THE GFC

A Crisis of Credit and Faith?

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The Smith Lecture 2009

Ian Harper is one of Australia's best known economists and is sought after as a commentator and public speaker on economic and financial issues. As a member of the celebrated Wallis Inquiry, he was at the forefront of financial market reform in Australia. In 2005 Ian was appointed inaugural Chairman of the Australian Fair Pay Commission.

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The annual Smith Lecture was founded in 2001 by a group of people concerned to bring Christian thinking to the forefront of public discussion. It aims to provide an opportunity to hear an engaging lecture from a prominent intellectual on a topic of importance to the life of the city. The lecture is named in honour of Bruce Smith. The death of Bruce Smith of leukaemia in 2001, at the age of 68, deprived Australia of one of its most erudite and inspiring theologians, public speakers and teachers. Bruce Smith left a legacy of engagement with society in its political, ethical and cultural dimensions. He believed in the broad significance of the Christian message of reconciliation with God through the person and work of Jesus Christ. The Smith Lecture programme intends to develop further this work of engagement.

Smith Lecture Transcript 2009

Thank you, Greg, and thank you, ladies and gentlemen, for your warm welcome. It's a wonderful privilege to deliver the ninth Smith Lecture, especially in the presence of Bruce Smith's family. I never had the privilege of knowing Mr Smith but I wonder what he'd make of an economist delivering a lecture in his memory. I'm not sure what would perplex him more: an economist delivering this lecture or a Melbourne Anglican! Nevertheless, it is a great privilege and I'm delighted to have the opportunity. May I thank you all for coming out this evening. It's an extraordinary crowd and a marvelous venue. I'm deeply honored to be here with you.

A fascinating time to be an economist

If he were here with us tonight, I suspect Bruce Smith would agree that it's a fascinating time to be an economist. It's a fascinating time because so much is happening in the economy, both domestically and internationally. It's not often that you live through a near meltdown of the global financial system.

But I have to share a dark secret with you: most economists hang out for events like this! Let me quickly add, in case I'm misquoted, that I do not mean to diminish the human tragedy that accompanies events like this. People lose their jobs, and some may never work again; people have lost their houses; some people's retirement savings have been completely destroyed. One of the reasons why economics is not a gloomy or dismal science for me is that it is, in the end, about people's lives. Economics matters for people's well-being.

Nevertheless, we do hang out for episodes like this because this is when you learn. It's analogous I suppose to the medical practitioner who hangs out for a particularly rare disease. I mean it's a tragedy for the patient but it's an extraordinary opportunity for the medical profession. Economists are a bit like that. We're also like the medical profession in another respect: economics (and I guess you won't need much convincing of this) has a very primitive understanding of the world at this stage of its development. It's a new science, relatively speaking; we're about at the stage now where the medical profession was when it was letting blood!

I made this remark on another occasion recently and a medical person came up to me afterwards and said, "You know, we still let blood." I said, "Well, that's nice to know!" She then added, "And we also use leeches … but not very often." I said "Now that's the point! In economics we are still 'letting blood' and 'using leeches' as common remedies for a thousand different ailments." Some day in the future we hope we'll be using these techniques for a much narrower range of conditions. In the meantime, we learn from experiences like the one we are living through now. That's why it's a fascinating time to be an economist!

People are reacting to the Global Financial Crisis with a sense of moral outrage.

It's also a fascinating time to be an economist who has as an interest in moral questions, by which I mean questions that have to do with the principles of right conduct. It's fascinating because people are reacting to the Global Financial Crisis with a sense of moral outrage. They're not just saying, "Oh well, every boom ends in a bust. House prices go up; house prices go down; share prices go up; share prices go down. Don't worry; it'll all come back to normal soon enough." No, people are using words like 'greed' and 'selfishness', and there's a strong sense that some people have behaved very badly through this experience.

For an economist like me who is interested in moral questions, this reaction calls up the relationship between the technical discipline of economics and its foundations in moral philosophy. You see economics began life as a branch of moral philosophy. If this lecture were held in the 19th century rather than the 21st century, it would completely perplex the audience that I should even suggest that a discussion of economics could be divorced from moral philosophy.

The founder of modern economics, Adam Smith, was a professor of moral philosophy at the University of Glasgow. He is best known among economists for his book, *An Inquiry into the Nature and Causes of the Wealth of Nations.* But Adam Smith is equally well known among those interested in moral philosophy for an earlier work, *The Theory of Moral Sentiments.* Smith scholars will quickly tell you that it is quite inappropriate to read his *Wealth of Nations* without having understood what Smith was saying in *The Theory of Moral Sentiments*.

Indeed the *Wealth of Nations* is an application to economic questions of Smith's moral philosophy as expressed in *The Theory of Moral Sentiments*. It's very easy to accuse Smith of promoting a heedless 'laissez faire' economics. "Let it rip", I think is our Prime Minister's description. Well, we should be careful. That's not what Smith said, and it's certainly not what he meant. He was very critical, indeed scathing, of where the market could lead if it were ever disengaged from its moral foundations.

Ladies and gentlemen, I want to stand in the grand tradition of my discipline tonight by considering the moral as well as the technical aspects of the Global Financial Crisis. I want to suggest that there should be no surprise, least of all from my professional colleagues, that one would seek to address this phenomenon at two levels: technical and moral. Traditionally that's how economists would have thought about it. The title of my address this evening is, "The GFC: a crisis of credit and faith?" I intend to answer this question in the affirmative and I hope to convince you that the GFC, while certainly a crisis of credit, is also a crisis of faith.

> *US$4 trillion worth of wealth has been destroyed worldwide as a result of the GFC*

The worst financial crisis since the Great Depression

The Global Financial Crisis is the worst financial crisis we've experienced since the Great Depression. The IMF tells us that something like US$4 trillion worth of wealth has been destroyed worldwide as a result of the GFC. To put this into perspective, US$4 trillion is between one quarter and one third of the annual output of the US economy. Many people fear that the 'second shoe' is yet to drop. The US banking system is still 'coughing up' bad loans and the banking system in Eastern Europe could well fall into technical bankruptcy. It's no comfort to know that much of the Eastern European banking system is owned by the Western European banking system!

> *The people who lost faith in the financial system were the elite finance professionals at its very core*

There is still some way for us to go on this journey. Share prices have fallen further and faster than they did in the 1930s. House price collapses have forced many people out of their homes and others into severe financial hardship. The financial system virtually ground to a halt in September and October of last year.

Let's be clear: when people became frightened and lost faith in the financial system, we're not talking about people on the 'Clapham Omnibus', as they say in London, or on the tram in Melbourne or on the ferry here in Sydney. No, it wasn't your *Herald-Sun* or *Daily Tele* readers. The people who lost faith in the financial system were the elite finance professionals at its very core. Banks lost faith in other banks. In spite of all that central banks, including our own central bank, did to encourage the banks to continue pumping finance around the system, it virtually seized up. Central banks were reduced to manual pump-priming to keep the core of the financial system alive.

Governments have intervened during the GFC on an unprecedented scale. We have never seen this before. There was a depression during the 1890s in Australia but back then there was no central bank and no federal income tax. So the great depression of the 1890s was not ameliorated at all by government action. That is why it lasted, in the view of some economic historians, until the onset of the First World War. In the 1930s, while there was a central bank and a tax system, the economic theory to support activist intervention by governments had not been developed, let alone become generally accepted. J M Keynes' *General Theory*, which laid down the theoretical framework to support government intervention through fiscal and monetary policy, was not published until 1936.

As you know, our own government reacted swiftly, at one stroke guaranteeing all of the deposits of authorised deposit-taking institutions in our country. I well remember that weekend. I fielded six calls from the media in quick succession. They said, "Look, you were on the Wallis Committee. Can you assure the Australian people that their bank deposits are safe?" I said, "No, I can't." They said, "Are you saying they're unsafe?" I said, "No, I didn't say that." "Well then, why can't you assure them that they're safe?" I said, "Because that's not how the system works. The deposits are not guaranteed." "You mean the government isn't there to back them up?" I said, "No." "What? Is there no protection at all?" "No, I didn't say that. There's depositor protection and depositor preference. In the event that a bank actually failed, depositors would stand first in the line of creditors."

Now I'm talking to journalists about this and, as I'm saying these words, I'm thinking, "This is not going well." By the time I'd taken the sixth of these calls, I had the distinct impression that panic was breaking out. And if this was happening to me in my little office in Fitzroy North, what was happening in the Prime Minister's office or the Treasurer's office or the Secretary to the Treasury or up there at the Reserve Bank?

I put the telephone down and looked at my wife. She said, "What's going on?" I said, "Well, I don't really know but the tenor of these phone calls is very worrying. It's possible," said I to her, "it's possible, that one or more of the major banks may actually suspend on Monday morning." She stared at me, eyes open like this, and she

said, "So how are we going to pay for the groceries next week?" And I thought, "Oh my goodness."

It was then I knew that I was on the horns of a moral dilemma. I said, "Okay, calm down. Come Monday morning when the bank opens, we'll go in and withdraw $5,000 dollars in cash. We'll put it in ten envelopes of $500 each. We'll hide them around the house." Fortunately, there was no response like that in the famous 'bank run' scene in *Mary Poppins*. Nobody was watching Harper go into the bank and withdraw cash. But I stand before you tonight, ladies and gentlemen, as someone who 'ran' on my bank. I did it because I couldn't answer my wife's question! Think about it. What would *you* do if you heard on *Early AM* that your bank had suspended payment: the internet bank was down; the bank branches were closed; and credit cards had been cancelled. How would *you* pay for the groceries?

Bank runs are frightening things. So I was relieved when the Government undergirded the deposits of the entire Australian banking system in one fell swoop. I fully support that decision. In fact, I think there was a national sigh of relief. Of course, it was not clear at the time that it would work but it did. The Prime Minister effectively said, "It's alright folks; you can all go home. There's no need to worry; the Government will cover your deposits." And they all went home. Thank goodness for that. But we came uncomfortably close to panic …

Another bubble event

At one level the GFC is just another in a long line of "bubble" events. Those of you who enjoyed Niall Ferguson's book, *The Ascent of Money*, or watched the recent television series will know this. These sorts of events come along more or less once in a generation. They're not always as big as this one, but there are certainly historical precedents for crises that are as big as the GFC. Financial systems from time to time suffer crises of confidence—crises of faith. People suddenly don't believe in financial institutions anymore.

As I mentioned earlier, it famously happened in the 1890s in Australia. In that episode, one third of Australia's banks failed and many people lost their life's savings. Out of the turmoil of the 1890s, as many of you will know, the Australian Labor Party was formed. It is no coincidence that, until as recently as the 1980s, the ALP had as a plank of its political platform that the Australian banking system should be nationalised. The Commonwealth Bank of Australia was established by a Labor Government in 1911 with an explicit guarantee of its deposits by the Commonwealth of Australia. The founders of the Australian Labor Party knew what it meant to lose everything in the collapse of a bank. Indeed, relations between Labor Governments and Australia's banks are strained even today. It is ironic but hardly surprising that an ALP Government has once again guaranteed deposits in Australia's banks.

The rise of China and India

There are two additional features which make the Global Financial Crisis distinct from its historical antecedents, in particular the Great Depressions of the 1890s and 1930s. First, there is the rise of China and India. Never before in global history has one third of humanity been lifted up the economic development curve at such a pace as we are now witnessing. China and India are experiencing what the West went through in the 19th century during the Industrial Revolution but on a much grander scale and at a much faster pace.

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It's not that China and India have never been economically important before. Those of you who know your economic history will know that China and India were very large in terms of the world economy for much of world history. Over the last 200 years, this hasn't been true because the West developed. As the Chinese

themselves are inclined to say, "We've had a bad couple of hundred years, but we're back!" Indeed, they are back and with a vengeance.

The growth of China and India, especially China, has unleashed a virtual torrent, a tsunami, of saving into the world's financial markets. The Chinese people save 50% of their income. Here in Australia, until recently, we saved minus 1% of our income. As a result of the GFC, we now save 8% of our income. Well, the Chinese save 50%. "That's a bit odd," say you. Really? What would *you* do if you lived in a country where there was no universal health care system—in fact, not much of a health system at all for most Chinese outside the major cities—and nothing in the way of an old age pension system? Especially when there's only one progeny to look after you in your old age thanks to the one-child policy. I think you'd be pretty keen to save whatever you earned as well.

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The 'wall' of savings that's coming out of China has found its way into Western financial markets. The Chinese are just like anybody else; they want a decent return on their savings. The wall of Chinese savings hit the United States; it hit us and other Western countries, driving up asset prices and driving down interest rates, as markets struggled to clear the cash wallowing around in the financial system. With asset prices rising and interest rates falling, it isn't too long before people start thinking, "Hmm, interest rates going down, asset prices rising; it looks like I could leverage myself into some more asset purchases, some more investment properties perhaps, and maybe a larger portfolio of shares." And why not? Especially if there's no sign of it coming to an end any time soon. Draw a very short line between increased leverage, increased risk-taking and higher consumption. Interest rates go down, wealth rises and consumption goes up.

Now please don't hear me blame the GFC on the Chinese saver. In fact, there really isn't anything wrong or right in the Chinese saving too much or the Americans consuming too much, for that matter. These are both symptoms of the same underlying cause: the rapid economic development of China. This is just a fact. It is the economic equivalent of the grinding together of tectonic plates. As China and India burst onto the economic stage, there have to be repercussions elsewhere. The macroeconomic dislocation which this creates is one of the underlying causes of the GFC. It is the economic equivalent of a movement of the San Andreas fault-line: lots of things fall over when it happens.

Financial innovation

The second distinctive feature of this experience compared with earlier episodes is what's called 'financial innovation'. Without going into all of the specifics, developments in digital technology and modern finance theory have made it much easier to replicate the business that age-old institutions like banks and insurance companies do on their balance sheets—taking deposits, making loans and writing insurance policies. It's become much easier to replicate this activity by trading securities, that is, by selling and buying pieces of paper.

Financial innovation turbo-charges the impact of Chinese savings on Western financial markets

Securities markets and financial intermediaries have always jockeyed with each other. But for most of modern history, as Niall Ferguson points out, securities markets were accessible only by the most creditworthy borrowers—generally princes, governments or the very largest private companies. Nowadays there has been a democratisation of securities markets and you can borrow money for a house by taking out a mortgage and selling it into securities markets. This is just what Aussie Home Loans does or Wizard and

RAMS used to do. Even traditional banks rarely hold mortgages on their balance sheets any more but sell them into specialised markets to investors like superannuation funds. Maybe your mortgage is owned by your own superannuation fund! There's nothing surprising or wrong about that.

So how does this make things different? To cut a long story short, and with apologies to the specialists in the audience, what this does is to 'turbo-charge' borrowing and lending. So financial innovation turbo-charges all of the things I've just said to you about the impact of Chinese savings on Western financial markets. The extent of leverage, borrowing and risk-taking that would have occurred anyway given the glut of savings was further enhanced by financial innovation.

In particular, securities markets operate on a much thinner 'cushion' of capital. Since they're not financial intermediaries, they don't need much if any capital. And since they're not financial intermediaries, they don't need to be supervised like financial intermediaries—at least, that's what we thought prior to the GFC. When you take the combination of not as much capital and not as much supervision, it's little wonder that these markets were able to extend leverage and risk-taking well beyond what we have experienced in the past, when most borrowing and lending was undertaken by capital-backed, prudentially supervised financial intermediaries.

Technical responses to the GFC

There have been responses to the GFC at two levels. First there's the technical level. The G20 is meeting in London as I speak. Treasurer Swan is there, Governor Glenn Stevens is there, plus a raft of Australian Treasury officials. They will be discussing how best to respond to the GFC at a technical level. What sorts of new regulations might be needed in light of recent events? They will also be trying to convince the G20 to do sensible things and not to reach for a whole

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lot of regulatory interventions that aren't necessary—or at least not necessary in Australia's case.

To give you some idea, President Obama recently released a list of things that his administration believes need to be done in the US financial system. Australia can tick every single box on President Obama's list. We've been doing the things they need to do in the United States for at least ten years. This isn't gloating or *schadenfreude*. This is just to point out that some of us don't need as much stick as others, and the G20 needs to be careful to avoid broad-brush responses which might do more harm than good in some jurisdictions.

At a technical level, we need to address the macroeconomic imbalance I've been speaking to you about. How do you ask the Chinese not to save so much or the Americans not to consume so much? And what can you do to induce them to change their ways? One obvious suggestion is to allow exchange rates to do their work. The exchange rate for the Chinese RMB versus the United States dollar is pretty well 'gummed up' at the moment. It should be 'ungummed' to allow that release valve to work properly.

That's not the only thing we should do. We should encourage the Chinese to reform their public health and old-age pension systems. We also need to encourage the United States to be more thrifty, both at the level of government and at the level of individuals. But it's likely to be tough work. A recent article by a Chinese scholar pointed out that, when you add up all the different local government charges to which the average Chinese family is exposed, it effectively amounts to an indirect tax of 65% on consumption. If you or I faced a GST of 65%, how much do you suppose we would consume?

The second aspect of the technical response is what to do with the regulation of financial markets. How do we manage the accumulation of risk in the entire system and not just on the balance sheets of individual financial institutions? Should we be requiring capital to be held by market securitisers and not just by balance sheet institutions? How can we encourage greater transparency in

securities markets, and should we regulate credit rating agencies? How should we coordinate regulation across international borders? These are all questions that are under discussion right now. There are many debates to be had and they're all part of the technical response to the GFC. But that isn't the only level at which people have responded to the GFC.

Moral responses to the GFC

I opened my remarks this evening by pointing to an aspect of the GFC that surely must strike you as curious as it does me. Isn't it remarkable that what is a technical issue at one level seems to have awakened people's moral sensibilities? And I don't just mean people writing angry letters to newspapers. Business schools have felt sufficient pressure to establish new courses in business ethics and to re-design their curricula to include ethics in each of their major subjects.

What were those executives thinking when they turned up in their private jets to beg taxpayers' money from the United States government?

I understand that 20% of the leaving class from Harvard Business School this year has signed a pledge committing to abide by ethical standards in business throughout their careers. Whether or not you think that's just an empty gesture, the fact remains that people have felt the need to respond to recent events at an ethical or moral level. People have been offended by conspicuous greed, and appalled by corporate excess. What were those executives thinking when they turned up in their private jets to beg taxpayers' money from the United States government? How far had they drifted from the concerns of ordinary people that they could not see their ethical dilemma? How ethically blind had they become?

The GFC has shaken people's faith in the trustworthiness of financial institutions and especially financial advisors. Even those of you who aren't specialists in finance will understand that if you undermine people's trust in institutions and advisors in the financial system, you're in deep trouble. The life-blood of the financial system is trust. It's all about making promises into an uncertain future and, if you can't trust the institutions or the advisors, the whole system seizes up. People have had their faith in institutions and advisors shaken when they've seen clear evidence of finance professionals nakedly serving themselves at the expense of their customers. I think many people of common sense are saying, "Look, everybody is out for himself up to a point but this is beyond a joke. We've been lied to. We've been tricked."

It's even shaken people's faith in the way we live.

A crisis of faith

That's why the GFC is more than a credit crisis. It's also a crisis of faith. The near meltdown has shaken people's faith in the financial system and its institutions. It's even shaken people's faith in the way we live. The Prime Minister of Australia, Kevin Rudd, has written not one but three essays in which he's essentially saying that the system which gave us the GFC is 'fundamentally flawed'. Whatever you might think about 'neo-liberalism', here's the Prime Minister of Australia telling the people of Australia that the way we live—the system which delivered us unprecedented prosperity as well as the GFC—is fundamentally flawed. Whether you agree with the Prime Minister or not, this is evidence of the depth to which faith in the system and its institutions has been shaken by recent events—even very senior politicians feel compelled to write about it.

People are also asking, "What's the point in accumulating more and more stuff if you turn around one day and it's all blown away in a share market bust, a house price collapse or a bank failure?"

And what about compulsory superannuation? People have been forced to sacrifice 9% of their income every fortnight and put it into a superannuation fund only to find that it's evaporated to the point of threatening their living standards in retirement. It shakes people's confidence in the accumulation of material wealth as a device for meeting our needs and providing long-term security. People have been shocked to discover that it can all be blown away just like that. Now you may might say, "Just read your Niall Ferguson; this happens all the time, kid." But each generation has to learn this lesson afresh and it's no less confronting each time it's taught.

Looking for moral guidance

Where might you expect to find some commentary on these issues from a moral perspective? Coincidentally, and I think marvelously, a book has been published just in the last couple of weeks by Stephen Green, who is global chairman of the Hong Kong and Shanghai Banking Corporation. Mr Green, happily for me, addresses more or less exactly the same issues I'm speaking to you about tonight. He is also a Christian, as it turns out, and comes at things more or less the same way I do. In short, he points out that there's lots of ancient literature that deals with questions of morality and the accumulation of wealth. These are ancient themes and they resonate in many cultures. His book is called, *Good Value*, and it is what its title says! I commend it to you if my talk tonight stimulates your interest in these issues.

Chasing after money is like chasing after the wind, ultimately a futile exercise

As Stephen Green points out, you can find these questions addressed in the Bible. Indeed, the Bible speaks eloquently and at some length on these topics. You might know there are 66 books in the Bible. Thirty-two of them mention money and wealth. The Bible addresses itself to the human condition so it ought not to surprise anybody that money and wealth end up pretty high on the list of topics covered in the Bible.

Here are a couple of examples. There's a book in the Old Testament called *Ecclesiastes*. Some people think it was written by Solomon the Wise; others don't, but it's part of the 'wisdom literature' as it's described and there are things in there that ring true. Try this: 'Those who love money never have money enough.'[1] Chasing after money is like chasing after the wind, ultimately a futile exercise. In the New Testament, where the life and teachings of Jesus Christ are recorded, Jesus talks about money more than just about any other topic.

He tells a very poignant story of a man who works overtime to fill his barns to overflowing so that he can sit back in security and enjoy his retirement. (That sounds like me!) And then comes the stinger: "Fool" he says. "This very night your life will be demanded of you."[2] Jesus warns his followers to be on their guard against all types of greed. He famously says that, "A person's life is more than the sum of their possessions".[3] Later in the New Testament, the Apostle Paul points out that, "we bring nothing into this world and we take nothing out of it" and expresses a sentiment you may well recognize when he says, "The love of money is a root of all kinds of evil."[4]

We find it relatively easy to recognize these failings in other people

The Bible points to the need for our lives to serve a higher purpose than self-gratification through money, power, or fame. It does so because self-gratification is ultimately futile—in fact, it's no gratification at all. It leaves you feeling empty and dissatisfied, or, as even modern secular psychologists are pointing out, anxious and clinically depressed. You might like to read a book by Robert Lane called, *The Loss of Happiness in Market Democracies.* Lane's book makes no pretensions to being a religious or moral tract by any means. It's a piece of secular psychological research. Yet, amazingly enough, Lane concludes that if your life is driven only by extrinsic motivations—extrinsic goals, rather than intrinsic goals—not only will you feel dissatisfied and empty, you'll actually make yourself sick. You'll become clinically depressed and anxious. So self-gratification *is* ultimately futile.

1 Ecclesiastes Chapter 5 verse 10
2 Luke Chapter 12, verse 20
3 Luke Chapter 12 verse 15
4 1 Timothy Chapter 6 verses 7 and 10

Self-gratification is also destructive of other people's lives, not just our own. In his book, Stephen Green recounts examples from the great works of literature in which the destructive power of self-gratification is illustrated. He points to the story of *Dr Faustus* in its various versions, of *Don Giovanni*, the ultimate pleasure-seeker, and Oscar Wilde's famous story of the *Picture of Dorian Gray* featuring the pursuit of eternal youth. So these themes are not new. The Bible resonates with themes that can be found in other literature, some of which is more ancient than the Bible, and some of which is sourced from or informed by biblical ideas.

There is a megaphone screaming into the boardrooms and executive suites of these organisations saying, "More, more, more or you'll face the consequences."

What's interesting about all of this, and Stephen Green makes the same point, is that we find it relatively easy to recognize these failings in other people. That's why people are reacting to the GFC in the way they are. Even people who might consider themselves moral relativists, and who struggle with the idea of absolute right and wrong, can't seem to stop themselves feeling that there is something deeply wrong about what's happened. Some of those involved have behaved very badly, shattering other people's faith in institutions. Whatever people think about moral questions, it seems to be true that people lose faith in those they think are just looking after themselves. Isn't that right? When you discover that some person or institution you trusted turns out not to have your interests at heart at all but is using you falsely, isn't that a shattering experience?

The trouble is we find it much harder to recognize or acknowledge this moral failing in our own lives. It's very easy for me to pick on the greedy bankers and to be offended by the $100 million bonuses that people were paying themselves even after their institution had been sold into the hands of the US Government—or just immediately beforehand. But what about me? Did *I* sell shares in banks that weren't performing well and buy shares in other banks that promised higher dividends or higher capital gains because they were taking on more risk? Did *I* move my funds from one investment fund to another for the sake of a few basis points to increase my aggregate rate of return—thereby encouraging the CEO to take more risk, and strive for an even higher return?

How do you call yourself daily to higher and more noble ends? Where do you look for moral courage to make right choices?

Well, yes; but it's just me. Surely *I* don't make a difference? Oh yes I do; because I suspect I'm not alone, not even in this audience. And when all those little decisions are aggregated up, right up to the top, there is a megaphone screaming into the boardrooms and executive suites of these organisations saying, "More, more, more or you'll face the consequences." I find it easy to see the results of other people's greed but much harder to recognize my own failing in this regard.

The diagnosis

We can restore our faith in the financial system if we first restore our *faithfulness* towards others. We've got to begin this process by striving to suppress our inclination towards self-serving behavior. It's as strong in me as much as anybody else. I mean that's the

way we're built. We've got to look beyond our narrow self-interest. Jesus had a nice expression for it. He said, 'Love your neighbours as yourselves'.[5] We do love ourselves. How hard it is to love our neighbors like that.

The Bible makes no bones about how hard it is. We all face the inner struggle between knowing what we ought to do and what we actually do. Saint Paul, in a famous letter to the Christians at Rome, put it so beautifully: 'That which I would not, that do I do …What a wretched man I am!'[6] Shakespeare said something similar: 'What piece of work is man!' Blaise Pascal described humankind as, 'both the glory and the garbage of the universe.' Well there it is …

The prescription

A moral crisis requires a moral remedy. People very readily talk about integrity: "There's a failure of leadership in our society. We want leaders with integrity!" What are leaders with integrity? Leaders with integrity are people who do not compartmentalize their lives, who do not divorce their moral principles, if they have any, from their daily actions. Integrity is about wholeness; it's about no dualism; it's about walking the talk; it's about trying to re-meld your technical expertise with its philosophical foundations.

You'll be unsurprised to hear that, for me, it's the teaching and example of Jesus Christ as recorded in the Bible which serves as a constant reminder and prompt to me to look beyond my own interests to those of others. It's a constant struggle; but for me my faith in Jesus and his life and example is what gives me hope that I can struggle away with this human dilemma—more than that, that I can eventually, ultimately overcome it. We're all human; we all face the same struggle. I suspect that you're no different from me. So here are a couple of questions for you. How do *you* call yourself daily to higher and more noble ends?

You 'pump up' trust from those moral wells

5 Luke Chapter 10 verse 27
6 Romans Chapter 7 verses 14 to 24

Where do *you* look for moral courage to make right choices?

Restoring faith in our financial institutions requires us first to restore our faith individually that there is more to live for than we can taste, touch and see. That's the first bridge, and then there's a second one: to restore our faith that we *can* live for other people as much as for ourselves; that we *should* reject selfishness and greed in ourselves as well as in others. Resolving the credit crisis ultimately requires that we resolve this crisis of faith. It involves re-building trust. But how do you re-build trust? Where do you get the raw material to build trust? I'm going to claim that you build trust by digging 'moral wells' and you need to dig them deep; and then you 'pump up' trust from those moral wells. And with that trust you restore faith in institutions. And on that faith you restore the creditworthiness of borrowers and lenders and financial institutions.

A call to action

You may well be thinking right now: "Ah, so it comes down to this: a plaintive call for moral revival." Well, yes, I am making a call for moral revival. "Then let me put it to you that that is a quixotic or utopian aim. Sure, if we were all good, this wouldn't have happened in the first place. What you are trying to do is reform human nature and that's a hopeless quest."

Perhaps. But conjure with this. There's another book you might like to take a look at. A Nobel Prize-winning economist by the name of Robert Fogel wrote a book in 2000 called, *The Fourth Great Awakening.* Fogel goes back in economic history and identifies three great moral awakenings. The first one won't surprise you if you know anything about the history of slavery and the Reform Acts. The first great moral awakening began with the campaign waged by the Clapham Sect to abolish the slave trade; it ended with the passage of the Great Reform Act of 1832. Fogel, an economic historian coming from a totally secular perspective, identifies these extraordinary events as an awakening of public consciousness about moral truths.

In his book, published in 2000, Fogel says he believes we are on the cusp of a *fourth* great awakening, and argues that we will awaken to (in his words) a 'revulsion against materialist corruption'. How prescient is that? I don't know whether we are on the cusp of a fourth great awakening or not, but I do know this: it's happened before, and it can happen again. Why not? But if it does happen again, ladies and gentlemen, if we do dig new moral wells, pump up trust, re-build faith and re-establish creditworthiness in our financial institutions, and arguably also in our lives, it must have started with me. None of this will happen unless it starts with me—unless it starts with *us*.

Thank you very much.

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