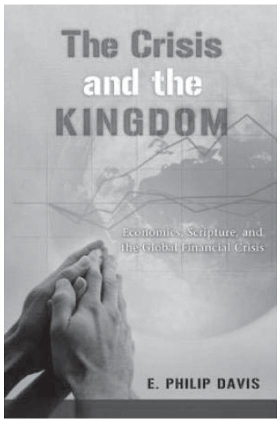
The Crisis and the Kingdom:

Economics, Scripture and the Global Financial Crisis



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by E. Philip Davis

reviewed by Peter Warburton

This concise, crisp and rigidly structured book offers a wealth of Christian insights into our present economic and financial predicament. Arriving five years after the onset of the global credit crisis, many chronicles and analyses of the crisis have already appeared that provide more colour and detail than that contained in this slim volume. Instead, Philip Davis's objective is to contrast an amoral economic creed and a biblically moral one. He concentrates on three key contexts of the crisis as it impacts the financial, consumer and government sectors, clinically examines economic and theological perspectives and suggests some practical ways forward.

At the outset, it is important to acknowledge that Davis was one of the first to stress the causal connection between excessive credit accumulation and subsequent financial crisis. His 1995 book, *Debt, Financial Fragility and Systemic Risk*, was a valuable resource when researching my own book, *Debt and Delusion*, first published in 1999. Davis has been aware of the dangerous course on which the global economy was travelling, and its inherent fragility, for a long time.

Those familiar with the Darwin awards, prizes meted out to those whose stupidity led to their removal from the gene pool, may remember the story of someone who bought a brand new Winnebago recreational vehicle, one of the first to incorporate cruise control. The new owner set the speed control and went to the rear of the vehicle to make a cup of coffee. Confusion between cruise control and auto-pilot proved fatal. The accident that befell the global economy in late 2008 was similarly spectacular and equally avoidable. Davis concludes that households, bankers and governments, all three, "sought to maximise their personal benefit in pursuit of self interest, showing greed, selfishness and impatience" (p. xxix). Each appeared to act without thought for the wider consequences of their actions, as if the stability of the economic and financial system was safeguarded by some automatic mechanism.

Davis focuses on the leading paradigm in economics, known as neoclassical, which characterises people as rational economic agents. In this paradigm, the role of an individual is, quoting Hay, to 'promote his own interests, preserve his own life, increase his own pleasures and diminish his pains' (p.15). While relationships with others could be incorporated into the standard model – with some analytical difficulty – economics assumes that the pursuit of self-interest is a useful simplification which is a close enough approximation to reality. 'Individualism, as is assumed in economics, can naturally be said to promote pride and self-sufficiency. This is the opposite of the Christian view of humanity as appropriately based on relationship with God and with one another, even in its economic behaviour' (p.21).

A Christian critique of how things should be, rather than how they are, must include the idea of "the good". In addition, morality is about actions, not merely consequences. God's law spells out what he requires of humankind, such as righteous motives, righteous actions, maintenance of social institutions that God has ordained, and sensitivity to justice. Davis argues that concern by *homo economicus* for efficiency, growth and (sometimes) equality should be supplemented by a concern for stewardship, useful work, protection of the vulnerable and the preservation of marriage and family life. Davis rejects the moral foundation of economics – its amorality *per se* and its shrivelled view of what it is to be human.

In the chapter on the financial sector, Davis taps the rich vein of biblical wisdom relating to the use and abuse of money, wealth and financial power. The woeful shortcomings of modern bankers and other financial market participants in the lead-in to the recent crisis are measured against the plumb line of divine integrity.

Davis acknowledges that some people will always lack virtue and require some external framework of rules and regulations to be measured against. However, he contends that 'a financial system that neither promotes nor rewards such virtue contains the seeds of its own destruction' (p.57). Specifically, he emphasises the need to personalise financial relationships in order to reduce the likelihood of moral hazard, noting that convoluted financial products frequently break the lender-borrower link.

Regarding the blight of household over-indebtedness, Davis offers many thoughtful practical proposals for the avoidance of such problems. He couples limitations on the maximum loan-to value percentage for mortgages with suggested measures to make housing more affordable, such as the liberalisation of planning restrictions to allow an expansion of housing supply.

On consumer credit, Davis asserts the responsibility of both borrower and lender. The marketing of credit to encourage immediate gratification of consumer wants falls foul of biblical morality. In the chapter on public debt, Davis concludes that 'the public cannot treat the government as autonomous or omnipotent; this is akin to a form of idolatry' (p.100).

For all its excellent analysis and insights, for me this book has a missing chapter. The government agencies charged with macro-prudential supervision, typically central banks, are curiously absent from *The Crisis and the Kingdom*. Why were large banks allowed to operate with such blatant disregard of balance sheet risk and liquidity risk such that their return on capital employed was consistently above 20% per annum? In Anglo-Saxon countries, such over-sized returns have been recorded for most of the 1990s, right up until 2007.

What persuaded central banks to applaud the rapid development of anonymous markets in debt and derivatives at the expense of commercial banking relationships where the lender and borrower actually knew each other? As such, this neglect of duty by the central banks and other financial regulators must share responsibility for the financial crisis. Central bankers, unelected and often unaccountable, abandoned their practical focus on the health of the financial system, leaving their brightest and best to run after ideological notions of economic efficiency that won them academic esteem and credibility.

Davis has made a valiant effort to drag us back to a God-centred appreciation of economic relationships. However, there remains the important matter of institutional neglect alongside the idolatry of a deficient economic model. The rising tide of new financial regulation will do us no good until we understand why the existing checks and balances were overridden. By drawing the boundaries of regulation ever wider, the horizons of moral hazard widen also.

There is a timeless tension between the economic freedom that God intended for Adam and Eve and the regulatory solution that he was compelled, in love, to impose upon them. In the UK and around the world, we are vexed by the issues of competition, regulation, taxation and control as we struggle to reap a common benefit from the God-given talents of individuals and the potential for both banking and government to be forces for good. The pendulum has swung many times between regulation and de-regulation of human affairs and it is still swinging.

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