

The Global Culture of Debt

speech by Professor Prabhu Gupta at the Bettag Konferenz of the EVP, 20

September 2008

Mr. Chairman and fellow-companions on the way of Jesus the Lord, I am honoured to have been asked to give the first address at this year's Bettag Konferenz. Many thanks to Joel Blunier and the members of the Committee for kindly inviting me. And I am delighted that, under God's providence, you chose several months ago, for this conference, a topic which has suddenly come into the limelight. When you chose the topic, the global economy was probably still booming or perhaps some clouds were just beginning to appear on the horizon. Today, we are in recession if not in crisis - and debt, which is a boring topic as long as an economy is in boom, naturally now occupies front place in everyone's minds. Martin Luther once said: "A gospel that does not deal with the issues of the day is not THE gospel at all". He did not say the following, but if you want to understand why the gospel finds declining appeal in the West today, it is because a gospel that evades and avoids the issues of the day will quickly first lose its men, and then slowly lose its children and finally it will lose also even its women. If you want to revive the EVP, think seriously about relating the gospel to the issues of the day, and certainly, the global culture of debt is one key issue.

My main message today is, and if you forget everything else I say, the whole of my message, is this: the only cultures which have **not** been marked by debt have been Biblical cultures, and, with the rejection of the Bible, we should expect the return of the culture of debt - indeed the return of culture of debt was and is inevitable, with all its disastrous consequences.

But let us start with fundamentals: what is "debt"? It is simply the attempt to use future purchasing power to obtain goods or services now - before they have been earned. Jesus warned us that we do not know what tomorrow will bring, so we should not be over-confident about it, and we should not base our actions on our own assessment of what is ahead. Life itself is not something that we can continue at will.

*Sometimes, even when we want to die, even death may not be within our grasp.

Since debt is essentially a matter of trading the future for the present, and we do not know what the future holds, debt has till recently been universally condemned in relation to private expenditure. Though debt has historically been tolerated in terms of helping business projects, even here the use of debt has been traditionally surrounded by moral as well as practical cautions - again, till modern times, when debt became again the main means for governments, companies, families and individuals to improve one's material circumstances.

Throughout recorded history, there has always been a culture of debt - that is what gave to most high-growth societies the curses of poverty, inequality and disease - at least that is the Biblical analysis. As a believer, one should always start from Scripture, since that is the foundation / building block of our life/worldview - NOT from the unBiblical principles of most modern academic disciplines, such as economics, which were mostly developed by Godless people in the nineteenth and twentieth centuries.

Starting with the Bible, then, it is interesting to note that God withdrew Abraham from Ur of the Chaldees (and one of the highest civilisations in the then-known world) to

lead Abraham into becoming a nomad for some decades before taking him to the tiny and otherwise undistinguished settlement of Hebron.

Later God sent Abraham's descendants to another high-growth civilisation, Egypt, but he withdrew them from that too - and took them again to what is called Israel today to give them His commands.

Why did God do this to Abraham to begin with? It is a thought-provoking question to ask. And why could God not have tried to inculcate His commandments and statutes to the Hebrews in these high-growth societies? That is another provocative question. And, it is worth asking, what are the lessons for us today, living as we do in the highest-growth civilisation of all? And how or in what sense can we be taken out of this high-growth civilisation, specially as there are no new Israels waiting for us on earth?

When God took the Hebrews out of Egypt, the prime purpose of it, from an economic point of view seems to have been to guarantee that they would live in a steady growth society (not a high-growth society), so they could survive only if God protected them - because the high-growth societies around them coveted Hebrew land, and the Hebrews were of course much poorer than the surrounding nations. How do we know that they were much poorer? Well, the Hebrew Bible clearly documents that fact and refers to it again and again - though there are a few exceptions such as King Solomon who, as we know, had supernatural blessing from God because of the faithfulness of his father, King David. Apart from such supernatural blessing, it is entirely logical that the Hebrews would be poorer:

1. in contrast to the surrounding nations which worked 7 days a week, the Hebrews were allowed to work only 6 days. That is let us say a 14% disadvantage.
2. In contrast to the surrounding nations, who could farm their land 50 years out of 50, how many years could the Hebrews farm their land? Only six out of every seven and then not in the 50th year either, so only 42 years out of every 50! I make that alone a 16% disadvantage. These two points alone add up to a 30% disadvantage!
3. In contrast to individuals in surrounding nations, who could increase the land they owned as much as they could afford if they wished, with increasing economies of scale, the Hebrews had to return every 50th year to the family property they were originally allocated - no capital accumulation possible at all in this society!
4. Actually, in Hebrew society there was not even any possibility of income maximisation: in contrast to the surrounding nations who could take every last ear of corn from their fields, the Hebrews were commanded to leave a sufficient margin on every side of their fields UNharvested so as to provide enough food for refugees and poor people and birds and insects!
5. In contrast to the surrounding nations who could own slaves till death, the Hebrews could own slaves for only 7 years! If the average productive life expectancy of slaves was, on average 35 years (highly unlikely!), that amounted to a 20% disadvantage - higher if the productive life of a slave was less!
6. In contrast to the surrounding nations who could keep all the wealth they made for themselves and give to their temples only what they wanted, the Hebrews not only gave such freewill offerings but were actually commanded to give a whopping 10% IN ADDITION TO their freewill offerings!

The list goes on and on. Have we got to a 60% disadvantage yet, do you reckon?

OR 70%???

Clearly, no matter how stupid a person was among the Hebrews, she or he could not have failed to notice that God seemed to be determined to ensure that they would always be poorer than their neighbours. God did not appear to be interested in their material prosperity at all, if one looked only at the rules and regulations they were given.

Yet what was God's surprising promise? If the Hebrews followed the rules and regulations that God gave them, then two things would follow: (a) they would have no poor among them, and (b) none of the diseases of the rich Egyptians would afflict them. Implicit in these promises was the notion of what we today call sustainability. They were taken to a land flowing with milk and honey, and the land would not stop flowing with milk and honey.

The most important point to note in view of our topic today, is that the Hebrews did not, emphatically not, have a culture of debt. Consider: they were not only forbidden to loan money at interest: the permission to lend at interest to outside nations was only because outside nations lent at interest anyway, so the Hebrews would be equal with the non-Hebrews in terms of their relations with outside nations - if the Hebrews had been allowed to loan without interest to the surrounding nations, the Hebrews would have been swamped! Because, actually, they were not only prevented from charging interest on money loaned, even the principal amount had to be forgiven in the 50th year! Certainly, no culture of debt here!

Well, you say, that is all Old Testament stuff and, even if it is true, was not all that abrogated or abolished by the New Testament? And what about the Parable of the Talents in Mathew 25? Well, dear friends, you may want to note that that is the

ONLY text in the entire New Testament that can be twisted to provide some sort of defence of the current economic system. That single parable has been so often cited in defence of modern capitalism that one really needs to emphasise that a parable teaches one point and, like all parables, one point only: the point of that story is not the justification of capitalism, because capitalism did not even exist then, the point of the story is that we are each of us to use our intelligence and our ability to work hard in our Master's service - we are to work at least as intelligently and as hard as atheists and agnostics and idol-worshippers work for their masters. We are intended to out-think, out-work, out-serve, out-love and out-smart the godless. The whole tenor of the New Testament, as in so many other things, is to go far beyond the Old Testament. Just as the OT forbids adultery but Jesus forbids even the adulterous thought, so also the OT forbids interest and asks for the forgiveness of debt every 50th year, but the Lord Jesus asks us to give our shirt as well to whoever asks only for our coat, to love and give and not to count the cost, because our reward is in heaven. Paul underlines the same message in his letters, so does James, so does right through to the book of the Revelations.

However, New Testament equality among believers was subverted by the 3rd century compromise with State power when the Emperor Constantine is supposed to have become some sort of Christian. That compromise with state power led to the Body of our Lord becoming captive to State power - a situation that continues till today in what became the Roman Catholic sect.

Many people tried to bring the Body back to faithfulness - from the twelfth century onwards in recorded history, including such people as the the Waldensians and the followers of Savoranola in Italy, Jan Hus (fourteenth-century Rector of Prague

University, the first in Northern Europe), and John Wycliff (fourteenth century reformer in England)...though all had been killed by the conservative social forces represented by the Roman Catholic sect. In spite of the fact that most people were then, as they are now, concerned about personal peace, comfort, security and survival, the Reformers succeeded in breaking the unification of political, economic, spiritual, technological and intellectual power represented by what became the unreformed and, so far, unreformable Roman Catholic sect.

The Reformation was the work of a few well-known but multitudes of little-known people who were not only prepared to, but actually did, sacrifice their lives and careers. They transformed Europe by communicating the Biblical view of:

(a) the value of work as worthwhile in itself, leading to a culture of industriousness which is deridingly nominated "the Protestant work ethic" and still marks developed countries - though it should be made clear that the work ethic belonging to Protestantism was fairly balanced since it emphasised, for example, care for one's family (which in those days included parents and siblings as well as descendants) and the enjoyment of leisure on Sundays and holidays. The "driven" lifestyle of the workaholic belongs not to Protestantism but to post-Christian times, starting with the end of World War II when Darwinism became the battering ram of godlessness, which therefore came to hold sway over European culture and now threatens to overcome American culture too.

(b) the importance of time, by such beliefs as the uniqueness of this life, and the inevitability of God's assessment regarding how one uses the opportunities offered

(c) the value of a deliberately modest lifestyle in contrast to the conspicuous consumption as well as indulgence of the elite in pre-Reformation and non-Reformed Europe (seen down to this day!)

(d) an insistence on the rule of law - certain principles and rules are agreed by everyone and are intended to be observed by everyone - and if anyone does not observe the agreed rules and principles, then that person should be penalised in proportion to her/his crime, irrespective of their position in society. The current contretemps over the Italian Prime Minister Berlusconi's attempts to place himself beyond the law indicates that this is a battle that is still not won in the non-Reformed parts of Europe; indeed one can no longer with confidence assert that the rule of law is secure in once-Reformed Europe, as the effects of the Reformation are undone by the impact of Darwinism and the resultant adoption of the new trinity (money, technology/power, and personal comfort) as the gods of the modern world.

In any case, the impact of (a) to (d) was that wealth started accumulating among ordinary people for the first time in the history of Europe.

(e) the urgency of literacy for the masses (including specifically education for women), including specifically (and in contrast to "literacy" in the Islamic and Jewish worlds) the importance of thinking for yourself, and reaching your own conclusions: independence was important because you were going to be judged by God for your conclusions and how you lived in their light.

(f) However, it was important to respect the views of others for they too are made in the image of the same God, were children of the same God and had from the same God an equal right to reach their own conclusions (here again there is a contrast with Roman Catholic, Eastern Orthodox, and non-Protestant parts of the world).

The cumulative impact of (e) and (f) was to create a culture which made democracies work for the first time in history. Even though democracy was a Greek idea, they could never make it work across hierarchy or across city states. Similarly, tribal societies practised (and to this day practice) a form of democracy within their societies but cannot make it work across tribes. This also relates to why democracy does not work in numerous other societies such as in Africa, China, Japan, Russia, and so on.

(g) the cultivation of literacy, knowledge and independent judgment resulted in the knowledge explosion that we call the scientific revolution. Other societies (for example in Greece, Babylon, Egypt, India, China, Korea, Japan et al) had certainly produced pre-scientific speculations. But it was the Reformation's emphasis on the importance of this world and of Truth which gave birth to what we call science - the scientific method assumes that the real world is more important than our speculations and that self-interest ought to be sacrificed to Truth. Without such beliefs, science could never have been born. And science brings the related beliefs in its wake, which is why science is to this day resisted in traditional societies (for example in contemporary India by Hindu fascists) that do not wish to be de-traditionalised²².

This (that is, (g)), together with capital and a democratic culture, produced the technological explosion which changed Europe from one of the poorest parts of the world into one of the richest. The USA, which was more fully built on these principles (though the abandonment of these principles in recent times by a significant proportion of the population has resulted in the "culture wars") brought to full flower the modern understanding of philanthropy and charities - not focusing merely on helping individuals but rather on transforming societies.

I probably need to clarify that, as far as I can see, these achievements were even more the result of the Radical Reformation (the Anabaptists and other such despised groups) than they were of the Magisterial Reformation (Luther, Calvin, et al).

Altogether, there was an unleashing of creativity and innovation, and the establishment of liberty, equality and fraternity - which were the realities of the Reformation long before the French Revolution came, and those are still the watchwords of people who want to continue reforming society in the tradition of the Reformers and indeed of the prophets and of Jesus himself.

As I have already indicated, the impact of the Reformation tended to be undermined by Darwinism from the 1860s or so, and certainly from the 1880s in intellectual circles in Europe. This tendency came to full effect in both Europe and the USA after the Second World War, principally due to the systematic indoctrination of millions of people into the false philosophy of Darwinism (evolution as religion). In the USA, the impact of Darwinism in intellectual circles was, for various reasons, delayed till the 1930s. However, the impact of Darwinism in intellectual circles has been much more complete in the USA than in Europe (where the results of Nazism, and the repugnance against it, turned people away from fully accepting the consequences of Darwinism, at least for that period). However, the full impact in American popular culture has been resisted with more success than in Europe till the present.

My point is that in the last century or more, the impact of the Reformation has been dulled and diluted. Though many people have struggled to further reform society, with different motivations and points of view, the overall result is has been a rise in

extreme individualism (loss of a sense of responsibility for grandparents, parents, siblings, friends, society), extreme scientism (science is seen as saviour - few moral constraints are seen as good/necessary), and extreme self-indulgence and self-disgust, seen for example in the rise of the number of people with extreme sports, bulimia, gender change, and so forth.

In other words, the Reformation culture of trust turned to the modern post-Reformation culture of greed. When people do not accept the God of the Bible, they are left with little other than their own ambitions and fears, and lusts - and these become the gods that we must serve

Not entirely surprising then that the result has been a return to the traditional, pre-Biblical, culture of debt!

Here is a list of some key dates in relation to the USA, which became the most Reformed nation in history and was able, at least to a certain extent, to remain uncorrupted by wealth. For centuries, it remained industrious, ambitious and frugal, because it had a moral structure around money. The Puritan legacy inhibited luxury and self-indulgence. Even Benjamin Franklin, though he was not a believer at all, emphasized hard work, temperance and frugality. But once a culture rejects the Lord and the Bible, we all know what happens in two or three generations.

After 1776 All of the States in the Union had a general ban on excessive interest. Most states set the interest limit at 6%.

Early 1900s A move to deregulation causes 11 states to eliminate their usury laws. Nine more states raise the usury cap to 10% or 12%. Banks not making personal loans, so "Salary Lenders" fill the need by "purchasing" a worker's future wages in exchange for a high fee – equal to a lending rate of 10% - 33%.

1916 A Uniform Small Loan Law allows specially-licensed lenders to charge interest rates up to 36% - in return for adhering to "strict standards of lending".

1933 Glass Steagall Act separates Commercial Banking companies from Investment Banking companies, insurance companies and mortgage guarantee companies, because it is clear that mixing these is one of the factors that led to the Great Depression (1929)

All states adopt loan laws that allow interest to 36%—still it is a cap.

**1945-
1979**

1978 The US Supreme Court decides that national banks may export the state interest rate law of their home state into any state where they do business. In response, Delaware and South Dakota eliminate their interest rate caps. Several credit card issuing banks move to these states and operate nationally with no interest rate cap.

1980 Congress over-rules State interest rate controls on all first lien mortgages. This enables predatory mortgage lenders to make seemingly affordable loans, like adjustable rate and interest-only loans, that lead to eventual loss of their homes for many, whenever interest rates rise.

**1994-
2005** Many states and cities try to protect their citizens by adopting state statutes and local ordinances to curb predatory lending, but pre-emption claims by the federal government impede their efforts. Numerous bills are introduced in Congress to protect consumers in a wide range of transactions, including rent-to-own, credit cards, payday lending, and predatory mortgage lending, but none of these bills makes it to a hearing.

1999 The Gramm-Leach-Bliley Act 1999 cancels the regulations separating banking from investment companies, insurance companies and mortgage guarantee companies. Lo and behold, a few years after the regulations are removed, the edirthas hit the fan, and the inter-related investment, insurance, mortgage and banking industries are now starting to collapse, and guess what it is not only the American taxpayer who is paying and will pay to clean it up - the poor of the world are also paying for it - over 100m had already been thrust into poverty by this Spring

2000 The "Enron Loophole" (or the Commodity Futures Modernization Act of 2000) that de-regulated futures trading, causing the prices of oil, gas and food to spiral out of control, and led to

the government bailout a few days ago of insurer A.I.G at the cost of 85 billion to the US taxpayer alone.

In this story, we have not looked at the role of the multi-billion dollar advertising campaigns that promoted the easy availability of debt in creating a culture of debt. For example, Moneylenders ("payday lenders" as they are called in the USA) have also played a role. They seductively offer fast cash — at absurd interest rates — to 15 million people every month. We have not looked at the role of Credit card companies have played a role. Instead of targeting the financially astute, who pay off their debts every month, these companies have found that they can make money off the young and the vulnerable. Fifty-six percent of students in their final year of college carry four or more credit cards. By 2005, Americans held seven hundred million credit cards, which were used to buy \$1.8 trillion in goods and services. On a per household basis, this amounted to fourteen credit cards used to make fourteen thousand dollars in purchases, representing one-third of median household income. Yes the median FAMILY income in the US is only around 42,000 dollars. I don't know if you see Parade magazine, which a short while ago portrayed a "thrifty" family as if they were from Mars.

We have not looked at the twisting of bankruptcy law from a last chance for people who had made mistakes, so that bankruptcy laws became things to distort cynically into a deliberate means of evading responsibility (CONTRAST Jeffrey Archer!). 1.3 million filed in 1997. Meanwhile, pre-tax profits for the credit card industry soared to \$37.5 billion last year, up almost ten billion dollars since 2002. (9) Between 1989 and 2001, credit-card debt nearly tripled, soaring from \$238 billion to \$692 billion. By last year, it was up to \$937 billion.

We have not looked at the role of separating paper money from any underpinning of gold or silver, so that paper money has been printed since the 1970s any time the Administration decides - and what the US started in the 1970s, China and India and other countries were glad to follow and indeed outdo.

We have not looked at the manipulation of statistics, so that we don't have a reliable measure of inflation by any government anywhere in the world - or for that matter a reliable indicator of unemployment any more.

We have not looked at the role of executive pay and other incentives in creating the global culture of debt.

We have not looked at the legal tricks that have been used, and are being used, not only by companies (which have had to learn from their debacles) but even by governments - and who can teach governments that you can't or shouldn't use legal tricks such as the Public Finance Initiative in the UK to hide public debt. The Institute for Fiscal Studies (which is independent of political parties) believes that public debt has now reached 45 per cent of gross domestic product — making a mockery of Mr Brown's 'sustainable investment' rule, by which government debt is not meant to exceed the already unbelievably high threshold of 40 per cent of GDP. Since Labour came to power in 1997, the national debt has risen 25 per cent to £581 billion. One Cabinet member is reported by the British magazine *The Spectator* this week to have said: 'What we urgently need to do is help people by cutting taxes, Why can't we? Debt.' During the last second the British public debt rose by £1,520 — and that's by the government's optimistic measure. The UK's overall national debt works out as £26,100 for every British household. That represents 45 per cent of gross domestic product — making a mockery of Mr Brown's 'sustainable investment' rule, by which government debt is not meant to exceed 40 per cent of GDP. And that is before the consequences of the Northern Rock crash or the £1 trillion of unfunded public sector pension liabilities are factored in.

We have not looked at the role of outsourcing jobs to China etc in eliminating the middle class and encouraging everyone who has money to be more greedy, even at

the cost of the environment and social justice - did you see BTW the announcement yesterday that Adidas is moving mfg out of China because wages are "too high"?!
derivatives, hedge funds and structured finance

We have not looked at the role of gambling - and the role of governments in encouraging it by aggressively hawking their lottery products, which some people call a tax on stupidity. Twenty percent of Americans are frequent players, spending about \$60 billion a year. The spending is mainly by the poor. A household with income under \$13,000 spends, on average, \$645 a year on lottery tickets, about 9 percent of all income. Aside from the financial toll, the moral toll is comprehensive. Here is the government, the guardian of order, telling people that they don't have to work to build for the future. They can strike it rich for nothing.

No wonder the West's (and specially the US's) savings rate is zero or rather minus (the average American has been spending 105% of income for several years now!); of course, that is one reason the US economy has been so resilient. The moment Americans stop spending money they don't have, is the moment the global economy careens into the ditch. Not only has the culture of debt ensured relative *economic* tranquility, it's ensured *political* tranquility. Once upon a time, stagnant wages and rising food, fuel and health care costs might have caused upheaval; easy credit masked the discontent. People could live as if their personal prosperity was increasing, even when it wasn't.

Ladies and gentlemen, dear colleagues, we have gone from a sub-prime housing bust, to a financial services companies bust, to a consumer cyclicals bust to an industrial companies bust, and we are going to see a commodities bust. Everyone talks optimistically of whether we are already, or are near, the floor. Dear Colleagues, I have bad news for you. Even the sub-prime housing bust is not near

its natural floor, though an artificial floor may be put below it by the US government. The rescue plan announced by the US Government on Thursday is supposed to cost of half a trillion dollars (yes, you did hear me right, not half a million, not half a billion, but half a trillion dollars!) but is being constructed by a government that is more or less bankrupt already. In view of the fact that a guarantee is only as good as the guarantor, I have to ask the question: Would you trust a promise made by a bankrupt person? I would, but only if her or his character was outstanding. And I do not know what to make of the character of the US government. The only reason that the world is not laughing at the US government is because the world is too worried to know what to think about what is going on. Still the world may believe the US government and, if so, the floor that is put below the housing market in the US may hold. For all our sakes, I hope so. But even if the world believes the US government, and housing prices stabilise, will that mean no more pain for the financial services sector? Don't believe it. There is much consolidation yet to come. And even if there is no more pain in the financial services sector, will that mean no pain in consumer cyclicals? Don't believe it. There is much more pain to come. And even if there was no pain in consumer cyclicals, will there be no pain in commodities? We have seen oil prices decline from roughly \$140 to roughly \$100. I have publicly gone on record to say that oil will drop to around \$50 before rising to its natural level which should be around \$60-70, or perhaps 80 at most. So when will we know that the floor has been reached? When the oil price hits 50. That is when we should expect a consistent rebound and not earlier. Before then, Russia, China, India and all other emerging markets will have taken a beating. I remember the words of one of my colleagues who once stunned everyone by reminding them, at a time when everyone was being very optimistic about emerging markets, that emerging markets are markets from which it is very difficult to emerge in an emergency.

There is a good chance that the global economy will avoid a systemic collapse. But it is difficult to envisage how the developed economies will avoid a painful period of contraction, structural adjustment and regulatory reform.

My main point is that the only cultures which have not been marked by debt have been Biblical cultures, and that, with the rejection of the Bible, we should expect the return of the culture of debt - indeed it was and is inevitable, with all its disastrous consequences. The only basis for building a culture without debt is to build on the Bible. That does not mean that we should not try to uphold Biblical standard in a godless public. Quite the contrary. We are not guaranteed success on this earth. We are guaranteed a reward in heaven if we continue faithful on this earth in the teeth of opposition, mockery and even persecution.

We need therefore a new generation of people willing to be transformed as individuals, willing to create a new sense of community, ready to pay the cost of working for the continued transformation of our global society, and of transforming our companies from engines to make even richer those who are already rich, to engines that work to produce wealth for the globe.

I can hear you objecting, "But that sounds rather like Osama bin Ladin!".

Perhaps, at first sight...but a moment's thought should clarify that the values of bin Ladin destroy culture and civilisation, whereas the values of Jesus built prosperity, democracy, tolerance, and everything we include today under the rubric of

civilisation, first in Reformation Europe, then by its influence in non-Reformed Europe, in the USA, and finally (through its flawed mixture with Darwinism) in the rest of the world.

(side-swipe to RC distortions of Calvin etc)