<u>The Financial Crisis of 2008:</u>
<u>Hope Restoring A Shattered Faith</u>

Hope has two beautiful daughters.
Their names are anger and courage;
anger at the way things are,
and courage to see that they do not remain the way they are.
- St. Augustine of Hippo

Hope and Economy?

Hope and economy is a timely but understudied issue, probably because both seem to belong to two mutually exclusive spheres of inquiry. Hope seems to be merely an ideal or even an irrational thought; wishful thinking, in other words. The economy, or economics in general, is the study and exercise of rationality. The paradigm seems to be hope *or* economy, but hope *and* economy? The Financial Crisis of 2008, if anything, shows us that economic theories don't square up with reality completely, and that hope and economy may have more in common than previously assumed.

The Financial Crisis of 2008

When the 158-year old Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008, the news media descended upon Lehman's headquarters to find employees leaving with their possessions. *Time* wrote about how "throughout the day ... some of Wall Street's best and brightest trickled out onto the pavement, their faces crestfallen and their ties yanked askew."[1] Over the course of the next few days, the Dow Jones Industrial Average (DJIA) shed 812.33 points. The following months would bear witness to multiple bank failures, lost savings accounts, and rising unemployment across the globe.

There are, of course, financial reasons behind the crisis. According to the financial economist John C. Hull, the burgeoning real estate market and rising real estate values in the years leading up to the crisis led to increased spending by homeowners. Because their houses' prices are rising, the homeowners, knowing that they can at least sell their houses at a profit, financed additional spending with that in mind, often financing it with credit.[2]

Financial innovations at this time allowed lenders to sell their loans to other companies, allowing them to issue more loans since their loans were now sold to the other companies. The other companies packaged it with other loans and resold them as tradable securities known as collateralized debt obligations (CDOs). Most of these

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[1] Alex Altman, "For Lehman Staffers, a Long Walk Home." *Time* Magazine, www.time.com/time/business/article/0,8599,1841434,00.html

[2] John C. Hull, *Options, Futures, and Other Derivatives.* (New York: Prentice Hall, 2009), p. 539.

were rated AAA, indicating high quality, low risk securities, leading investors to purchase them with the expectation of profits. The availability for insurers such as AIG to insure these securities only made investing in CDOs seem almost riskless. In 2007 rising interest rates and soaring energy prices depressed homeowners' incomes, leading to a sharp rise in defaults. This set off a chain reaction that claimed many jobs and, in the case of Lehman Brothers, some of the largest corporate entities in the world.

Faith and Identity

So far, what has been discussed is the economics of the financial crisis. From a theological angle, however, it is clear that faith has been compromised. Indeed, one cannot discuss hope without discussing faith at the same time. But prior to seeing how hope, faith and economics lead into each other, we must understand faith.

In one sense faith involves belief. "Faith," the apostle James writes, "is being sure of what we hope for, and certain of what we do not see." (Hebrews 11:1, NIV). St. James, however, did not imply at all that faith is mere head-knowledge. The rest of Hebrews 11 lists how various Old Testament saints exemplified faith through their actions. Authentic faith is belief accompanied with an appropriate action.

Faith, however, is even more than that! C. S. Lewis writes, "What God cares about is not exactly our actions. What he cares about is that we should be creatures of a certain kind or quality - the kind He intended us to be."[3] In other words, faith is identity. But for us to understand what we are intended to be we must reach into the past. The economist and theologian Deirdre N. McCloskey writes that

> Faith is a backward-looking virtue. It concerns who we are; or, rather... who we *are*, "the mystic chords of memory." In personal and modern terms it is called "integrity or "identity."[4]

Faith requires the faithful to *be* the person they were created to be. In other words, it is an ontology, requiring the faithful to be honest and true to their own identity, and to relay it truthfully to others. Faithlessness is the opposite, when people masquerade in an identity that is not theirs, fooling others in the process. Examples of faithlessness include the Pharisees, whom Jesus routinely criticized for their hypocrisy (cf. Luke 11: 37-54, for example), especially since they were supposed to be examples of faith in their communities. Bernard L. Madoff, who bilked 50 billion dollars from investors for perhaps two decades, is a modern example of such faithlessness as well.

The media and the wider public, however, blamed capitalism instead. Of course, much of the investment culture was created to serve the wealthiest of society, as only

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[3] C. S. Lewis, *Mere Christianity* (New York: HarperCollins, 2001), pp. 144-145.

[4] Deirdre N. McCloskey, *The Bourgeois Virtues: Ethics in an Age of Commerce* (Chicago: University of Chicago Press, 2006), pp. 153-154.

such people required the services of an institution such as Lehman Brothers or Merrill Lynch. Furthermore the culture of excessive bonuses that was characteristic of the financial industry was morally questionable.

But this is not the fault of the capitalist free-market economy. In a free economy its participants make the economy what they want it to be. In economic terminology, where there is a demand for certain goods, services, or even practices, the economy will provide it. Capitalism does not, in any way, require the wealthiest to be served by investment banks or excessive bonuses to be paid. For many years users of such services have demanded it, services the private banking industry was only all too willing to provide.

The Failure of Identity in the Crisis

So how, then, did faithlessness contribute to the financial crisis?

The Pharisees and Bernard Madoff were highly publicized examples of faithlessness, but such faithlessness is easily practiced among everyday people as well, since by definition faithlessness is a failure to live up to one's identity. In the realm of economic matters every person (i.e. every consumer) is called to be a faithful consumer.

As a Christian, one might be forgiven for wincing at that last statement, but as participants in a global economic network, we cannot avoid consumption. This online journal you are reading is an exchange of information, but it is not free. I have consumed time and effort to write it, and you are consuming time to read and (hopefully) understand it. But there is faithful (and faithless) consumption. Faithful consumption makes for a faithful individual. Faithless consumption, on the other hand, is empty and pointless. It boils down to, as McCloskey describes: "Those who have the most toys win. Those who attend church reveal that they prefer it."[5] It is simply a betrayal of the identity of the consumer.

It was such faithless consumption that began the housing bubble, and in turn led to lenders compromising their identities. Lenders are also called to be good stewards in extending credit based on the borrower's ability to pay, and shoulder the risk of a loss should the borrower default on the loan. It was a common practice to require the borrower to shoulder some of the responsibility in paying off the house, for example. But in the years leading up to the crisis the lenders relaxed lending rules, believing that if the consumer is in danger of defaulting on the loan, they could at least sell their house. The lenders further extended their faithlessness by repackaging the loans and selling it, contributing eventually to the creation of the CDO security.

In the financial economy securities are often given a rating by a rating agency, indicating the amount of risk involved in its investment. The faithlessness on the part of the consumers and lenders fooled the rating agencies into giving CDOs investment

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[5] Deirdre N. McCloskey, "Importing Religion into Economics," *Faith and Economics* 46 (Fall 2006), p. 21.

grade ratings (i.e. AA or AAA ratings). When the borrowers defaulted on their loans, it led to a chain reaction that culminated in the markets discovering that such credit-backed securities were not of investment grade. Investors rapidly withdrew from the market, sparking a sell-off that sent prices tumbling precipitously. Unfortunately, many huge financial institutions such as Lehman Brothers invested heavily in the CDOs. McCloskey is prescient in writing that such rises and falls in the economy "arose from trustworthiness breaking down suddenly in an environment of quite normal human greed for abnormal gain."[6]

The Necessity of Hope

What, then, can hope do in the midst of a great recession such as the one in 2008? Hope, like faith, is accompanied by a requisite action. If not, it is merely wishful thinking, a vain hope extremely reliant on uncertainty. The gambler in Las Vegas holds on to such hope as he waits expectantly for a jackpot that, unfortunately, will never materialize. Such hope is passive, since the one hoping couldn't do much about what he hopes for.

In contrast, theological hope is unceasingly active. But while theological faith is backward-looking, theological hope is forward-looking. The former is a knowledge and understanding of the past that affects the present, while the latter is a longing for a future goal that affects the present. This goal is not attainable, but one where the effort it takes to reach for the goal is worth it.

For the Christian, the "Hope of all hopes" is God himself. "For the Christian believer," writes Romanus Cessario, "theological hope represents a reaching out for the ultimate goodness that is God himself and so initially perfects the passive capacity in the human being to find complete fulfillment only in God..."[7] One of the great benefits of the 2008 Financial Crisis was that many realized that ultimate fulfillment does not come from financial profit. After all, what can truly fulfill when savings are wiped out and consumerism is suddenly an unaffordable luxury?

Hope motivates the person, then, to search for that fulfillment, for that completeness. Former chairman of the HSBC banking group Stephen Green writes that completeness is a goal "we will never fully achieve; but the journey is all important. The end is clear, and it defines how we must begin."[8] It is the present-affecting desire for this completeness that St. Augustine memorably writes that God "dost so excite [man] that to praise Thee is his joy. For Thou hast made us for Thyself and our hearts are

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[6] McCloskey, *The Bourgeois Virtues,* p. 159.

[7] Romanus Cessario, *The Virtues, or, the Examined Life.* (London, New York: Continuum, 2002), p. 34.

[8] Stephen Green, *Good Value: Reflections on Money, Morality and an Uncertain World.* (London: Allen Lane, 2009), p. 183.

restless till they rest in Thee."[9] Because of its forward-looking orientation, hope provides us with several traits important to the economy.

First, hope triumphs over adversity. The book of Revelation is a testament to hope at a time when the Church was undergoing persecution. It assures Christians that the sufferings of this world are not for naught, and will not extend into eternity. Thus, it enabled the Christians of the time to be strong in their faith regardless of the circumstances. That hope allows one to triumph over adversity is important because adversity allows hope to shine through the brightest by enabling the Church to present an ethic that is alien to the world.[10]

In the midst of persecution Christians can at least lean on the Church for encouragement and love, resulting in them remaining steadfast in the faith despite overwhelmingly hostile circumstances. In the financial crises where unemployment soared and families are finding it increasingly difficult to pay off their bills, the Church offers a different financial ethic where the excesses of the wealthy indeed provide for the needs of the poor. Even for those whose retirement or investment portfolios were halved or even wiped out by the stock market hope reassures that the markets will rebound, recovering the portfolio values. Investors should have such confidence - historically markets have always rebounded.

Thus, hope also reinforces faithfulness in an atmosphere of faithlessness. In a recession faithlessness is rampant as investors buy and sell with the slightest news of the stocks moving in any particular direction. It is hope that, through the injection of confidence, leads the economy out of a recession and into growth. Confidence, in the theology of St. Thomas Aquinas, is hope buttressed by faith.[11] In the financial economy, faith comes from a knowledge and understanding of financial history. William Bernstein, in his book on investing, advises that "the most effective way of coping with current market conditions is to learn as much about market history as you possibly can."[12]

This faith buttresses the hope because while the investor may hope for a market recovery that always accompanies a recession, he or she can also use the lessons learned in avoiding the same mistakes in the future. In other words, hope recovers investors from the faithless environment that is normally prevalent in a recession environment. In the stock markets, this is often indicated by a rise in investor confidence. Recent government stimulus spending policies have increased such confidence, allowing the DJIA to exceed 10,000 points.

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[9] St. Augustine. *Confessions.* trans. F. J. Sheed (Indianapolis: Hackett Publishing Company, 2006), p. 3.

[10] Theodore R. Malloch, *Spiritual Enterprise: Doing Virtuous Business.* (New York and London: Encounter Books, 2008), p. 42.

[11] Cessario, *The Virtues,* p. 36.

[12] Bernstein, *The Intelligent Asset Allocator*, p. 178.

Thirdly, hope creates a requisite action today. There were definitely failures in the financial system that led to its collapse. If we are truly to hope in a sounder financial system, its reformation is necessary today. At the same time, we must realize that this reformation must be carefully executed and well thought-out, not one built upon popular reaction. We must also realize that, following leads from the economic sciences, the problem really does not belong to the huge banks but the consumers and individual investors. True financial reform must begin from a grassroots effort of ordinary consumers to change their consumption habits, to orient their lives away from material satisfaction.

But to orient their lives from material satisfaction to what? Which leaves us with the most important characteristic of hope, that theological hope orients the hopeful to God. As quoted earlier, Augustine is prescient in writing that our hearts indeed do not rest until they find their rest in God alone, not in anything else. After all, according to Psalm 18:2 (NIV),

> The LORD is my rock, my fortress and my deliverer;
> my God is my rock, in whom I take refuge.
> He is my shield and the horn of my salvation, my stronghold.

The financial environment of 2001-2007 was that of pure optimism. A sense of hope (not theological hope) was pervasive, due to rising property values. The sentiment was that if all else failed at least the house could be sold and the family would be in financial order once again. This hope is not theological because it thrived on a certainty that is not in God. Only God is *pro nobis*; that is, only God is for us. Only He is our sure foundation. The economy, on the other hand, does not always work to everybody's advantage, as witnessed by the raft of layoffs and the rising employment numbers post-crisis.

This orientation of the hopeful to God changes perceptions. When the believer truly hopes, she would not, for example, view the house as some collateral against future debt, but would see the house as something entrusted to her for proper use in exercising her gifts. She would not engage in unwise spending because it would not be good stewardship of her financial resources. Hopeful investors would not invest on prospects of profit but on the close investigation of the economic fundamentals. Theological hope leads to a recovery or reinforcement of one's true God-given identity. In other words, it recovers and reinforces faith.

Moving Forward

It is 2010 and the global economy has entered relatively uncertain territory. Countries are exiting the "Great Recession", although the employment situation remains uncertain. We've established that faithlessness led to the 2008 crisis, and that theological hope is necessary in the recovery efforts. In the meantime several issues remain pertaining to the economic environment that requires some analysis through the lens of theological hope.

Firstly, government spending may (or may not) successfully lead a country out of such a recession, but regardless of the outcome the government remains a poor substitute for the security and deliverance that can only be found in God. In other words, one cannot theologically hope in the government's ability to restore the country's economy to growth. Even if a government skillfully steers the economy back to growth it still cannot guarantee a recession-free future. All economies, after all, go through periods of recession and growth. But a theological hope could change how we view recessions.

Generally, recessions are negatively perceived. Theological hope, however, is forward-looking. Thus, it motivates one not to seek how the world can avoid another similar recession but, instead, what the world has learned in 2008 so that its mistakes will not be repeated in 2010. In other words, theological hope strives to reform for the better instead of avoiding the same problem in the future.

It is quite possible that future research concerning what exactly caused the Financial Crisis will be exhaustive and comprehensive. But hope allows for several key lessons to be learned. Consumers are now consuming somewhat more wisely. Lending companies have tightened their lending rules, bearing the risk for all the loans they issue instead of passing it on. Banks have become less liberal on their bonus handouts, although they still remain sizeable at certain institutions.

Banking reforms and changes in lifestyle are evidence enough that hope plays and will play a crucial role in the economy as it recovers. Of course hope can't be condensed into some mathematical formula, which is a stumbling block for many economists. It takes financial crises such as this one, and the ones in many years past, to realize its importance. Ultimately, hope restores shattered lives from shattered faith.

Notes

Altman, Alex. "For Lehman Staffers, A Long Walk Home." *Time* Magazine, www.time.com/time/business/article/0,8599,1841434,00.html, 2008.

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