ECONOMIC CRISIS AND THE CHRISTIAN CONSCIENCE

The Crisis of European Capitalism and the Challenge to the Churches

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Contribution from Susan George to the Conference "Hope and Resistance"

Please let me first thank the organisers for inviting me to speak at this timely and important event. I'm most honoured to be here with you all.

In this brief contribution, I would like to begin with the nature of the crisis—where it came from and why. Second, I will ask if the sovereign debt crisis that has engulfed so many European countries is something new or, instead, more of the same. Finally, I will try to single out the aspects to which it seems to me Christians, and above all German Christians, should be particularly attentive.

Where did the crisis come from? Let's first establish that "crisis" is not at all the correct word for what we've been suffering in Europe for nearly six years. A "crisis" in Greek means a point of decision, of bifurcation, when one must choose to go one way or another. In a serious illness, the crisis is the point at which the patient either lives or dies. Like everyone else, I use the word but let's recognise its deficiencies—we are in a chronic situation of recession and considerable pain for a great many Europeans.

This pain is unnecessary and present policies are rapidly destroying the social fabric of the most democratic, socially and ecologically advanced continent in the world. The details of the crisis may seem complicated but the essence is simple. The generic name of the cause is "neo-liberalism": this doctrine insists on putting markets in the driver's seat, on privatisation and deregulation, on reducing the capacity of the State to intervene.

Specifically, in the United States, the financial industry spent about $5 billion lobbying the politicians to get rid of all the New Deal laws that had limited its freedom to do as it liked; the immediate result was a series of mergers and acquisitions resulting in huge "financial service companies" retail and investment banking under one roof, along with insurance, brokerage and so on. The banks had suddenly become "too big to fail" and began undertaking increasingly risky operations, knowing that governments would be obliged to bail them out if they made costly mistakes. They borrowed heavily, often holding only one dollar for every $40 or more they borrowed. They invented more and more exotic derivative products, particularly the notorious "collateralised debt obligations" based on sub-prime mortgages. These "NINJA" loans, as the bankers called them among themselves, were handed out to people with "No Income, No Jobs or Assets"; many of whom could not continue paying when their variable interest rates suddenly doubled. These bundles of thousands of these loans were then marketed to other financial institutions, decorated with triple AAA ratings from the ratings agencies which never explained why, if any one of these loans was likely to go bad, thousands packed together would not.

After intensive lobbying, the last obstacle to complete banking freedom—known as the Glass-Steagall Act of 1933—was removed from the statute books in 1999. It only took until mid-2007 for the banks to become hugely overleveraged [i.e. too much borrowed money compared to what they actually held] and hugely overburdened with toxic financial products. In 2007, some financial houses, such as Bear-Sterns, already had to be saved. As everyone remembers, the final blow was struck In September 2008 when the venerable house of Lehman Brothers was obliged to declare bankruptcy and the US government refused to step in to save it. Credit immediately froze in the United States and throughout the world. No bank would lend to any others because no one knew who owed what to whom and whether they were solvent or not.

Only massive government intervention in the United States, Great Britain and continental Europe saved these "too big to fail" banks. In other words, this crisis has shown that capitalism now operates only when profits are made—these are quickly seized by shareholders and other private sector interests. Losses, on the other hand, are now socialised and become the responsibility of taxpayers. The great financial rescue of 2009 was Act One.

Is the present crisis something entirely new or more of the same? Act Two is the logical continuation of Act One. Because governments were obliged to make large and unexpected outlays to save the banks, many were obliged to borrow from international money markets—the European Central Bank which ought normally to play the role of "lender of last resort"—exactly like the Federal Reserve in the United States or the Bank of England--is statutorily forbidden to do so. The ECB is structured this way because Germany expressly demanded it. Allow me to add a personal observation: Germans seem to believe that any creation of money is likely to lead to inflation on the scale of the Weimar Republic. This is an irrational fear: there is absolutely no danger of inflation in Europe at this time; we are rather in a dangerous period which could easily become *deflationary* and cause irreparable harm, but apparently no one can convince the German political class and elites that this is the case.

So not only did European governments borrow to bail out their banks but, as a result of the crisis, economic activity fell on average in Europe by nearly five percent. Many people lost their jobs and governments were, again, obliged to pay higher unemployment compensation charges. These unemployed people contributed little to tax revenues (except through regressive taxes like the VAT, but here again consumption was lower and brought less revenue). Furthermore, since it is an article of the neo-liberal faith that one must levy only minimal taxes on the rich and corporations, new money to compensate for the crisis was not entering national treasuries. Here is a table that shows the evolution of public debts of selected countries.

SOVEREIGN DEBT AS A PERCENTAGE OF GDP[1]

COUNTRY	2006 %GDP	2008 %GDP	2010 %GDP	% CHANGE 2006-2010
FRANCE	64	64	83.5	+30%
GERMANY	68	63	79	+16%
GREECE	82	90	144	+76%
ICELAND	31.5	43	124 (or 84)	+294% (or 166%)
IRELAND	25	31	94	+276%
ITALY	107	104	118	+10%
JAPAN	178	170	225	+26%
PORTUGAL	65	64	83	+28%
SPAIN	40	38.5	63	+57%
UK	43	47	76.5	+78%
USA	65	61	59 (or 93)	-9% (or 43%)

These figures call for a few comments. Although Germany had insisted that the Maastricht Treaty contain provisions for sovereign debt which should not exceed 60% of GDP, in the pre-crisis year of 2006, Germany's own debt was at 68%.

1 Data from the *CIA World Factbook.* The higher figure for Iceland is the CIA's; the lower is the government's; the higher figure for the United States includes debt issued by individual US states and intra-government debt; the lower is federal debt alone. Most published reports include individual state debts, meaning that the US debt is above 90% of GDP. In all other cases, we have used the CIA *Factbook* figures to calculate percent change. All figures are rounded.

On the other hand, Spain had a relatively small debt (40% of GDP) and so did another problem country, Ireland (25%).

The impact of the crisis is clearest in the case of Ireland. When its private were on the brink of bankruptcy the government stepped in and announced that it (that is, Irish taxpayers) would take on the entire burden of the private banks' debt, which was colossal. The result was a dizzying rise of its debt to 276% of GDP. Even Germany's debt reached 79% of GDP in 2010, for an increase of 16%.

Greece is a special case. First of all, to allow the country join the Eurozone, it is now established that the centre-left PASOK party then in power called upon Goldman-Sachs to organise an "off-market swap" transaction for the Central Bank of Greece which was never recorded and only reported to the European authorities many years later. The details are complicated, but the result was that Greece was able to enter the Eurosystem, borrow from it and thus increase its debt by more than €5 billion.[1]

Second, whenever they were in power, both the dominant parties (PASOK and the centre-right New Democracy) hired a lot of civil servants as a form of patronage making the State bureaucracy top-heavy and unproductive. Third, the Orthodox Church and its clergy are not subject to taxes of any kind although the Church is the largest property owner in the country. Nor are shipbuilders and owners of the Onassis-Niarchos variety taxed either. Finally, Greece has maintained a bloated military budget for years, as if another Turkish invasion were imminent. And a great many wealthy Greeks, like the elites in other European countries including Germany, have stashed their money in tax havens.

All this is certainly reprehensible but it is completely unfair to punish ordinary Greek citizens, (the "lazy Greeks" if you listen to common German expression) as so many Germans apparently want to do. Ms Merkel and Klaus Schwab, the founder of the World Economic Forum of Davos, have not hesitated to speak of "sin" in this context. This is inappropriate to say the least. The austerity policies being forced upon the Greek people are causing untold suffering and tearing the entire society apart. Old people are eating out of rubbish tips, eradicated diseases like tuberculosis are returning, people with any

1 A court case is in progress at the European Court of Justice to oblige the European Central Bank to release documents which very probably show that the ECB was aware of this off-market transaction years before Greece reported it to the European authorities. The ECB has refused to release them; the plaintiffs (Bloomberg News) is arguing on the basis of the public's right to this information.

qualifications at all are fleeing the country, businesses are failing, public services are privatised, violence, particularly against women, is on the increase and the Nazi Party, Golden Dawn, is growing stronger daily. The Greek people are being treated as if they were laboratory rats and the Troika, which largely takes its cues from Germany, is measuring how much punishment the rats can stand. Even the IMF is having second thoughts about the wisdom of these policies. The same treatment, although marginally less extreme, is being imposed on many other populations.

To which aspects of this crisis should Germans and especially German Christians be most attentive? What would be the right policies to escape from the debt crisis which has been allowed to fester and is now five years old? Surely German Christians should be alarmed by the social disintegration occurring in Southern Europe. But they should also ask which policies their country should champion since the influence of their country is so overwhelming in Brussels.

Chancellor Merkel speaks of "expansionary austerity": the theory seems to be that if the financial markets are reassured by the harsh degree of austerity imposed, they will renew their confidence in Greece and the other target countries and along with that confidence will come foreign direct investment. However, Greece has been following Troika orders since mid-2010 and there are absolutely no signs of any such developments. The Greek economy has shrunk by about 30 percent with concomitant job losses, business failures and social misery. The economies of Spain, Portugal and Ireland have also shrunk and unemployment has grown, particularly youth unemployment.

We already knew that these policies could only cause the economy to contract since this has been the case throughout the world everywhere that these same, or similar, "Washington Consensus", "structural adjustment" policies were applied during the 1980s and 1990s.

The view of some distinguished outsiders such as economists Paul Krugman and Joseph Stiglitz, both Nobel Prize winners, is that the European leadership doesn't understand economics, is ignorant of well-known remedies and is consequently applying "suicidal" (Stiglitz' word) policies.

There may well be elements of ignorance, stupidity and the pure desire to punish overcoming knowledge and common sense. However, there is also a simpler hypothesis: the European leadership knows exactly what it is doing and what it is doing is governing not on behalf of the Europeans peoples but for financial markets and the largest corporations and banks; it is following a business-dictated agenda and crushing democracy in the process.

We may cite several facts in support of this hypothesis:

First: There has been no substantial new regulation of banks and financial markets. Where regulatory measures have been adopted (e.g. the Dodd-Frank bill in the US) they are complex, difficult to implement and will not be in place for several years.

Second: Banks have used public money (including part of the trillion euros supplied to them by the European Central Bank in December 2011 and January 2012) to pay high salaries and bonuses; bank profits have hit record levels whereas the "crisis" has been ongoing since 2007.

Third: Products on financial markets have proliferated. According to the Bank of International Settlements, the volume of both financial transactions (foreign exchange) and derivatives increased by 25 percent between 2007 and 2010.

Fourth: Tax havens have never been so numerous or so active. The Tax Justice Network estimates that the annual loss in tax revenues to 145 countries producing 98 percent of world GDP comes to a staggering $3.100.000.000.000 ($3.1 trillion) a year.

Fifth: The world's "High Net Worth Individuals" who hold liquid investable wealth of at least one million dollars after suffering a downturn in 2008 have grown in numbers and in total collective wealth since 2009, as detailed in the annual World Wealth Reports published by Merrill-Lynch and Cap Gemini.

Sixth: the costs of the crisis, estimated at more than $14 trillion, have fallen on the shoulders of ordinary people who are made to pay either directly through taxes or indirectly through austerity programmes and destruction of public services.

The net result, which should be of particular concern to Christians, is a moral crisis in which the guilty are rewarded and the innocent are punished.

Many Germans believe that Germany is somehow "helping" Greece or Spain or the other countries under structural adjustment. This is not true: Germany has organised a circular transfer system in which the Bundesbank transfers funds (government income from taxes) to the European Stability Fund which transfers them to the Greek (or Spanish etc.) Central Bank which transfers them to the Greek banks so that they can reimburse the German banks that bought Greek bonds. Nobody forced the German banks to buy Greek bonds in the first place, but they were labelled in euros and provided a slightly higher yield than, say, French bonds so they thought it was a good financial decision.

Is a system of European government for the banks, financial markets and the largest capitalist interests tolerable for Christians? One thinks immediately of the story recounted in all four of the Gospels of Jesus overturning the tables of the money changers and chasing them to leave the outer court of the Temple saying "You have made of my Father's house a den of thieves". The difference with today is that the money changers are no longer in the outer court but inside the Temple, where they are making the rules and certainly not sharing the profits with the people.

What is to be done? It seems to me that German Christians should feel themselves called upon to join with the many other social forces that are advocating a great many measures. There is no technical difficulty with any of the following: all the difficulties are political and the result of a *rapport de forces* in which financial interests have the upper hand and are supported by all the neo-liberal political forces in the rest of society. Very briefly, among the proposals are the following:

--Socialise the banks totally or partially. A bank which has received public money should belong in some measure to the public.

--The European Central Bank should lend directly to member States, not to private banks as is the case at present. The present method is simply another unwarranted gift allowing the banks to borrow at 1 percent and lend at whatever market rate they can obtain.

--Instate a financial transactions tax on all financial products labelled in euros (stocks, bonds, currency exchange, derivatives…). Such a tax could be collected by the European Central Bank.

--Issue Eurobonds for large infrastructure works contributing to a green transition: no single country can undertake projects of the scale of what is needed on its own.

--Increase the EU budget, but only if the increase can be earmarked for social and ecological spending.

--Scrap the Treaty on Stability, Coordination and Governance and engage in a new process of public debate on European governance which could lead, in time, to a Constitution based on citizen participation.

Christians belong in the world, fulfilling the demands of their faith alongside the many who are joining together in the AlterSummit made up of trade unions, social movements, NGOs and research organisations and including students, retired people, women, small farmers, ecologists and many others [www.altersummit.eu]. The Christian message at its most essential is “Love one another”. To love one another, we must know one another and work together. This is the way to fulfil the aims of this event in Frankfurt—Hope and Resistance.

Thank you.