The economic crisis, lecture by Huib Klamer, advisor on Religion and Corporate Social Responsability, of VNO-NCW, on May 20th 2014 in Egmond, for the Meeting of the European Council of Churches

I think this crisis has different layers, levels.
I will look at the crisis from two different angles:
first economic, second moral and spiritual.

First: the economic perspective

I start with a short review of the last decades.
When I was a student – in the seventies – there were two economic systems in the world: the free market economy and the central state-led economy in the communist countries.
Our teachers thought these systems would last for ever.

Actually the communist system would collapsed in 1989 when the **Berlin wall** fell down, which signified the start of a new period in history.

The eighties were a period of high unemployment, also youth unemployment, in the Netherlands as well as in Europe as a whole.
Europe was weak, we spoke of Eurosclerosis.

The nineties became a new era, a period of high economic growth.
With a broad expansion of the free market system, nationally and globally.
With three big private-public projects: liberalisation, privatisation and deregulation.
(Liberalisation meant for example: free capital markets with capital streams flowing fast around the world to whatever place where profits were highest.)
This growth was extra stimulated by the technological change:
all kinds of IT applications emerged which promoted the start of many new businesses.

I remember the **climate of euphory**: euphory about Europe, euphory about the free market, euphory about democracy.
(Europe started anew: treaties of Maastricht were concluded.
The European common market got a strong impuls: all kind of technical trade barreers were adressed[1] and eliminated.
Globally, trade restrictions were broken down by the World Trade Agreements, in the WTO (Uruguay Round).)

In 1991 Francis Fukuyama wrote his wellknown book The end of history.
He argued that finally there is no alternative for our Western free market system and for our democracy.
In other words, the ideal world has been attained.

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[1] First in the 'White Paper' of Internal Market Commissionar Lord Cockfield (1985)

Hurray!

But after the millennium we got the **first real problems**:
- First, in 2002/3, we got the bubble of the new virtual economy, also known as the dotcom bubble.
- In 2003/4 we got the accounting scandals: in the United States Enron, in Italy Parmalat, in the Netherlands Ahold.

Three examples of companies which raised profits with all kinds of creative accounting, complex and hidden constructions; financial creativity that created wind profits, profits on paper.
All with the goal of creating more shareholders value.

The same kind of financial creativity was deployed by banks.
Traditionally banks were alert, conservative on risks.
That attitude changed: banks became trading companies: buying and selling packaged loans, while paying less attention to the risks involved.
The bankcrisis started in the US with the securisation of mortgages and selling of packages of bad loans, which made the risks really intransparant.
In 2008 Lehman Brothers bank collapsed, the start of the bankcrisis, the financial crisis and the economic crisis.

A main cause was the **price of money**, the low interest level..
Money was cheap; interest rates were low and are still low.
The American Federal Reserve Bank in the USA applied very low interest rates aimed at stimulating the economy and keeping affordable the big public budget deficits.
The same in Europe.

Cheap money gives strong and sometimes wrong incentives:
- cheap money gives incentives for financial creativity by **companies and banks**: you borrow cheap and make profits elsewhere:
by investments and takeovers.
Leveraging becomes a keyword.
I have a neighbour who is in real estate; and he explained me: in my work leveraging is the keyword, all is leverage.
- cheap money gives strong incentives for **consumers**

One example: Dutch assurance companies offered consumers new products with names like 'Wealth accelerator', with promises for high gains.
(You buy a ' basket' of shares, combined with a stock option. You loan money for buyiny the product and you dedeuct the paid interest from your fiscal income.
All in the expectation that the toch prices will raise.)
It seemed as if I as a citizin did not need to work any longer, because money could work for me.
I only needed to step in the money train to reach the promised land.
Unbelievable….. indeed, unbelievable….it proved to be an untrue illusion.

Another, more important example:
House prices, real estate prices were high and raised, stimulated by the low interest rates.
You were stupid when you didn't buy your own house with borrowed money, because the price would continue to raise.
But the reverse happened, prices of houses and stocks fell down.
Many householdes had bought too expensive houses and became highly indebted.
This was the start of the financial crisis in the USA:
too high mortgages proved to be bad loans.
Bad loans were packaged by banks and sold to others, banks in Europe.
In this way the crisis started as a housing bubble.
By the way, in Japan the same had happened in the early nineties,
after a high economic growth in the eighties which tripled prices of stocks and land.
But we did niet learn from Japan.
We are no fast learners.
- Cheap money also gave wrong incentives for **public spending**.
As a student I learned in my first book on macro-economics that in a period of high growth governments can and should save money.
But the reverse took place in Europe.
The governments of rich France and rich Germany (Chirac and Schröder) were the first countries in the beginning of our millennium to break the strict rules for the euro:
those countries raised their budget deficit beyond 3 %.
All in a time of high growth!
During the first years after the introduction of the euro interest rates were low and almost at the same level in all European countries which stimulated public spending, especially in **Southern countries**.
Why being careful, why cut public spending when you can borrow money cheaply?

For Southern European countries the situation completely changed when after some years financial marktets started to differentiate among countries,
according to the risk ratings by rating agencies.
From now on Southern European countries were obliged to pay a raising rate of interest.
And interest payments became a growing burden for those countries which got into great trouble.

After all the financial crises became a general economic crisis.
We saw a discrepancy growing between the financial economy and the **real economy**.
The financial economy had became a money making machine on its own, stimulating all kinds of speculation by companies, consumers and governments, no longer serving the real economy.
We wrongly thought wealth was created mainly by financial services, by loans and not by labour, handicraft.

Now we see the real economy coming back.
The slight recovery now comes from the real economy: industry and craftmanship.

You see the revival of the German economy with its firm real economy – its strong make-industry –, which is now outpacing the Netherlands'economy with its historically strong financial sector.

Second: the moral and spiritual perspective

I already spoke of the year 1991, when Francis Fukuyama published his book The end of history, shortly after the fall of the Berlin Wall.
Iin the same year another work was published that gained less attention: **the encyclical Centesimus Annus** of Pope John Paul II.
In this encyclical the Polish Pope John Paul II , who knew communism from inside, writes remarkably positive about the market economy (when he speaks about - I quote - "the fundamental and positive role ... of the company , the market , the private property and the resulting responsibility for the means of production of free human creativity in the economic field .")
But at the same time the pope condemns a capitalism in which economic freedom is not strong morally and legally framed .
Thus the pope distinguishes two types of market.
Those two types of market economy were elaborated in the same year 1991 by the Catholic French entrepreneur **Michel Albert** – who also advised the Pope John Paul on his encyclical - in his book Capitalism contre capitalism.
Michel Albert speaks of the
- Rhineland model of the free market, the social market economy that we have in countries like the Netherlands, Belgium, Germany and France, all with a strong social welfare state,
- and the Anglo-Saxon model of the free market, that he also called casino capitalism, as it evolved especially in the United States and the United Kingdom – onder the governments of Reagan and Thatcher -.
By the way, I myself think there is a third model namely a state-led market economy, like we see in China and to a lesser extent in Singapore, India and Russia.

The difference between the two models was overseen by the overwhelming great enthusiasm for the Anglo-Saxon model for the free market .
In the nineties our traditional Rhineland model – dominant in Northern Europe and France – was affected by a strong **Anglo-Saxon wind blow** from the West.
With more emphasis on shorttermprofits, more influence for shareholders.
With American standards for corporate governance and accountancy.
Creating shareholdersvalue became the keygoal for companies, which was supported by the introduction of bonussystems for management and directors to align their interests with shareholders' interests.

Initially, with tremendous **success**.
In the 90s, the trees grew into the sky .
But after the turn of the century we got the dotcom bubblel, the accounting scandals,
later, from 2008 on, we got the financial crisis caused by the housing bubble, the stockmarket

bubble, the longest **crisis** ever.
Why ?
In short terms: by lack of adequate rules, lack of surveillance, lack of ethics, perverse incentives, and ….. illusions about ever growing profits….. greed….. lack of wisdom.

Our economic system has come into heavy weather, although there is a slight recovery now.
In the last years a lot of **measures** have been taken, nationally, in Europe and globally:
- more rules for banks (the Basel agreements, the European Banks Union)
- a banker's oath for bankers
- more public surveillance, nationally and in Europe (ECB)..

The **direction now** is towards a financial sector which is strongly embedded in tight regulation and surveillance.

Pope John Paul II proved – after his death - to be right: a free market cannot exist without a solid ethics.[2]
But he failed to get his message through.
The time was not ripe then.
Now the time seems ripe for - what I call - a reinvention of the market economy.

A crisis can be a **moment of discernment**, a moment of reflection: how were and are we doing things, what drives us?
In terms of Ignatius of Loyola – the teacher of our new Pope Francis - : what spirits are/were at work in our minds and in our behaviour.
A crisis forces us to reflect on how we behaved - as a consumer, as an entrepreneur, as a politician –.
and helps us to change from within, an inner transformation which turns outwards and changes our attitudes.
Which leads us to an ideal – in my words – of a global, interdependent economy which is both inclusive and circular,
with a sustainable growth,
based on real products and services.

(In the ongoing discussions the **Christian social teaching**, has much to offer in its vision and values of justice , solidarity, universal destination of all goods, the integrity of creation and the bonum commune - common good -.

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[2] Besides: Adam Smith, the intellectual godfather of the free market, already knew: the pursuit of self-interest is a good compass to market forces, but it should be embedded in what he called 'moral sentiments'' , especially ' sympathy ', sympathy with others. When moral sentiments like trust lack, the fundament underneath the market economy and business transactions disappears.
In the Netherlands there we have an economic school – the so called the neo-institutionalist school – that promotes this view.

The bonum commune, core concept of the Catholic social doctrine , is – in my view - closely related to the **three P's** of Sustainable Development: Prosperity, People and Planet; first mentioned in the report of the UN-Brundtland Commission, Our Common Future in 1987 .
Prosperity must be accompanied by social justice and concern for our creation .
These three P's some years later became the core of the Corporate Social Responsibility concept: People, Planet, Profit;
the terms were introduced by the Englishman John Elkington.
There is one small difference: Brundtland spoke of prosperity, Elkington of Profit.
From the societal point of view the importance of the enterprise lays in its creation of prosperity.
Profit is a means to the end – prosperity -. Profit is important but not a goal in itself.
This prosperity should always be balanced with the values of People – social justice, human dignity – and with Planet – stewardship of our precious natural resources -.

Last remark:
in my view, both jargons, the Christian Social Doctrine and Corporate Social Responsibility, should become more interlinked with each other.)