

## *Money, Magic, Greed and the power of illusions.*

*Prof Bob Goudzwaard, Catherwood Lecture, Belfast, December 2011.*

"It is time we looked again at the moral order we have lost". Sir Fred Catherwood wrote these words in the Preface of his well-known book "The Creation of Wealth". I would like to choose these impressive words as the main line of my contribution for this evening. They also underline my main motivation. For if we are surrounded by many problems, even to the point where they perhaps overwhelm us, then we need to go to deeper levels of understanding than we usually do. Then indeed the moral order of life itself may be at stake.

But how shall we do that? My main suggestion is to take today's complex reality itself with utmost seriousness. Today's reality is not just a human reality, it is also God's reality. Somehow, deep down, God is always present in what happens around us: He is challenging us, testing us, but also encouraging us through His Holy Spirit. I hope that we will experience that this evening, especially if we have to deal now with the roots of today's financial and economic crises. The usual suggestion is, that our present crises can be solved by the most brilliant brains among us. Just let them do their work. But is there not more at hand here; greed, illusion, perhaps even magic?

But let me not run too fast. Let us first try to analyse today's economic and financial reality with utmost seriousness. Only then can we try to look to deeper, also cultural levels, and look finally for the moral order which according to Sir Fred we may have lost.

I will try to characterize three of our main problems. They are respectively rising global indebtedness, a deepening crisis in the European Union, and the remarkable problem that most solutions, also at national levels, are obviously not working well.

### *1.. Growing Worldwide Indebtedness*

A first characteristic of our time is worldwide rising indebtedness. We all know of course about the persistent indebtedness of the poorest nations of the world. Their huge debts cast still a dark shadow over their economic future.. But now the amount of debt is on the rise in almost every part of the world. No longer is

increasing debt linked mainly to poor countries , but also and even more clearly to rich countries. The US is not just the world's largest economy. Along with Japan, it is also the nation with the largest public debt. No less remarkably, alongside of rising public debt around the world, private indebtedness is also growing.

*Time*, for instance ,the well known American weekly, recently drew the attention of its readers to the fact that since 1980 in the US average consumption-levels have risen enormously, but that this increase was not made possible by a corresponding rise in wages. No, it was facilitated by an explosion in credit. Household debt rose in the US in the last thirty years about twenty-fold. The average American family has, at this moment, no fewer than 13 credit cards. The household -debt of \$14 trillion is about the same amount as the enormous public debt of the US. In his book *The Empire of Illusion* Christian Hedges makes the interesting remark that, I quote: " America seeks to perpetuate prosperity by borrowing trillions of dollars, which it (however) can never repay. (p.143).

Of course, this kind of living in the wind cannot continue indefinitely. And, perhaps not unrelated to this, poverty in the US is also growing . There are now more then 36 million Americans who have to cope daily with hunger, and that is a rise of 3 million since 2000.

## 2. 5. *The European Crisis* .

In the last year almost every week the media reported about an approaching financial crisis in Europe. and they did so with growing intensity. The latest daily columns tell us that now even a full-blown crisis has in fact arrived in Europe. And indeed, there is enough reason for these kinds of statements.

I have already drawn your attention to the world's rising indebtedness. But in this context Europe has its own specific story. A story which is related to the fact, often ignored, that the European Union is in the first place not a political Union but an economic and monetary Union. This implies that the Union is always oriented to promoting its own material wellbeing, as is clearly stated in article 2 of the Treaty of Rome, and is less concerned about the political situation in its member-states; they should primarily take care of themselves. A country like Greece soon followed its own liberal interpretation of the European principle of wealth-promotion. Especially under the rule of Papandreu Sr Greece took the opportunity to undertake an enormous jump in its public expenditures. This was however not financed by higher taxes but by treasurybonds and by loans offered greedily and easily by leading European banks. Other countries also opted for an expansionist credit-policy: Italy,Spain, Portugal, and also at some time Ireland. No wonder that

after a number of years the so called financial markets began to doubt if all these countries would ever be able to repay their huge loans. It was also at that time that new financial derivatives were created like the so-called Credit Default Swaps, which give speculators the possibility of cashing a lot of money if a company, a bank but also a country ends in bankruptcy. No wonder that in this way the European crisis was enhanced and deepened.

The European Central Bank, as we all know, is now trying to prevent a further deepening of the crisis by buying up these doubtful debts and treasure bonds. But it is also enforcing, together with the IMF, a more stringent budgetary policy, especially in Italy and Greece. Both their prime ministers recently had to go. But that did not silence the outcry in the streets of Athens and Rome about cutting salaries and social expenditures. These protests are so intense that this top down European financial policy will sooner or later come to an end. The concept of a broad economic and financial European Union is now itself at stake. Yes, indeed, Europe is now involved in a deep crisis.

### *3. Failing solutions*

My third point is about failing solutions. In economic textbooks the solutions to abate economic depressions are relatively simple, though also very different. Just to remind you: in one school of thought, the Keynesian one, economic depressions can be overcome by means of more government expenditures. A higher deficit is temporarily accepted in order to stimulate the economy so that the level of private investments and private consumption climbs up again. The other school, usually entitled as the Chicago school, primarily suggests lower taxes and a direct stimulation of the supply side of the economy. I am reminding you of these two leading opinions because they immediately make clear to us why neither of these two standard solutions work well in the present predicament. For how do you expand government expenditures when public debt is already far too high? At the same time, lowering taxes is not feasible in a time of intense budgetary tensions. For that increases the deficit again, unless you also drastically cut government expenses at the same time, as the US Tea party proposes. Which again has the effect of aggravating the crisis.

It is in this embarrassing situation that we sometimes see Federal Banks and governments giving in to the temptation to pump more money into the economy. Using the printing press, as it is sometimes called, of course implies an increase in the amount of liquidities in the economy, which is already far too big. But like penicillin, it also brings more colour onto the cheeks of the patient and so perhaps also contributes to a rapid recovery. Enormous doses of this type of penicillin are then needed, but isn't it worth giving it a try?

The problem behind this last so called 'solution' is of course, that it was precisely the policy of easy money creation which caused the present economic and financial crisis, both in Europe and in the United States. Joseph Stiglitz explains that clearly in his recent book, entitled *Free Fall ,America, free Markets, and the Sinking of the world Economy* He tells us how in the years before the crisis both politicians and most Western economists had a very optimistic , even far too optimistic view of the economy and of the possibilities of further growth. This optimism led most banks to a very easy-going money-lending policy, also for very speculative reasons; a policy which was, as Stiglitz explains, driven mainly by their own greed. Indeed, since 2003 four times more money has been created by these big banks than the real economy needed for its growth. These loans or debts, public and private, now hang as a huge cloud above all of us, and they hamper each economic recovery. Our economy has thus indeed become a free Fall economy with ever increasing debts and indebtedness, in both the private and the public spheres.

We all are convinced here , I am sure, that money should serve the real economy, that is the economy of the production and consumption of real goods and services. But today it often looks just the other way around. The real economy has become more and more dependent on the far bigger financial sector , its whims and volatilities included.. Sir Fred points to the same fact by speaking about what he calls the new electronic economy: "The electronic economy enables money to flash around the world at the speed of light, driving currency flows out of control and plunging stock markets into crisis"(p 14) How true that is. Speculative money indeed plays now a strongly destabilizing role. For these capital flows are always searching for higher financial rewards, especially in the short run, and they often even force several business firms to show higher short- term profitability. George Soros therefore says correctly that financial markets have now taken their place in the driver's seat in the global economy Money has so to say climbed up on a throne from where it now exercises its lordship over all real economies. Indeed, most governments today are full of fear of what the financial markets can do to them, like a new big brother watching them from day to day.

But with these remarks we are already beginning to take first steps towards a deeper kind of analysis. For how it is possible that money and the financial markets could gain such an enormous impact on our economies, and also lead us into the present crisis? Is that really only a question of the increasing greed of big banks?

Let us therefore look for a moment at a somewhat contrasting vision. It can be found in a recent book, written by George Akerlof and Robert Shiller, entitled *Animal Spirits: How Human Psychology drives the Economy*. According to these authors it were so called “animal spirits” which played the dominant role in the outbreak of the present crisis.. The term “animal spirits” comes from Lord Keynes. It refers to those irrational factors, or non-economic motives, that heavily influence people in their decision-making. The authors mention as examples: an unlimited confidence in what markets can do; money illusion; and several forms of bad faith. These kinds of instincts, they argue, caused people to seriously believe that in the US for instance house prices would always go up, and it heightened their faith in the possibility of becoming richer and richer. Akerlof and Shiller conclude that their theory answers the conundrum of “why most of us utterly failed to foresee the economic crisis”. A somewhat different interpretation, indeed. But the similarity is of course that also these authors underline the fact that the illusion of unlimited progress can lead both banks and governments to decisions which later create great harm to the economy .

Terms like greed ,as used by Stiglitz, and the power of illusions, as mentioned by Akerlof and Shiller - they point to a deeper level than that of economic processes alone. It is the level of *culture* which enters here;the level of human intentions and human drives. Especially the role of illusion should interest us. For illusions can allow people and nations to believe what they want to believe, instead of taking reality seriously.

In his book "The Empire of Illusion" which I just mentioned Chris Hedges defends the thesis that the distinction between illusion and reality is increasingly blurred in our time. We live in a culture of entertainment, which is a culture of continuous illusions. Hedges underlines that this is a matter of utmost seriousness. For a culture that can no longer distinguish between reality and illusion sooner or later dies. But even more remarkable is his conclusion. I quote : "The cultural retreat into illusion is a form of magical thinking. It turns worthless mortgages and debt into wealth. It turns ... destruction ... into an opportunity for growth" (p. 190).

Magical thinking? Here a new concept comes in. Could it be that magic plays a distinctive role in our time? Of course that sounds at first sight just fantastic. But it may not be as strange as we think. The great German poet Johann Wolfgang von Goethe wrote two centuries ago his wellknown drama "Faust" about a scientist who sold his soul to the devil in order to be able to obtain superior knowledge, knowledge such as God has. In the second part of this tragedy Mephistoteles ,the devil's advocate, brings Faust to try to produce gold. But when that fails, he

suggests that he choose instead the magical path of creating paper money! Indeed, it is that magic which turns Dr Faust into a rich and extremely powerful man, who can be scarcely saved by the angels. Goethe, by the way, was once minister of finance in the German republic of Weimar, and so he knew what he was writing about.

Money is indeed a strange object which is very close to magic. Money represents value, but only so far as we collectively believe in it. Without that collective faith printed money would be no more than a rectangular piece of colourful printed paper, or a simple written line in a bank account. The magic of money can also seduce people to think that it is the most desirable thing on earth to have. Of course, and let there be no doubt about this, money can be very useful in facilitating economic transactions between people. But it can also grow into an idol, a pseudo-saviour, a Mammon which can betray you at the very moment that you need it at most.

This is indeed helping us to see more clearly. If the amount of money in the hands of people or in their private accounts is growing, it can easily create for them the illusion of growing wealth. And thus also of a continued progress in the economy, even if there is no solid ground for that kind of faith. Money, much money, can also feed the illusion of growing power, of exercising power over others. And it looks indeed as if that type of illusion played a crucial role in the outbreak of the recent global financial crisis. The banks, the speculators, simply believed in the endless growth which was made possible by the creation of always more money.

Monetary greed and illusion, and illusion and growing indebtedness are moreover closely related. Debts form the illusory path along which we can perpetuate our desires, even if it is in fact a perpetuation of what is no longer possible! But that is not without risks. For our desires prevail only until the moment that the illusion of money breaks down on the harsh reality. Did also Jesus not warn us in his parable about the unjust Mammon that money can easily fail you and me?

It is clear, I hope, that with these last remarks we have reached an even deeper dimension than the cultural dimension of human drives and growing illusions. Here we touch the almost forgotten dimension of religion, the role of faith and ideology in human society. For the power of illusion, just like the power of magic, does not stand on its own. Neither is the unlimited pursuit of one's own material happiness a neutral attitude. Views, goals and attitudes formulated in this way in fact look like goals and attitudes of last resort. They may thus be seen as expressions of clearly living ideologies. John Kenneth Galbraith wrote it already

many years ago: "A rising standard of living has become an article of faith in western societies".

Let me say it in another way. In the hardening of our economic crisis, in both Europe and in the world as a whole, we can observe something of what René Girard, the great French catholic philosopher, recently described as the whirlwind of a heavy hurricane. A hurricane, as we all know, can catch everyone and everything in its devastating course. Similarly, Girard wrote, it looks as if our present world is in the grip of a growing lust for always more wealth and money, by which peoples and nations continually imitate each other, and he calls it a hurricane of desire. Sir Fred Catherwood once observed: "What drives greed is covetousness.. Just because (the other) wants something, we want it ourselves" It looks indeed as if somehow western society has become a victim of its own growing covetousness. We embrace all means that can help us to fight for our ever-increasing wealth, or maintain at all costs and by all possible means what we already have. And for all those purposes money is the first instrument and candidate.

No doubt this is a hard kind of diagnosis. But please let us also observe the message of hope and perspective which is involved in this message. Illusions can indeed take us captive, and idols can abandon us at the most critical moment. But of course we can also decide to say goodbye to them. As a mature society we can break through the power of deeply unrealistic illusions. Somehow we should now come to our senses, as the prodigal son did in the parable of Jesus. But what could be this path or pattern of hope? Could it also imply Europe's return to the Father's house?

René Girard, as I noted already, compares the present global situation with a hurricane of desire and greed, seducing all nations. But each hurricane, he suggests, has also a silent centre, where the storm is absent and the blue sky can be seen again. But what is this centre for our plagued world? Girard uses two flashing words to describe that center. The first word is *love*. For in real love the inter-esse falls away, the goods which stand between us as persons, but also lead nations so easily to envy the other. Love makes room for what the other needs, it leads to sharing. And his second word is: *following*. Following is a deeply religious word, related to the Gospel of Jesus Christ. Girard uses it as a contrast to the lust of an endless imitation of other persons and nations in their ceaseless quest for more and more material wealth. According to him it is thus obedience to the regime of Jesus as the Son of God which sooner or later needs to replace the

endless imitation which is implicit in the world's present hurricane of desire and greed.

I like this deep approach of Rene Girard. But let me first try to make it also somewhat more concrete .

We have already seen that modern societies .like the European Union are primarily characterised by their ultimate goal orientation. They strive primarily for more economic wealth, financial stability and safety for themselves, and then derive from those ultimate goals the instruments they need to achieve the goals. This implies that if they are confronted with problems, they will systematically choose those economic and financial policies which are required to preserve their goals

But is that also valid for a Christian approach to our personal and collective problems? No, surely not. For the heart of each truly Christian approach is not an ultimate Goal orientation but an ultimate Way-orientation. People of the way—that was the oldest name of Christians as mentioned in the Acts of the Apostles. There we read that the people of the Way were first called Christians in the city of Antioch. A basic Way orientation in politics is therefore just the other way around from a basic Goal-orientation . It implies the willingness to follow paths or ways of justice, of love, of stewardship and community instead of putting first our own desires, wishes and material interests.

Of course, also in a way-oriented approach sooner or later goals or targets enter the picture. But they only come in, and are only pursued, if and when they are and remain fully in line with what justice, love and stewardship ask of us. Way-orientations - and it is very remarkable that we find them in almost all religions — therefore always have a self-critical element. They acknowledge that we could be wrong or could have done wrong. And precisely because of this element of personal and communal critical self-reflection Way-solutions can also reach far deeper than goal oriented solutions usually do . They may include a solid critique of what is going wrong in our modern self-centered societies. And can thus also ask for repentance, or express the need for healing justice and of reconciliation as the recent history of South Africa shows. But uncritical self chosen paths do not have that characteristic .They not only easily feed further illusions, but can also tempt nations to comply with the ideological madness of fighting for what they wish to maintain at all costs and with every means possible.

So let us now indeed go back to today's problems , and look first at the problem of *rising indebtedness*. Debt, indebtedness, these are words we often hear in church. They are even mentioned in the Lord's prayer, not only in the context of God's

forgiveness of our debts, but also of our forgiveness of the debts of others. But do these lines have also a practical significance for us and for the Western world?

The ongoing indebtedness of the poorest nations should especially feel like a shame to us. In the Torah, the Mosaic laws of ancient Israel, the maximum legal term for debts was six years, because in the seventh year, the sabbatical year, a general forgiveness of debts was to take place. Faith in the eternal God prohibited that debts would be eternal, that indebtedness would go on for ever. But that is obviously not the situation now between rich and poor nations. But why not? Why do all of their debts still persist? Are there here perhaps similar factors at work as in the rise of global indebtedness?

In relation to the enduring problem of indebtedness it is the way or path of public *justice* that needs to enter the picture. In relation to debt, public justice has been a severely violated principle. Did you know that in almost every year in the last twenty to thirty years there has been a so called negative transfer between North and South? That means that in almost every year the sum of interest payments and loan-amortisation paid by the poor countries of the south to the rich societies of the North was higher than the sum of direct investments plus development aid that came to the South from the North. When then British Prime Minister Mrs Thatcher first heard about this fact, she reacted with astonishment: “but that is just the opposite of development aid!” Indeed so, for it implies that rich countries and their banks still continually extract more money from the impoverished south than they send out.

Underneath this strange kind of continuous enrichment by the rich lies the distorted unjust global imbalance in which only a small number of privileged countries are permitted to create international liquidities, or said otherwise the key currencies acceptable in international trade. Rich countries can create key currencies, such as the dollar, the euro and the yen as much as they like, because their currencies are accepted by every other country. But poor countries don't have any direct access to international liquidities. They can only earn those currencies by increasing their exports or by borrowing money from the rich, usually at high interest rates. This is the main reason for the growth of the indebtedness of the poorest countries in the last thirty years. And it is still growing, which means that their own economic development is continuously hampered by the enormous amounts of debt payments that they need to pay each year. If the west would truly take the problem of increasing poverty in the South seriously, well, then it would accept that at least a substantial part of the benefits of creating international money should go directly to the poor countries, which would enable them to pay off their debts. This simple

gesture of international justice could solve the most painful sides of world poverty , not to mention that it would also contribute to our own economic recovery. It would even be a far echo of what was once meant by the year of Jubilee in Israel, the return of land to its original owners as a source of economic wellbeing to the poor, as their own legitimate share of capital. But is the rich West really prepared to act in this way? No, it is not. We prefer window dressing over justice, sharing of the fruits of progress over sharing in the sources of progress, and meagre development aid over any kind of international monetary reform.

Indeed, there is a link between several kinds of indebtedness. It is greed and opulence which still sustains the unbroken monopoly held by the big western banks and governments in the creation of new international money for themselves. If we really wish to end the structural problem of the world's rising indebtedness then it is that monopoly which must end. Money and the creation of money should not rule over us, but serve us in the way of good *stewardship*.

Here another element of the Way-orientation, stewardship, enters into the debate! If in their greed banks create continually more money than the economy really needs, they are simply committing an economic wrong and should be publicly stopped from doing so. In earlier days, money was seen as a public good; it received a public stamp or mark to guarantee its value. Money needs to be brought back to this kind of economic serviceability. This also implies that highly speculative financial derivatives like credit default swaps should be forbidden. Monetary reform stands therefore not at the end but at the beginning of any enduring solution to the problem of global indebtedness.

This is also true for the *second problem*, the current global economic crisis and the European crisis which is deeply connected with it. Europe still finds its juridical foundation in the logic of striving for more and more material welfare. The common market has brought us many economic benefits and therefore, so goes the European philosophy, it should be protected by all means. What explains to a high extent also the behaviour of the European central bank and of countries like France and Germany. But what happens if our starting point is no longer the ideology of a maximum economic growth but following the ways of stewardship and love? Then Europe should be willing to admit that unending increases in our own material welfare contains an element of unwillingness to share with other poorer nations and weaker member-states. And we should also be willing to admit that the track of a maximum economic growth is also no longer ecologically sustainable. We should be willing to live more simply, so that others, also our children and grandchildren, can simply live.

But here you could object: sure, a lower consumption level may be a fine ideal, but doesn't that have the effect of deepening our economic crisis? Didn't President Eisenhower, for example, openly declare in one of his speeches that it is "the duty of every American to consume"? More consumption, he said, implies a higher demand for goods and services and thus also more employment.

This is an understandable response, and it is entirely accurate within the framework of a primarily expansion-oriented economy. But that is not a true perspective for a shalom-oriented economy. Think a moment about a growing fruit tree. It utilizes all cells in its growth and survival. But does the fruit tree always strive for a greater height, so that it finally can reach the heavens above? No, of course not. Sooner or later it redirects its energy-patterns away from vertical expansion towards blossoming, fruit-bearing. Now compare this now to our own European economy. Like the fruit tree there comes also in this economy a moment, and in my view that moment is now, where priority must be given to natural, social and economic blossoming instead a further growth in material consumption. That means taking a turn in the direction of investing in as well the growth or preservation of human capital - human health and education ; of social capital - like community services: and of natural capital -the upholding of our natural environment. A trade-off ought to occur between increasing consumption and our human and natural wellbeing! One positive aspect of such an economic transformation is that those alternative investments are relatively labour-intensive, so that there will be enough employment for everyone. It all boils down to an effort to build together a relatively new non-market oriented sector in the midst of today's market economies. It looks like one of the best enduring remedies to beat today's economic crisis.

But there is also another aspect of this transition, and here norms or Ways of *solidarity and community* enter the picture. You can only afford the transition from an expansion-economy to a fruit-bearing economy if people are generally willing to agree with a stabilization of their current income - or consumption-levels. For these new types of employment do not originate from the market-sector. No, they are funded by higher saving-levels, achieved for the purpose of making these alternative investments possible. Think of the conversion of the British economy in wartime, when Winston Churchill prepared the population of Great Britain to abstain from any further growth of their consumption and to accept so called forced savings, just to be able to defeat Nazi Germany. But a new enemy has entered today, and we can recognize his presence in the growing deficits in our social, human and natural capital. So we could better say, instead of echoing

former president Eisenhower's consumption-slogan : It is the duty of every European British and Irish citizen to save, just for the purpose of investments in the protection and growth of the common good.

This course of a higher degree of community, solidarity ,stewardship and justice in our economy and in the world economy may still sound idealistic. But if we take our urgent global problems really seriously then we begin to realise that in fact there is no alternative. Somehow we need now to listen more to God-given norms or ways, and less to our own self-centered goals and desires. For nations which merely continue to build on illusions are now indeed on the brink of losing their balance, their power ,and their true wealth .

There is a danger of winning the entire world and at the same time losing one's soul. This appears at this moment in history not only to be a crucial message for persons , but also and even more for nations, especially for the rich nations of the West. Let us thus learn to choose life again.