that you may prosper. Fear the fire which has been prepared for those who reject faith, and obey Allah and the Prophet so that you may get mercy." **Surah Al-e-Imran, verse 130**

Investors in the Islamic order have no right to demand a fixed rate of return. *No one is entitled to any addition to the principal sum if he does not share in the risks involved*.

The owner of capital (rabbul-mal) may 'invest' with the entrepreneur- borrower (mudarib); losses, if any, however, will be borne wholly by the rabbul-mal.

This mode of financing, termed *mudaraba* in the Islamic literature, was in practice even in the pre-Qur'anic days and, according to jurists was approved by the Prophet.

The Torah is equally explicit in its condemnation of usury:

"He putteth not out his money to usury, nor taketh bribes upon the innocent. He that doeth these things shall not be moved for ever. " **Psalm 15: 5**

Indeed throughout the Old Testament there is quite extensive legislation governing the relationship between creditors and debtors.

"If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury "(Exodus 22:25).

"Thou shalt not give him thy money upon usury, nor lend him thy victuals for increase" (Lev. 25:37).

"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury "(Deut. 23:19).

It is these laws that Jesus has in mind, when he loses his temper in the temple. And then,

"throughout the New Testament" as Ched Myers argues " the same verb (*aphiem*) is used to "forgive" sin and "release" from debt.

"Unlike our society, which refuses to see the economic dimensions of moral and criminal dysfunction, the gospels do not spiritualize "sin" and ignore the realities of "debt", but rather see the two as fundamentally interrelated." [10]

Christians forget too easily that the term redemption was originally an economic term: applied to the people of Israel redeemed by God from bondage to the Pharaohs of Egypt. The experience of redemption was not 'spiritualised' and detached from its economic meaning – instead economic or debt bondage was understood as a form of spiritual and moral bondage – and I believe that is how most people experience their debt bondage today.

Since the great economic transformation that took place as a result, in part, of the influence of John Calvin – born this year five hundred years ago – Christianity has moderated its prohibitions against usury. And, I will argue, it has done so at great cost to both the church, to western society, to the economy and to the ecosystem.

This theological laxity towards the economics of debt, and towards the sin of usury, has also in my view, contributed towards the fuelling of the gigantic debt bubble that today deflates at such great human cost to societies around the world.

Unleashed from theological prohibition and released from government regulation, bankers are today using the resources granted almost unconditionally by taxpayers to finance risky speculation and capital gains in international stock, currency and commodity markets.

The bankers' defence is that these risky capital gains can be used to 'clean up' their balance sheets.

However, risky speculation threatens to expand into what the distinguished economist, Nouriel Roubini recently called a monster bubble (Financial Times 1st November, 2009) – or "the mother of all carry trades' threatening 'an inevitable bust'.

The bursting of an even bigger massive asset bubble than was accrued by 2007 would result in yet another systemic banking crisis. This next will be immensely destructive – and will make the crisis of 2008 seem like a tea-party. Governments, treasuries and central banks will have used up almost every policy weapon in their lockers to deal with the current crisis and will have fewer policy measures with which to deal with the next crisis.

So God help us all, when the 'monster bubble' now being blown up by the finance sector - bursts.

Too little government becomes 'more government'.

So these are disturbing times indeed.

And yet, from the growing political consensus one would not believe these threats posed by the finance sector existed.

Instead politicians have identified government debt as the biggest threat facing our country. And they have persuaded millions of ordinary Britons to shift their gaze from the activities of the City of London, and the growth of the 'monster bubble' - and instead to focus their attention on the government's debt.

The leader of the Opposition (in his 2009 Conference speech this October) was able to declare as 'fair' too little government intervention; and as 'foul' *more* government intervention.

In that speech he saw fit to ignore the real cause of the rise in government debt – the costly bailout of the banking sector, and the collapse in government revenues arising from the crisis caused by the banking sector's failure. Indeed the financial crisis and the finance sector are virtually blotted out from his speech, with just one brief reference to Gordon Brown's de-regulation of the City.

But the facts are these: UK government debt in the past financial year was 42.9 per cent of GDP, up from 36.0 per cent in 2006/07.

This is only regarded as high because it exceeds the government's self-inflicted and entirely arbitrary target of 40% of GDP. Moreover, to whatever extent the increase in debt is alarming, the great increase came from the financial sector interventions. Debt including the financial sector interventions was 52.4 per cent of GDP, nearly 10 percentage points higher. The increase in debt from 2006/07 excluding bank bailouts was about £100 billion. When we include bailout costs, it was about £250 bn.

So the increase in government debt can largely be put down to what Mervyn King called 'breathtaking scale' of government support for the finance sector.

Furthermore, present levels of government indebtedness – while moderate in historical terms - reflect a far wider failure of economic policy over the past 30 years – exacerbated, I would argue, by minimalist government. It reflects:

- the erosion of our industrial and productive base,
- the permissive approach to tax evasion, and
- government action aimed at strengthening the financial sector.

Instead of intervening on our behalf – to protect our economy from the erosion of our industrial base, from tax evasion and from the predatory actions of the finance sector – politicians abandoned their democratic mandates, effectively privatised regulation of the finance sector and presided somewhat passively over the decline of our industrial base and the growth of a massive asset bubble.

While politicians railed against inflation in wages, salaries and prices – the earnings of the professional and working classes and of small businessmen and women – they turned a blind eye to the inflation of assets.

This had a predictable result. While the poor and middle classes rely on salaries, wages and prices for their living standards and for business success, the rich rely on the rent they earn from assets – like property, stocks and shares, race horses, works of art, brands etc. - for an expansion in their wealth.

The poor and middle classes therefore had their incomes suppressed by anti-inflationary policies. The rich watched as their wealth expanded exponentially - with asset price inflation.

It is no wonder that the rich became richer, and the rest of us became poorer. While politicians stood idly by.

In his Conference speech, the leader of the Opposition failed to identify the glaring weaknesses of the minimalist, non-interventionist approach of Anglo-American governments to the finance sector – the way in which politicians chose to handle the economy 'remotely' – through 'light touch regulation'. Government ministers and central bankers, so- called 'guardians of the nation's finances' failed to intervene as the global asset bubble expanded, financed by easy, but dear money.

Despite warning signals from many of us, the government's fractured and under-staffed monitoring and regulatory systems failed to warn citizens – who were about to become victims of a financial tsunami.

Instead government ministers were asleep at the wheel, focussed almost exclusively on minimising government – and expanding the private finance sector further.

And in case I am accused of being party political – the politicians that supported these government policies ranged from members of the Conservative Party, to the governing Labour Party and the Liberal Democrats.

However, after the event, David Cameron still chose to ignore these well known facts, and instead asserted that we must and I quote:

> "face up to some big problems. The highest budget deficit since the war. The deepest recession since the war. Social breakdown; political disillusionment. Big problems for the next government to address.
>
> "And here is the big argument in British politics today, put plainly and simply. Labour say that to solve the country's problems, we need more government.
>
> "Don't they see?
>
> "It is more government that got us into this mess." [11]

After decades of minimalist government; after decades of removing constraints on the creators of credit; and after the dismantling brought about by that most transformative piece of legislation - the one so beloved of the money-lenders: the 1971 Competition and Credit Control Act – widely dubbed the 'all credit and no control' act – this much is clear: It was not too much government that got us into this mess; it was too little government.

Now with an audacity that is breathtaking, the demand from across the political spectrum, but in particular from the Conservative party, the economics profession and their friends in the media, and from that big investment fund that is the Treasury - is for cuts in government spending.

For sacrifice and austerity: to be borne by those with least responsibility for the crisis. Ordinary citizens that had little to do with the causes of the crisis, that indeed are victims of deflationary income policies and an economic culture of over-lending, are now called upon to suffer losses.

After the Age of Private Excesses there is now to be an Age of Public Sacrifice.

The moneylenders have occupied the temple that is our democracy and insist that we, not they, must bear the burden of their private losses.

While our leaders may not be angry at this audacity, the people are becoming angry and that anger may well turn ugly.

These arguments and policies are both socially unjust, but also dangerous economic and political lunacy. They will drive the economy into an even more severe decline, while starving society of the investment needed to tackle unemployment, climate change and peak oil.

But above all, these arguments will fill citizens with despair, will stoke the fires of authoritarianism, and drum up support for fascists and holocaust deniers who claim that they, unlike democratic government, will defend the interests of the man or woman in the street.

Indeed, thanks to the widely perceived injustice of the audacity outlined above, fascists have already mustered unacceptable levels of support for their politics of hatred and despair.

We must never forget that the financial crises of the 1920s and 30s led to the rise of Hitler and Mussolini in Europe – and to a terrible disillusionment with democratic institutions.

But let us not also forget that, by contrast, in the United States the crisis led to the election of a humane and wise democrat, President Franklin D. Roosevelt – who chose to increase government spending at the height of the crisis, and create jobs.

Spending away the debt.

So how *should* we tackle this crisis? What economic policies are needed to restore our democracy to health? Is there a way through this debt-deflationary crisis?

Yes, I assert boldly, Yes.

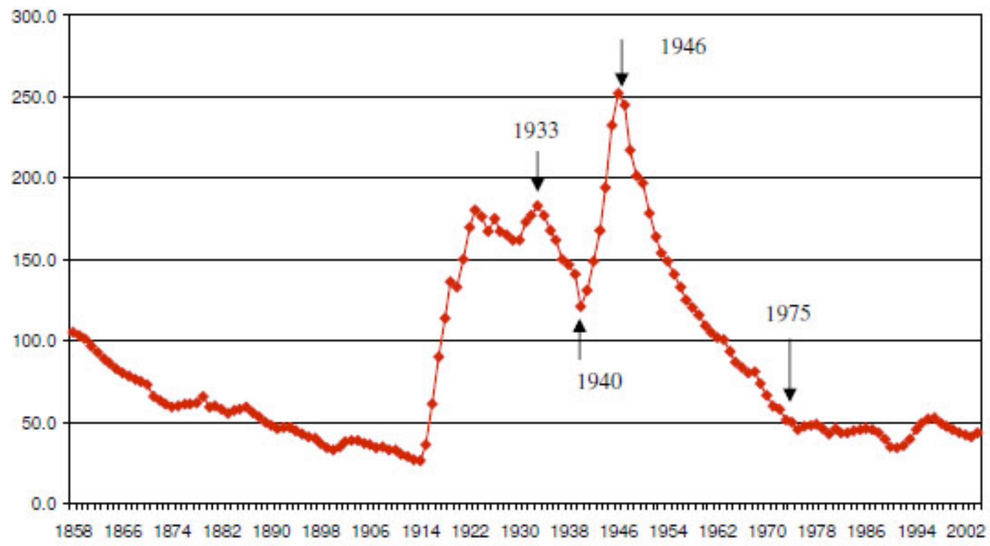
What government should do now is learn from what was done to overcome a comparable financial crisis in the 1930s. Above all governments and politicians should end their love affair with financial elites, and reflect and act on the interests of the people they were sent to Parliament to represent.

And to help the mass of innocent people, hurt by this crisis, government must spend away the debt. In order to understand how this could be done, we must remember that government debt and the government budget is not in the least like a household budget, or household debt. On the contrary: when government spends wisely it can generate tax revenues, and cut spending on welfare benefits – and both measures. will help pay down the debt.

To illuminate and evidence my point let me offer you (below) a chart - with data provided by Her Majesty's Treasury (Public finances databank, Table A10. http://www.hm-treasury.gov.uk/d/public_finances_databank.xls

- and with thanks to my colleagues in the Green New Deal group.

Figure 6A: Public sector debt, UK, % GDP



This is a chart of Britain's public debt as a share of GDP - from 1858 until 2002. (Please note this is a chart of the *stock* of debt. Economists tend to focus on the annual budget deficit – the *flow* of debt payments and income. We believe the latter to be deficient as an explanation of the state of the government's finances. The reason for this is that both low levels of spending, and high levels of spending can result in a small public sector deficit. The deficit does not distinguish between high or low levels of spending. In fact economic history is littered with examples of governments that made swingeing cuts to socially useful public spending and public sector pay, only to find that their deficits continued to rise. This occurs because the cuts themselves depress activity and taxation receipts, in the jargon, they trigger 'reverse multiplier effects'. The fact is: Cuts Are Not Savings.)

Britain's debt today - as a proportion of the national cake or GDP - is about 55% and rising. It is expected to hit 70% soon. Study the chart and you will see that it was twice that in 1858 - about 100% of GDP.

After the outbreak of war in 1914 it started rising. The 1929 crisis caused it to rocket upwards, as indeed did the financing of a very destructive war - World War II. In 1945 Britain's debt stood at 250% of GDP - roughly 5 times what it is today. At that point an extraordinary thing happened (largely as a result of Keynes' sound advice.)

The heavily indebted Labour government began to spend - as soon as legislation was agreed by Parliament.

Labour started to invest in a bold and visionary project: - a publicly funded health service free at the point of use - the NHS - in 1946. Back then, the Labour government carried out a massive slum clearance programme, and built houses. They revived the ancient universities, provided pensions and welfare to the poor. They trained ex-soldiers to become teachers.

What happened, you might ask, to the total public debt, as a result of this flouting of the economic orthodoxy - and flagrant extravagance? Well - exactly what Keynes had predicted would happen. The debt fell. Steadily, but unremittingly, as a share of GDP. Look closely at the chart.

This is because government spending pays for itself. In the words of John Maynard Keynes, "look after unemployment, and the budget will take care of itself." (Keynes, January 1933, CW XXI, p. 150)

Government spending kick-started economic activity. (Of course it had done so during the war too - but on destructive, not productive activity. That had helped defeat a profound threat - Nazism - but had not helped much to fix losses and generate income.)

So thanks to government intervention, economic activity revived the comatose and exhausted body that was the post-war UK economy.

Soon it began to recover. With recovery, government revenues rose, expenditure on unemployment benefits fell and, within a few years, government repaid its debts, which fell dramatically as a share of GDP.

Soon the spending began to pay for itself – to pay away the debt.

So there you have it. Government spending encourages economic activity, brings down unemployment and hauls in tax revenues from economically active citizens, consumers and private entrepreneurs. These taxes then lower the government's debt as do savings on unemployment benefits - and before you can say Nye Bevan - the spending has paid for itself!

And please if another Member of Parliament repeats the tiresome mantra: "just as we balance our household budget, so should we balance the government's budget" – just correct their flawed thinking.

When I - a householder - spend into the economy - on say, insulating my property - nobody rewards me by paying tax revenues into my bank account - to help reduce my overdraft and balance the books. On the contrary, builders, the local hardware store, insulation experts, energy advisers - drain my bank account and offer only their goods and services in exchange.

When the government spends or invests in the economy - and creates jobs - it is rewarded with tax revenues - not just from individual taxpayers, but from businesses where the newly employed spend their earnings. Businesses that in turn use that newly-found income to spend on new investments which create more jobs and more and more taxes for government……over, and over again!

In economics this is known as 'the multiplier'. It involves arithmetic – but is not rocket science.

That is why, and how, government investment is different from household investment.

And that is why government investment pays for itself.

The Age of Austerity and the ecosystem.

While the human suffering will be unnecessary, wasteful and intense, the most prominent victim of an Age of Austerity will be the ecosystem itself. Measures to mitigate and adapt to climate change and peak oil – measures to de-carbonise our economy - will be sacrificed to government spending cuts.

As co-authors of a report, the Green New Deal – a July, 2008 publication from the new economics foundation – we are calling for government to subsidise about £50 billion of investment in the following key projects:

- the insulation of Britain's ageing housing stock – estimated to cost, on average £25,000 per household – to reduce energy wastage, increase energy efficiency and lower energy costs for households;
- turning every property into a power station – to stop the leakage of energy from long distribution lines, to make every household energy-self-sufficient, and to help households generate income by contributing surplus energy to the National Grid.
- Flood defences – to protect homes, businesses and communities from the impact of more frequent, extreme weather events.

Of course much more could be done to both limit the damage to the ecosystem caused by Britain's dependence on fossil fuels – but also to protect from global warming. But these projects are labour-intensive.

Indeed, as Herman Daly argues, the task of transforming our economy so that we are no longer reliant on fossil-fuel-based energy will require "the substitution of human labour for energy in production processes and consumption patterns, thus reversing the historical trend of replacing labour with machines and inanimate energy, whose relative prices have been declining." [12]

Defending the ecosystem therefore, will be a labour-intensive task – and will generate economic activity, while limiting economic growth.

Conclusion:

At the new economics foundation our slogan is: Economics as if People Mattered.

Tonight I want to propose to you that as Christians we should adopt an Economics as if Christianity mattered. As if Christian principles – of social justice, of sin, of the prohibition of usury, of forgiveness, of redemption and hope – mattered.

An Economics as if our stewardship of Creation mattered.

We must remember that Christians have not been passive onlookers as the money-lenders have taken over the temple of our democracy. Five hundred years ago, John Calvin was born – and went on to build a community in Geneva that had a profound and revolutionary impact on western society and the system of western finance.

I am of course aware that Calvin is blamed for changes that may have been taking place anyway. However, his impact on the western financial system is undeniable.

Note for example, that on the 9th July, this year, the Financial Times commented on the celebrations taking place in Geneva, and drew attention to the pivotal role this devout and humble Christian played in that city's destiny.

> " A huge influx of protestants from France, following in Calvin's footsteps brought...skills to Geneva while the lifting of the Catholic Church's ban on

> usury paved the way for the city's pre-eminence in private banking." (09 July 2009).

For it was Calvin who had argued that

> " if we would form an equitable judgment, reason does not suffer us to admit that all usury is to be condemned without exception. "
>
> (Calvin's Commentaries on Exodus 22:25).

While we may despair at the way Calvin's teachings have been misinterpreted and abused; while we might despair at the opportunism of the bankers that leapt on his commentaries for justification – we must also take hope from the fact that ideas – and values – can have a profound impact on the direction society is taking.

So I want to end by on a note of hope. And by reminding you of the inaugural speech of that great democratic politician, Franklin D. Roosevelt:

> "A host of unemployed citizens face the grim problem of existence, and an equally great number toil with little return. Only a foolish optimist can deny the dark realities of the moment.
>
> "Yet our distress comes from no failure of substance. We are stricken by no plague of locusts. ….Nature still offers her bounty and human efforts have multiplied it. Plenty is at our doorstep, but a generous use of it languishes in the very sight of the supply. Primarily this is because the rulers of the exchange of mankind's goods have failed, through their own stubbornness and their own incompetence, have admitted their failure, and abdicated. Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men.
>
> … Faced by failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce our people to follow their false leadership, they have resorted to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision, and when there is no vision the people perish.
>
> The money changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit.
>
> **President Roosevelt, Inaugural Address 1933.**
>
> **Thank you.**
>
> **End.**

[1] God Speed the Year of Jubilee' by Ched Myers: Sojourners Magazine, May 1998. http://www.sojo.net/index.cfm?action=magazine.article&issue=soj9805&article=980520

[2] As above.

[3] Project Wittenberg. http://www.iclnet.org/pub/resources/text/wittenberg/concord/web/smc-01.html

[4] 20th October, 2009 at St. Paul's Cathedral in London. Bloomberg news 21st, October, 2009. http://www.bloomberg.com/apps/news?pid=20601087&sid=a8upOpH5Q3Tw

[5] As above.

[6] "An alternative report on banking" Jointly authored by a working group of practitioners and academics based at the ESRC Centre for Research on Socio Cultural Change, University of Manchester. Authored by Simon Caulkin, Karel Williams, and others. Autumn 2009. http://www.cresc.ac.uk/publications/documents/AlternativereportonbankingV2.pdf

[7] Page 9 of the Annual Report of UKFI. http://www.ukfi.gov.uk/releases/UKFI%20Annual%20Report%202008-2009.pdf

[8] Quoted from the ESCRC report, as above.

[9] Raymond Learsy, Huffington Post: http://www.huffingtonpost.com/raymond-j-learsy/goldman-turns-into-a-fina_b_324606.html

[10] Ched Myers: 'Jesus's New Economy of Grace. The biblical vision of Sabbath economics'. Sojourners Magazine, July, August, 1998.

[11] David Cameron: Speech to the Conservative Party Conference October 8, 2009: "Putting Britain back on her feet."

[12] Page 366, of 'Economics, Ecology, Ethics: essays toward a steady-state economy'. Ed. Herman Daly, W.H. Freeman and Company. 1973.