

Articles (1-10) written by Revd Andrew Studdert-Kennedy, during his Extended Ministerial Leave, for St. Paul's Institute (based at St Paul's Cathedral)

St. Paul's Institute 1 'The Uses of Money'

Not long after the collapse of Lehman Brothers in 2008, I was conducting the funeral of a 96 year old man who had had a prominent position in the then local Ramsbury Building Society. The person giving the main tribute told the congregation how he had secured the loan for his first mortgage. Bicycling the six miles from Marlborough to Ramsbury in his lunch hour, he met the manager in question who assessed his prospects and agreed to help him buy his first house.

Of course such a story conjures up an image of a lost world, but at the time when we were all feeling bamboozled by banks and bewildered by the sheer scale of their losses, this simple illustration had a profound effect on me. For it reminded me of the social utility of banking and the creative uses to which money can rightly be put. In short it reminded me of what Banks and Building Societies are for – at least in part.

Like so many others, I watched the collapse of the banks and subsequent economic crisis with an uneasy mixture of incomprehension and frustration. For here was a series of events of huge magnitude affecting everyone in our parishes, but on which I, and I suspect most clergy, were insufficiently qualified to comment.

It was tempting to vilify not just the bankers themselves but the whole system which had come crashing down, but I have always felt uneasy about solely negative remarks which don't offer some alternative line of action. But what might an alternative look like?

The striking thing in 2008/9 was that no one seemed to know! Indeed the medicine that was being prescribed to get us out of the mess seemed to be the same as the potion that had led us into it in the first place – namely to get borrowing, consumption and growth going again.

This left me with the overriding wish to try and learn more about our economy and our banking system to see if there were ways in which the Christian tradition might contribute to a debate about what could be learnt from past mistakes. And also to see what we needed to learn ourselves.

I was aware that there are others who are already working at this, but a period of Extended Ministerial Development Leave, has offered me the chance to explore this for myself. It has also given me the opportunity to get back in touch with university friends who are working in the City, some with striking degrees of success.

So I have set myself the task of exploring these issues through a variety of conversations with people who work in the Financial Services Industry. But first I had to find the right way of approaching them.

Paul's Institute 2 'Making Contact'

Before contacting people who are currently working in finance, I needed to get some guidance on how best to approach them and also some indication about whether or not such an approach would be welcomed.

I am fortunate in having Robert Taylor as a parishioner in the neighbouring village of Mildenhall. Robert has just stepped down as Chief Executive of Kleinwort Benson Bank and was therefore ideally placed to offer advice.

His response was both generous and encouraging. I had already invited him to speak to our Deanery Synod at the height of the crisis and he had indicated then how many colleagues in senior positions were troubled about the future of the financial services industry.

When approached about helping me in this project, he was sure that it would be well received so long as I came with an open mind and not with a conclusion towards which I was already moving.

At first I considered whether or not it might be possible to shadow people in a bank, but was told straight away that issues of client confidentiality made this impossible.

With Robert's advice and my own reflections I drafted a letter which I have sent to a number of people, most of whom I have managed to gain some kind of introduction to. The central content of the letter took the following form:

I hope to explore the potential contribution that the Christian tradition might be able to make to a debate about finance in the current economic climate.

The banking crisis and global economic slow down seem to have left behind much uncertainty about how all of us understand our roles and our worth at a time when economic growth appears to stop. At the moment we seem to be waiting for growth to return but that leaves the suspicion that an opportunity for further reflection is being missed.

I do not claim to have the answers to the questions posed, but I would be very interested to learn from those directly employed in the finance industry (who have experienced and felt the impacts of the crisis firsthand) how they viewed and valued their role before, how their view of the industry and their role in it has changed, and how we might all learn from the past to help us mould the future.

There are three particular areas I would like to focus on:

- 1. Is our value or purpose in life so tied to economic growth that a slow down in economic activity is an indication of failure?*
- 2. If the answer to the above is 'No', how do we accommodate those other values into the system once growth returns?*
- 3. At a time when so much finance activity is 'virtual', how might the Christian tradition keep us in touch with things that are real?*

Whilst the merit of such an approach is that it is open minded, the hazard is that the issues it addresses are so huge that debate will remain infuriatingly abstract rather than practical.

It will be interesting to see the response I get.

St. Paul's Institute 3 'Starting Out'

With the assistance of contacts, I sent my introductory letter to a good mixture of people. Recipients included investment bankers (both past and present), a couple of City solicitors, two Chief Executives of major companies, two MPs, two Life Peers, a Hedge Fund Manager, the head of an independent think tank, City-based clergy and financial journalists.

Almost everyone responded generously and said that they would be happy to see me. Whilst they thought the project to be both interesting and worthwhile, a number of them were not sure how they could help. I took this to be an indication of the complexity of the subject and also a warning that there would be no single response or 'solution' waiting to be unearthed.

Before the meetings took place, I was anxious about having sufficient background understanding to the financial crisis to ensure that I would make the most of the conversations I would be having.

I discovered that there were a number of accessible accounts of the immediate cause of the banking crash, most notably Vince Cable's book, *The Storm*, but it was hard to ascertain the true financial consequences of the ensuing bank bail outs. The sums of money involved seemed so huge, but how did these fit into the overall levels of Public Spending and was it true (as some suggested) that rescuing the banks led to significant cuts of Government spending?

I soon found out just how difficult it is for members of the public to access basic information about public spending which we can understand. In a way there is too much information on Government websites (Treasury, Office for National Statistics, Office for Budget Responsibility) and this makes it hard to know the questions we should ask.

My local MP, Claire Perry, was very helpful and her office pointed me in the right direction. Here is some of what I found; that the 'Cuts' in public spending are real alright but they take place at a time when overall Government spending is increasing. The bank bailout is simultaneously on a 'breathtaking' scale to quote Mervyn King but also contributes only a very small part of general Government borrowing.

Here is how this works:

Total Managed Expenditure £ billion				
2010/11	2011/12	2012/13	2013/14	2014/15
696.8	701.8	713.0	724.2	739.8

The 2010 Spending Review, from where these figures come, adds that when the Government commitments to protect spending on NHS and Overseas Aid are taken into account, the other departments 'will see average real budget cuts of around 19% over the spending review period'

The deficit between receipts and expenditure is projected to be £121bn in 2011/12 and the cost of furnishing the overall debt is £50bn, of the £700bn total.

Establishing the cost of the bank bail out is complex, not least because Government support for banks took a variety of forms, including share purchases, loans and guarantees which have different effects on the public finances. Purchases of shares, for example, are treated as financial

transactions – one asset (cash) being swapped for another (shares) – so there is little effect on borrowing. Furthermore, the Treasury has received fees and interest from the loans and in due course may receive dividends from the banks' shares themselves.

One summary (Office of National Statistics) suggests that the financial crisis affected the budget deficit more through its effect on the economy than through direct measures to support the banks, since the proportion of overall borrowing that is directly attributed to the financial crisis was not more than 7% of the total amount the Government would have been borrowing anyway. At the same time another account (new economics foundation) claims that public sector support for the banking sector amounts to £1.2 trillion, equivalent to 85% of Gross Domestic Product.

We know what is said about lies and statistics, but the complexity of these figures leave most of us at a disadvantage – for there is a (unavoidable?) lack of transparency in these matters. And transparency matters, not least because opaque financial instruments seem to have encouraged banks to believe that just because a debt was less visible it thereby became less real.

But whilst we might feel at a disadvantage, perhaps we should remember that for everyone involved, no matter how much of an expert, statistical imprecision rather than accuracy seems to be an inherent part of a complex economy's life. If this is so for economic data, how much more so will we have to live with uncertainties regarding policy and behaviour.

Perhaps this observation would be a good starting point for the first lot of meetings...

St. Paul's Institute 4 'No Time to Pause'

'How much has the banking crisis cost the UK economy?' This seems to be an instinctive question to ask, whilst at the same time a hopelessly naïve one; instinctive because we want to put a figure on costs, naïve because economies move fast and net costs don't stay still.

But if financiers could not agree on economic data, there does seem to be a recognition of the need for change in the way banks and financial markets operate. No one denied that things went wrong, but what has been learnt from it? In the wake of the banking crisis has the opportunity been taken to reflect on the bigger questions of value and purpose?

I put this question to a city-based lawyer who paused briefly before replying 'No'.

He went on to suggest that this missed opportunity was less a wilful decision and more a consequence of the way financial markets work. 'Credit speeds things up', he said, with the implication that people as well as money are in a hurry. Quarterly returns, the incessant pressure on the bottom line, the obligation to maximise assets, the mere existence of so many competitors were all factors that discouraged taking a longer view and focussing instead on the short term.

A consequence of this can be that the culture of a firm doesn't take into account the way humans develop over time, of how their needs and priorities change. The place for reflection is squeezed out as the need for profits is enthroned ever higher.

Related to this, as both cause and consequence, is that the average age of traders is 31, and it is traders who tend to generate a lot of the income. Furthermore, turnover is quick so the trading floor stays 'forever young'.

One former trader told me the combination of youth and sheer adrenalin means that the immediate was always going to have precedence over the long term. 'The roar from the floor when trading opens', she told me, 'is a thrilling sound'.

During our own twenties most of us lived lives of action rather than reflection and so it remains. Although obvious once pointed out to me, I had not taken into account the role that such basic human forces will play in the market itself.

Reflection on the bigger picture does take place and there is a lot of discussion about the best way to regulate financial activity, but it is important to realise the varied forces at work, including our own human nature, which ensure that the short term is likely to get the upper hand.

Next, it will be time to explore some of those other forces themselves...

St. Paul's Institute 5 'No Long View'

Almost everyone I have spoken to during my sabbatical studies of Banking and Finance agrees that one of the major weaknesses of the current system is its emphasis on the short-term. There is an impatience within our lives, not just their economic aspects, that makes waiting for things a frustration and affront.

Recognising the problem does not however lead to a remedy. Like St. Paul's wish to do good rather than evil, the financial system's need to accommodate the long term rather than the short seems destined for failure.

So many factors seem to combine to make this so, and we can probably think for ourselves what they might be.

One contributory factor which had never occurred to me was the changing way funds are invested. Instead of the traditional or classic sense of investing funds to increase productive capacity, savings are now 'placed' on financial markets simply in order to make a return.

Ironically, chief amongst such placed savings are pension funds where a high level of liquidity is required if payments are to be honoured. Managers of these funds seek to find returns from within the financial markets themselves and rely on investments which offer easy entry and exit. Efficient markets depend upon speedy and numerous transactions and the way such funds are now managed is part of a trend away from relationships towards transactions - away, that is, from the long to the short term.

There are of course well known political factors that encourage a short term approach to the economy, but we should also remember that there are economic ones, too. Those who believe that consumption is the key stimulus to economic growth will advocate a policy of public spending and low interest rates on the basis that stimulating consumption will in turn stimulate the rest of the economy.

One of the merits of stimulating consumption is that it is quicker than the alternative model whereby saving and investment are the important ingredients of long term, productive, economic growth. Here, then, is another factor encouraging the short term.

In contrast to this short-term (Keynesian) approach, other economists argue that increased consumption is the effect and not the cause of economic growth and that for growth to be sustainable a longer term and more patient approach is required.

At present, however, the longer term view seems to be squeezed out and the emphasis on short term transactions is considered by some to be having a damaging effect on the trust and transparency upon which markets depend. Part of my reading has been Paul Dembinski's excellent book *Finance: Servant or Deceiver? Financialization at the Crossroads* (Palgrave Macmillan 2009) which explores this issue as well as looking at the way finance has increased its share of economic activity and infiltrated our own worldview and aspirations.

Next I want to learn more about economic growth and how it might be sustainable.

St. Paul's Institute 6 'Endless Growth?'

One of the most striking things about the economic down turn that followed the banking crisis was the uncertainty surrounding us when economic growth runs out. There seemed to be a vacuum of meaning – as if we are not sure what our purpose is once economic growth stops and the promise of increasing prosperity loses credibility.

The only policy that gained a voice was the call to get growth going again – even though it was the urge for unrealistic growth that had contributed to the mess in the first place.

I started these explorations with a sceptical attitude towards growth, thinking it was unduly materialistic as well as unsustainable.

In the course of the conversations I have had as well as the reading I have done, I have changed my mind and rather than being a sceptic about it have come to believe that sustainable growth can be achieved and should be encouraged.

Whilst I have no doubt that the consumerism of our society is excessive and that the materialistic love of the new has not made people happy, I don't think it is a credible policy to say that growth should slow or stop. We have a growing population which requires a growing economy. Nor does it strike me as moral for a satiated, developed economy to suggest to developing economies that there should be limits to their growth.

The key, of course, is for growth to be sustainable economically and environmentally. I believe that this is achievable and that to doubt this is to doubt human creativity. Evidence and theology encourage this optimism.

First, the evidence. Just think of the different ways people now earn their living from say thirty years ago and you see some of the ingenuity and creativity of the human spirit. The staggering variety of services that people offer and use is not to be decried, not least because a predominance of services rather than manufacturing is what is expected in an advanced economy. Renewable energy will surely become more widespread and affordable.

Limits to growth suggest limits to human creativity – and history suggests this caution is misplaced. Theology suggests the same.

Humans are made in God's image and to put limits on human creativity is by implication to put limits on God. The incarnation celebrates God taking human form and most of our attention is on what this tells us about God – the depth of God's love and the identification with the human condition. Perhaps we should consider as well what the incarnation tells us about humans – namely that the incarnation is possible because there are attributes which humans have in common with God. 'Human nature is a state in which God can be himself', as Bishop John Baker has put it.

One theologian who I think would share such an approach towards growth is Thomas Traherne, the 17th century priest and poet. Traherne delights in the natural world and suggests that desiring such delights is a primary route for humans to find God:

“You must want like a God you that may be satisfied like God,” he asserts, “He is from eternity full of want. . . He made us want like Gods.”

Whilst Traherne can indeed be seen as an advocate for growth, he comes, too, with a warning. Precisely because he sees us all as inter connected, my desires and needs are answered when yours, too, are addressed. Everything has its proper place but when we love things in the wrong way this natural order of things is usurped and we lose the right sense of value.

Traherne’s advice seems tailor made for today. “We are to grow Rich, not by seeking what we Want, but by Enjoying what we have”, he says; “Be not a Bubble; be solid like God, and let all thy Worth be within” could have been uttered with our financial crisis in mind.

This makes me wonder about how we achieve solid growth and why so much of our financial activity seems to be like a bubble.

It is time to look at the banking system itself...

St. Paul's Institute 7 'Financial Bubbles'

Since embarking on this project to learn more about the financial world, I have had a large number of conversations with past and present bankers, financiers and financial journalists. One of the most striking features of these conversations has been the way those with experience of finance seem to be accepting of, or resigned to, the inevitability of banking crises. With a sanguinity that is almost alarming, I have heard how such instability is intrinsic to modern capitalism and that just as the banking crisis of 2007/8 was not the first, nor will it be the last or worst.

An IMF study of the years that elapsed between 1975 and 2007 identified 125 systemic banking crises in 95 countries, a further 208 currency crises and 63 Sovereign Debt crises. Why is there such instability?

There is widespread agreement that the immediate cause of every period of financial instability is the expansion of credit. In a modern economy, banks are the principal source of credit – businesses and households borrow from them because, as the notorious credit card claimed, it takes the waiting out of wanting. Credit summons the future to the present, by enabling businesses and consumers to skip the need to save before investing or buying.

In theory readily available credit should stimulate economic growth, but what seems to have happened is that there has been an excessive expansion of borrowing which is inherently unstable. 'Cheap credit increases investment and expenditure driving up the cost of land, machinery and labour, forcing companies and households to run down their holdings of cash and borrow more', says Dominic Hobson, editor of *Global Custodian*. 'At some point this divergence between the cash being deposited with banks and the credit being advanced by them must come to a halt. In this way every credit boom must end in a credit crunch'.

So if some credit (or borrowing) is good for an economy, why has there been an excess of it that leads to such instability?

In part the answer seems to be that it is not obvious at what point the level is 'excessive'. Who determines this, or is it only discovered too late?

In theory the central banks determine this, by setting capital ratios, but they do so with very limited success. In part this is because they are under political pressure to keep booms going and this is where we all have to acknowledge our own share of responsibility in the system's failures. For this reason, it is very important not to paint bankers as the pantomime villains of the piece, just as it is tempting to do the same with Rupert and James Murdoch.

Given the regularity of such bursting bubbles, it would seem that the credit cycle is something no one is able to manage. It would appear that the process whereby credit is created may well be at the root of the problem.

Modern banking doesn't work in the way that I suspect most people think it does. Most of us probably assume that a bank can only lend money which someone else has deposited with them as savings or in a current account.

In practice it works very differently, because banks lend not only up to the amount of cash deposited with them by their customers, but many times that amount.

They lend money they don't necessarily have thereby deliberately incurring contractual liabilities which could never be honoured simultaneously. In other words the system hinges on the assumption that not everyone will ask for their deposits back at the same time.

Far from banks looking after the money of their depositors, the depositors are effectively lending money to the banks, and the banks are then lending that same money again and again to a lengthening list of third parties.

Going into the crisis of 2007/8, the US banking system supported deposits worth 100 times its reserves of cash. In other words, 100 people could lay claim to every dollar on deposit with an American bank!

The system, known as leveraged fractional reserve banking, gives the banks immense power because it allows them control of the supply of money in the economy. Banks create money.

Every time a bank makes a loan it creates a new deposit to match it. By way of illustration, if a bank makes a loan of £1,000, it adds an asset of £1,000 to its balance sheet representing the amount it will be repaid by the customer. It also credits the customer's current account with the same amount effectively creating £1,000 of electronic money.

Given how readily credit can be created, it is easy to see why the system might naturally lead to excess and the kind of instability that has been common place in the past. Indeed, Dominic Hobson believes that leveraged fractional reserve banking is the 'great canker at the heart of modern finance'.

The banking system is subject to a major commission at present and changes in the way it functions are widely anticipated, but during my conversations and reading, I have also had cause to ponder the nature of money itself.

Is there something about money itself that makes it tend towards excess? This is the next area to consider.

St. Paul's Institute 8 'Money: No longer a Noun'

The sports news on the Today Programme on Radio 4 is usually preceded by business news as a company announces its results or the markets open. Listeners hoping to hear about sport could be forgiven for thinking that the business news has simply overrun – for with dismayingly frequency sports news, especially football's, is dominated by money. The most successful clubs are those with access to the most money.

Such an observation may appear rather 'home made', but nevertheless it illustrates something important about the way money works today; it seems to get everywhere.

During my exploration of finance and banking, conversations have rarely been about money itself but much more about its effects. This is an important distinction for it recognises that money is a dynamic force rather than the name for a particular set of objects. Coins and notes represent a tiny fraction (3%) of money in circulation; money moves and is active. It functions like a verb and not a noun. Just as it is the nature of a verb that it is active, so, too, does the 'grammar' of money mean that money can't stop. That's why it gets everywhere – including the sports news.

How did this come about? In essence money which started as a means of exchange has become an end in itself, it has become a commodity. Originally money's value was anchored in something outside itself – gold – and the amount of money in circulation was linked with the exchange of goods and services in the economy. But the cessation of the Gold Standard, together with the fractional reserve system of banking that allows money to be created so that it no longer has an intrinsic connection with activity in the economy, means that money has lost its dual anchor. Furthermore, when money itself becomes a commodity we can never have enough, for it has become self-referential and taken on a life of its own.

Perhaps the most succinct discussion of the dynamic nature of money is found in the Church of England's Doctrine Commission Report *Being Human*, published in 2003. It includes this summary:

The way in which value is constructed is reversed. What once functioned primarily as a quantitative measure of the qualities and value of things in the world and of the work and worth of human beings now easily turns into the primary referent of their quality. That which money once valued is now increasingly valued only in relation to what has become the primary and apparently objective quality in relation to which all else is measured, and that is money.

Over 90% of transactions in the financial markets do not relate to productivity in the real world but represent speculation about the future value of currencies or commodities. Commodity markets provide a good illustration of money's dynamic force and the effects it has.

In the mid-1800s farmers started selling forward contracts to their customers under which they would agree to sell their crop at a certain point in the future at a guaranteed price. This helped farmers protect their income in the event of the market price of the crop falling between planting and harvest, while their customers were protected against unanticipated price rises. The future contract thus acted as an insurance policy for both parties, reducing the risks they might otherwise face and crucially allowing for longer term planning. Supplier and purchaser were both beneficiaries from such an arrangement.

However if the purchaser of the futures contract changed their mind and decided that they didn't want delivery of the crop, they could in turn sell the contract to another buyer. A relationship would thus become a transaction and that is what we have today in abundance. Futures contracts are bought and sold on a wide range of commodities but increasingly they are traded not by the producers and users of the products themselves but by banks, pension funds and others seeking to make a profit. Few of the market actors have any intention to take delivery of the underlying commodity; their sole interest is to profit from fluctuation in price. These financial instruments are known as Derivatives because they derive their value from an underlying asset. It is not just physical commodities that lie at the 'base' of such markets, but interest rates and stock market indices as well, whilst 'swaps' markets are similarly derivative contracts.

Critics point out that such arbitrage trading adds not a jot to the stock of wealth, but merely redistributes it in an arbitrary way; the gains of some being equal to the losses of others. Furthermore there is evidence to suggest that financial investors can move prices in the market even without a relationship to the commodity being sold.

On the other hand defenders maintain that such a market offers a legitimate financial service since it absorbs risk, helps bring money to the markets and also acts as an important signal to future performance. They also point out that if something really were socially useless (as critics suggest), then the markets would be the first to find this out!

The genesis for my sabbatical project was the wish for Christians to be able to engage in a conversation about the great financial issues of the day and to see what insights the Christian tradition might be able to offer. As can be seen from the pieces that I have written for the Institute, the exploration has necessitated learning a lot about the financial system itself before being in a position to make any observations from a Christian perspective. But it is to such observations that the next piece will turn.

St. Paul's Institute 9. 'The Values of Money: Towards a Christian Response (i)'

My starting point for these explorations into the financial world is that the church as an institution as well as individual Christians need to recognise that we are part of the financial world ourselves and dependent upon it. In the past Christians have tended to be sceptical about wealth, holding strong views about how wealth should be distributed but having rather less to say about its creation. So I saw myself as a friend rather than foe of the market; capitalism may be an inefficient, wasteful and unfair system, but so far at least, it has proved less inefficient, wasteful and unfair than the other systems that have been tried from time to time.

Furthermore, it seems wise to have an appropriate degree of reticence about any comments we might make. There is unlikely to be a specifically Christian solution to the problems arising from the crash. Perspective, yes, conversation certainly, but technical solutions, No. Perhaps Cardinal Pell of Sydney spoke wisely when he said:

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

With this caveat in mind, I offer the following thoughts.

Traditionally, we have tended to see money as something neutral and considered that it is our attitudes towards it that are most important. Hence the attention given to St. Paul's comment that it is the love of money that is at the root of all evil rather than money itself. Whilst it remains the case that attitudes towards money do matter, this doesn't do justice to the way money now works, for what started as a means of exchange has become an end in itself. The net result is that money functions more like a verb than a noun, with a force and life of its own. It is not as neutral as we might think.

Reflecting on this, it is not St. Paul's comments about the love of money that I have been drawn to but an altogether different passage.

When the unclean spirit has gone out of a person, it wanders through waterless regions looking for a resting-place, but not finding any, it says, "I will return to my house from which I came." When it comes, it finds it swept and put in order. Then it goes and brings seven other spirits more evil than itself, and they enter and live there; and the last state of that person is worse than the first.' Luke 11.24-26

This striking passage, deeply rooted in popular belief, reads like an extract from a text book on demonology. They may seem unlikely verses to cast light on a Christian exploration of finance, but throughout my sabbatical weeks they have stuck in my mind. In colourful language, Jesus is warning of the danger of spiritual vacuums – the removal of evil and malpractice is not sufficient in itself. There needs to be something positive in place.

The financial crisis of 2007/8 has led to a lot of reflection and the acknowledged need for considerable reform of the banking system. The reforms themselves will ensure greater transparency and the more efficient working of the system and in that sense the financial house will be 'swept and put in order'. But nobody claims that such reforms will be able to prevent future

crises; indeed, a number of those whom I spoke with over the past months have suggested that a future crisis may well be worse than the past one. The financial house may be swept and put in order, but the last state may yet be worse than the first.

There is a paralysis in the financial world; reforms are needed but unless they are agreed to universally no one is going to set a unilateral example. Nowhere is this more visible than in the matter of remuneration. Whilst what bankers get paid is a symptom not a cause of a malfunctioning market, few doubt that remunerations are disproportionate and damaging, but (fear of) the power of the market stops action being taken. (If London cuts pay, the best bankers will all leave and work elsewhere, the market argues).

It seems to me that markets and money are prone to this paralysis because they lack external references, by which I mean they set their own standards and values. They should act as servants but have become masters, but masters who are also somehow prisoners too!

However, there is something wilful as well. It is an iron rule that bankers will seek to avoid regulation, says financial journalist Andreas Whittam Smith, whilst Paul Volcker, former Chairman of the Federal Reserve, probably spoke for many during his Mais lecture in July 2011:

I know there are earnest efforts in some firms to re-examine and restrict practices that too often have led to conflicts of interest and to self-dealing – Goldman Sachs to its credit, has made its own effort public in a detailed special report. But I am still struck by the extent that, in the midst of the continuing damage of the financial crisis to economic activity, the attitude is expressed that it's time to get back to "normal": to resist new regulatory discipline for fear of impairing the markets, to devote time, attention, and great expense to lobbying and lawyering in the effort to devise or invent loopholes in laws and regulations.

Yet these comments of Volcker's betray a weakness, too. Banking was the most over-regulated industry in the world before the crisis, but the regulations failed not because there weren't enough of them but because they left a flawed system intact.

It is one thing to make such critical observations but what else can be contributed to the debate?

St. Paul's Institute 10. 'The Values of Money: Towards a Christian Response (ii)'
The Just Economy

Having spent several weeks exploring the financial world, I offer some thoughts about what I have learnt. For simplicity's sake, I suggest three points to consider. First, the direction or purpose of economic activity, secondly the need for perspective when looking at markets and money and thirdly the role of sin or greed.

Again and again when talking with financiers about behaviour and ethics the emphasis has been on the attitudes and priorities with which people come to the market in the first place. 'It is a question of what is at your centre', says Stephen Green, former Chairman of HSBC. This suggests that morality and direction have to be brought to the market rather than established within it. Whereas it is possible to establish a particular culture of integrity within a business, it's much harder to do so within a market, thinks Andreas Whittam Smith. Conversations about purpose and direction need to be prior to conversations about regulation, capital ratios and transparency. There is a sense that by the time you get to these conversations it is too late. Why? Because the system has its own inexorable dynamic.

The Common Good, (as articulated by much Catholic social teaching) and solidarity with the world's poor are what the capitalist system should serve – not the maximization of assets or the level of returns. All financial activity should be pegged back to answering these prior questions – who benefits? Nowhere is this more urgent than in dealing with the indebtedness of developing countries and the way the system seems to do so much damage to those it is meant to serve. In Catholic social teaching the Common Good is not about making society more equal, nor even making everybody better off, but has been defined as 'The sum total of social conditions which allow people either as groups or individuals, to reach their fulfilment more fully and more easily' (Pontifical Council for Justice & Peace 2005)

At the heart of a Christian response are two essential principles. First, that the earth belongs to the Lord, so the goods of the world are originally meant for all. That doesn't mean that the right to private property isn't valid and necessary, but the principle remains prior so that private property is under a 'social mortgage' which means it has an intrinsically social function. Secondly, economic structures exist for people and not the other way round. The whole of the Bible witnesses to the paramount value of people, especially those in need.

Allied with this, money needs to be de-throned. This is not an anti-capitalist comment – it is simply the need to see things in perspective and to offer a necessary corrective. When the market has only itself to refer to, this is a recipe for the kinds of excessive rewards that have been common in recent years. Who or what should determine something to be 'excessive'? Perhaps it is the notion of the Common Good, rather than the market alone, because it is precisely the lack of such perspective that seems to have been missing.

The 17th Century priest and poet, Thomas Traherne, offers a compelling corrective to the way markets value things. Remembering God's generosity in creation, and thereby emphasising abundance rather than scarcity, Traherne suggests that the use of goods rather than their exchange value helps us to see where lasting and solid value lies.

Economics is not a pure science and in being applied depends upon other disciplines, not least

anthropology, studying how humans are likely to react in circumstances. Perhaps it is time for poetry and theology to be included (or more accurately re-instated) – Traherne could be one of the poets, offering this different perspective. ‘We have exchanged too much wisdom for exactness, too much humanity for mathematization’, says Tomas Sedlacek in his wonderful book *The Economics of Good and Evil* (Oxford University Press USA £16.99), a book which explores these very ideas much further.

Markets value things according to their marginal value rather than total utility (hence diamonds being more expensive than water). A Christian approach will always wish to keep an eye on overall utility rather than just the marginal value of exchange.

‘We spent borrowed money and called it growth’, says Richard Harvey, former Chief Executive of Aviva, whilst commenting on Britain’s financial state. Herein lies an observation made by many – namely the hazards that accompany excessive borrowing and the impatience that lies behind so much of it. Indeed, looking at the bigger picture a lot of commentators have advocated the merits of restraint rather than instant gratification and have suggested that the virtues of prudence, courage, justice and temperance.

Ours is an impatient age and whilst the financial system has played its part in the reckless offering of credit, so too has human fallibility. A study of three million loans originated between 1997 and 2006 in the US found that in 70% of the cases where there was early payment default there was some degree of ‘borrower misrepresentation’. In other words people lied about their assets, income and liabilities in order to obtain loans and mortgages. And lest we think it is only individuals that act like this, we should remember that Governments do so as well. Greece lied about the state of its economy in order to join the Euro and other political leaders were aware of the lies too!

Sinfulness has thus played its part in the story we have been following and needs to be taken into account when reforms are being considered. The Chair of the Federal Reserve, Alan Greenspan, ruefully accepted this when he said that ‘...if you’re going to model an economy, you have to do far better at understanding how the unit of the economy functions – i.e., the human being’. (*The Age of Turbulence*) The Christian understanding speaks of a fallen world - yet redeemable with grace.

These three points concern the large scale or macro issues. At a micro level, how might individual Christians or church communities respond? Within an imperfect system, can we find ways for money to work more mercifully than it usually does?

There is increasing scope in this field - from ethical investment funds, micro finance initiatives and participation in Credit Unions, there are numerous ways of helping to create and share wealth worth having.

Taken together, perhaps these (macro and micro) themes might constitute the starting points for what has been called *The Just Economy*, a way of establishing principles that enable economic activity to be scrutinised, acting as a sounding board in much the same way as the *Just War Theory* can. (Revd Dr. Alan Billings has begun to produce some writings exploring these ideas).

Hard work will be required for the idea of the *Just Economy* to become established, but the need for an overmathematized economics to expand its horizons and re-discover its roots is a project to which Christians should contribute. Perhaps this might also constitute a future series for the Institute.