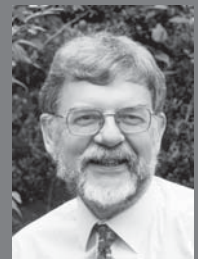


# Sustaining a Business Recovery

Spring Conference at Ridley Hall Cambridge  
26-28 March 2010

Report prepared by Sally Orwin and Richard Higginson



Against the background of the global financial crisis, this conference looked at solutions for the future, some radical, based on Christian and in particular Old Testament insights. The conclusion was one of hope rather than despair.

## Introduction: the problem of the Global Financial Crisis

35 people from a variety of business, government and church backgrounds gathered at Ridley Hall in Cambridge from 26-28 March for the annual *Faith in Business* spring conference.

The conference was held this year in the light of the global financial crisis of 2007-8. It was planned as a follow-up to the residential consultation *Where Now? Reassessing Values and Direction in an Economic Downturn* which was organised jointly by Faith in Business and St George's House, Windsor in November 2009. A variety of opinions were shared in a frank, open and friendly atmosphere at St George's; and a fair measure of agreement was reached in identifying initiatives that could contribute significantly to a healthier future.

*Sustaining a Business Recovery* provided an opportunity to share some of that thinking and take it a stage further. Speakers did not flinch from articulating the economic, political, social and moral failures and weaknesses which had prompted the crisis. The conference ended, however, on a profound

note of hope in the Christian gospel to bring renewal and radical transformation.

Faith in Business has been running enjoyable conferences for over twenty years in the congenial surroundings of Ridley Hall. There was plenty of time for old friends to catch up, for meeting new people and sharing ideas and mutual interests. Palm Sunday was celebrated in the chapel with a reminder from Sally Muggerridge of the Industry and Parliament Trust of the significance of Easter with worship and prayer offered in a spirit of repentance and hope.

## The Survival of Capitalism

Eve Poole opened the conference on Friday evening exploring the nature of global capitalism as a backdrop to the financial crisis. Eve is Deputy Director of the Ashridge Leadership Centre. She is well-placed to speak on capitalism and its connections with faith having recently finished a PhD thesis on attitudes towards capitalism within the Church of England during the period 1989-2009.

In an engaging presentation in which she made interesting use of storytelling, Eve



▶▶ traced the history of the building blocks of the global financial system. Beginning with the bartering of tangible objects she progressed through the value inherent in a coin to promissory notes which have token value only and require connection to something else of value to substantiate the promise. Working in this increasingly sophisticated market of promissory tokens has demanded an increasing rise in trust which has in fact not been met. Complex financial ‘wizardry’ developed as a way to ‘slice and dice’ risk resulting in a damaging lack of confidence. Banks and businesses became both unwilling and unable to lend to one another and seized up as a result of severe liquidity and cashflow problems.

Eve also identified the decline in a moral framework. She pointed out that Christians (in particular Anglicans) still wield more power and influence in this country than we have become accustomed to think, and encouraged us to ‘vote’ (use) our cash to render the market more kingdom-shaped. Capitalism still retains major potential for good, but this depends on the decisions made by customers and investors as well as business practitioners. She closed by drawing attention to the three lessons drawn from the crisis by Stephen Green in his book *Good Value* (reviewed on page 23 of this issue): the need to restrain excesses, ensure transparency and align incentives.

### Debt and Regulation

On Saturday morning Julian Adams, Director of the Retail Firms Division of the FSA, spoke on ‘The Role of Regulation’. He made clear that he did so from a personal perspective rather than in his professional capacity.

Julian was clear about the need for a technical response which must be grounded in principles with a firm focus on outcomes. He highlighted in particular the degree of personal integrity and responsibility which successful regulation requires from those in positions of senior management within the financial services sector.

Julian focused on three key areas in which he identified subtle moral shifts that have taken place over the past few years. The first he called the de-personalisation of the sales and underwriting process. This has expressed itself in the development of off-the-shelf products and fewer and larger financial organisations providing services and products. The relationship with the customer diminished on both sides, in retail as well as corporate banking. An unwillingness to defer consumption and the selling of products not tailored specifically to the customer’s needs led to massive profits on bulk selling of products (such as personal protection insurance or PPI).

At the same time, the focus on personal compensation for delivery of short-term objectives led to a toxic culture of ‘star traders’ at the expense of collaborative teamwork. Finally, the relationship between the financial services sector and wider society developed an increasingly bi-polar aspect. The increase in size of the sector in relation to the rest of the economy added a degree of liquidity but the excess of what Julian termed



**Casino Behaviour**

‘casino behaviour’ meant that there was no useful allocation of resources within the wider economy.

Julian offered some key principles to inform the development of regulation in order for it to do its job without choking off innovation. In the light of this he quoted Kierkegaard’s ▶▶



*Søren Kierkegaard (1813-55)*

▶▶ ‘Life is lived forwards but understood backwards’. Systemic proposals included:

- Banks must hold sufficient high-quality capital with all aspects of risk adequately monitored, in particular regarding liquidity.
- Policy regarding remuneration must be risk-adjusted and not encourage short-termism.
- Supervision must be carried out with a view to anticipating problems rather than waiting for evidence of malpractice to arise.

The rapid development of financial trends occurs much more quickly than regulation can be framed and Julian emphasised the role of appointing as retail investment advisers individuals of integrity whose CPD (continuing professional development) maintains their ethical standards. He believed the FSA itself had acknowledged its mistakes and shown a willingness to learn from them.

Although Paul Mills was originally scheduled to speak first on this Saturday morning, delays on the train network meant he took the second slot. Paul is a Senior Economist in the Monetary and Capital Markets Department of the International Monetary Fund. He has

completed a PhD thesis on the biblical prohibition of interest and its contemporary relevance. Paul opened with a clear assertion of the biblical view of debt as equivalent to slavery.

He highlighted the huge scale of debt – government, corporate, banking and household – in the world today, especially the USA and the UK. He spelt out several major problems with a debt-based financial system:

- A volatile economy – balance sheet leveraging and de-leveraging exaggerates the investment cycle
- Speculative booms and busts in financial assets and property
- An inherently unstable banking system that survives only with government backing
- Misallocation of finance to those with collateral rather than good projects
- Poor lending decisions when loans are securitised, breaking relationships
- Endemic inflation when debts become money and borrowers need to have real burdens relieved
- Entrenchment of differentials between rich and poor countries (leading to low income countries unable to pay off massive debts).

Paul Mills saw the biblical model for finance, grounded in the Old Testament law, as embodying the following principles:

- We are to love God and our neighbour, and not money
- Money is to be used to build relationships
- Interest-free lending is commended, and commanded to aid those in need; with this goes a moral imperative to pay debt, and limited reference to gifts or charity
- Intended freedom from debt with periodic cancellation of debts



▶▶ The essential problem with debt is that it transforms a relationally positive tool - the loan - into an instrument of commerce. It embodies a degree of arrogance about the future and engenders a speculative mindset, for example, with reference to housing. Limited liability, inflation and government bailouts mean the hidden costs of debt are shifted to third parties.

The main thrust of Paul's presentation was to outline what a shift away from debt-based global financial systems might look like and how such a shift might come about. He argued that limited liability fosters short-termism and is essentially an abrogation of biblical principles, but didn't advocate its total removal. He outlined a number of controversial proposals designed to encourage a move away from debt towards lease, rent and equity as alternatives, stopping tax breaks for debt, reducing corporate size through tougher competition and addressing speculative short-termism, e.g. through weighting the voting rights of shareholders by the length of time the shares are held.

Finally, Paul emphasised cross-generational family commitments, eg in the form of extended family trusts and non-debt housing finance. The emphasis on restoring relational community and extended family rootedness might go a long way to shifting the burden of welfare provision away from the state and a more individualistic approach inherent in current state welfare services and insurance systems. His approach is unashamedly radical, but he believes the severity of the current crisis provides an opportunity for Christians to speak boldly, confident that God's Word embodies wisdom for his glory and our freedom. Paul's talk certainly aroused a great deal of interest and he was the focus for a multitude of questions, both in session and out of it.

### The Changing World Order

In many ways Peter Warburton built on the main thrust of both Julian Adams and Paul Mills in terms of recognising the moral



*The loan - a relationally positive tool*

failure which contributed to the crisis and offering some hopeful suggestions for change. Peter directs an international consultancy, Economic Perspectives, and is a member of the Institute of Economic Affairs' Shadow Monetary Policy Committee.

He began his presentation with an emphasis on the redemptive processes through which virtue might be regained. He described these as:

- Confession and forgiveness (sincerely offered and received)
- Contrition and restitution (assuming responsibility for moral failure)
- Concession and generosity (unilateral and unconditional)
- Engagement and respect (the restoration of relationship)

He defined the contradictions of contemporary capitalism which relies on prudence, restraint, justice and courage to flourish for the sake of the common good – yet sadly all these cardinal virtues have been lost to view in recent years. At the same time, he deplored the state repression which hinders human development and outlined the impoverishment which is evidenced under state socialism. ▶▶





*Tamil Nadu, India - Water shortage makes pots go unfilled for a long time*

Peter presented several slides showing the statistical evidence for the financial crisis. He placed this in the more general context of a broken world which expresses itself in undernourishment, the lack of safe drinking water, problematic water access and the vulnerability of the earth's population to climate change in the form of temperature fluctuations, flooding, malnutrition, infant mortality, neglected tropical diseases and a widening of regional disparities.

Finally, he drew a picture of a multi-polar world focusing on three emerging blocs, namely the US, China, and the EU with Russia. Just as redemptive processes are required in the financial and economic sphere so are they also needed in the political sphere.

Peter identified these redemptive processes as from:

- Debt to equity in capital structures
- Macro to micro in economic regeneration policies
- Distant to regional in supply structures
- Principal agent to partnership in business relationships
- Oligopoly to open competition in industrial structures

### Alternative Business Models

During the evening slot after dinner, Philip Angier, chair of Shared Interest and former Managing Director of Traidcraft, explored a variety of business models that provide alternatives to the conventional public limited company which seeks to squeeze costs and maximize return to the owners. He looked at the co-operative model, the fair trade model and the philanthropy model, and evaluated these in terms of the value-added chain, governance and accountability. Most of these alternatives adopt some version of the concept of the triple bottom line approach to business which sets out social, financial and environmental goals and seeks to embed reporting on these three bottom lines in a learning cycle. It was this model among the many which Philip outlined that caught the imagination of the delegates during the discussion session. Whilst this approach to accounting was widely recognised as desirable, there was a degree of scepticism regarding the reality of putting it into practice when there must inevitably be a trade-off between any of the three elements.

One hour of our discussion was spent in candlelight, as part of the Earth Hour electricity-saving event taking place that evening. Unfortunately, we forgot to turn off the projector after we had stopped using power-point!

▶▶ **The Theology of Hope**

Richard Higginson took the final conference slot on Sunday morning after breakfast to present a theology of hope. Drawing on Jürgen Moltmann’s *Theology of Hope*, first published in the 1960s, he described ‘What Christians believe’ as a drama played out in eight parts: launched in hope, from hope to despair, hope for a nation, hope in a Son, the death of hope, the resurrection of hope, a people of hope and hope for the future. Each of these key tenets of Christian belief is relevant to the workplace. God’s creative and redemptive purposes, culminating in the new heaven and the new earth, continue to overcome the cyclical low points of fallen creation and humanity in the in-between

times after Christ’s first coming and before his second coming. Ezekiel 26 to 28 tells of the prophet’s lament over Tyre which had used its natural situation and resources to become prosperous but had become proud and arrogant to the point of coming



Tyre, Lebanon

under God’s judgment. And yet the Old Testament writers continued to speak of God’s rescue enacted in the story of Israel rescued from slavery in Egypt, brought into the promised land and given the law to guide their lives and be a light to other nations.

There are precepts and paradigms in the Old Testament law that we can continue to use to provide a framework for moral behaviour in business: the prohibition of interest which is concerned to prevent exploitation of the poor, and the prohibition of bribery with its call to avoid distortion of judgment and therefore provides a challenge to both international and internal corruption. Richard cited Geoff Shattock’s article in FiBQ 12:3, where he drew attention to the fact that in John’s gospel the apostle refers to the ‘work’ of Christ on the

cross, the seven words he uttered each expressing a key attitude to work. Jesus’ death itself expresses the power of faithfulness and sacrifice which we do well to model if we find ourselves a victim of circumstances and the connivings of people and systems. Dedication and integrity at work are no guarantee of success in the world and staying faithful can be costly. But the message of the resurrection also points to the ‘failing forward’ which can take place in a business recovery.

**Conclusion**

In retrospect, piecing together ideas which emerged during various sessions, it is fair to say that three key themes emerged during the conference. The first was acknowledging the role of individual and collective moral failure in bringing about the crisis. Here Christians have an important contribution to make because we know that from repentance and confession can spring genuine new life. The danger is that people will simply return to business ‘as usual’, wishing to maintain the status quo.

The second key theme was addressing the role of short-termism in business. Short-term attitudes have been especially apparent within financial services, but they aren’t limited to that sector. Christian virtues have a crucial role to play in establishing habits that make for long-term corporate health. The fact that society is expanding the breadth of the accountability it demands from business may also assist in this.

The third key theme – and this is where the conference came closest to a Big Idea – was the shift recommended by Paul Mills from debt to equity. Not all participants were entirely persuaded by this, seeing advantages and disadvantages in both forms of financing. Overall, however, we were convinced that the global financial system in general, and the UK economy in particular, are wildly unbalanced in their dependence on debt. In a time of crisis, Christians need to have the courage of their convictions in rediscovering *biblical financial wisdom* and pointing others to it. ■

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