

**Faith and Economics:
Perspective on the
Economic Crisis**

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A creative green initiative: a small garden on a ship in a harbour

Introduction

The economic crisis raises questions which strike the foundations of our society and our existence. There appear to be no simple answers to the policy questions that face us, and the political options are complicated. Reliable, informed advice is essential. In addition, it is important to consider what faith can bring to bear on the economic realities in which we live.

The purpose of this brochure is twofold. Along with providing background information on the current economic crisis, we aim to reflect on the contribution faith can make to the public debate. This brochure elaborates on themes addressed in earlier issues in the Council of Churches' *Ecumenical Reflections* series.

This brochure is distributed to all local Council of Churches in the Netherlands and thereby made available to all members of local parishes and congregations. We hope that whoever wishes to take part in the public debate on this issue, including those who make policy in the present economic crisis, will find this contribution of use. Near the end of the brochure are position points and questions for discussion, to stimulate further reflection.



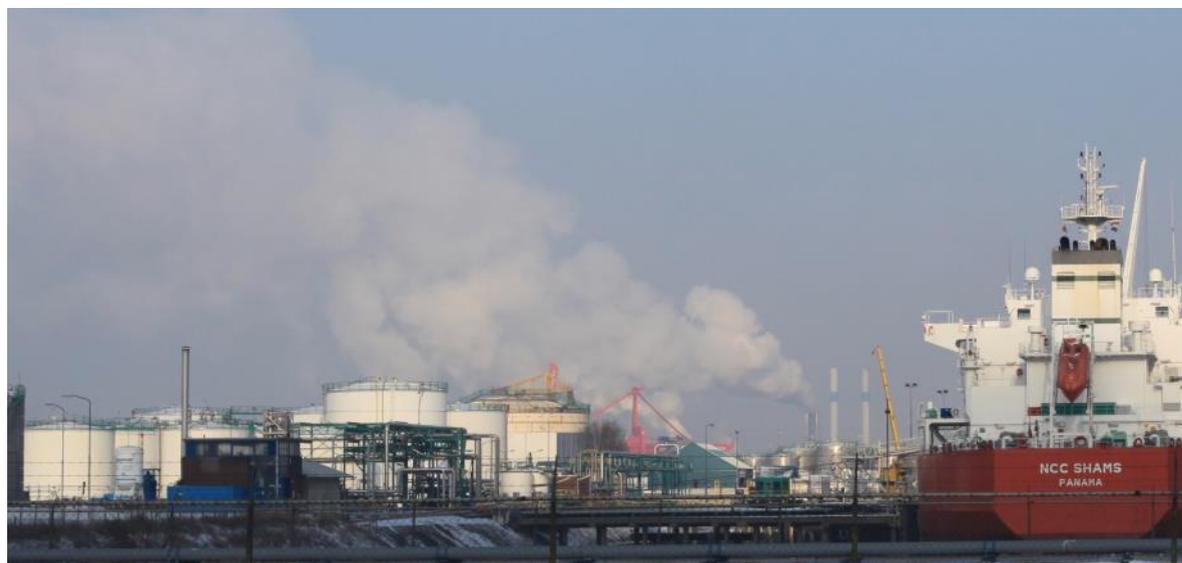
The Need for Ongoing Reflection

'We live in an uncertain world. Politics in the United States (US) often has a greater influence on our lives than what is decided in the Hague or Brussels. Many people feel powerless in their daily work, when, for instance, they must accept decisions that are made for them from afar, because their company is a subsidiary of a multinational. More than ever, we are dependent on the 'global economy.' Around the world on a daily basis, immense capital flows, which can destabilize entire economies, shift back and forth. We are – whether we like it or not – a cog in the geo-political and economic machine.'

These seemingly prophetic words appeared in the 2002 Council of Churches' brochure entitled *Economy in the Service of Life*. Since then and certainly after 2008, we have become even more aware of our global interdependence and accompanying

powerlessness. Seldom in history have we witnessed how suddenly economic changes can have such a world-wide impact. What first presented itself in 2008 as a banking and housing crisis in the US, morphed into a world-wide economic crisis within a year. Not just the real estate and financial sectors, but the entire economy of the European Union was hit hard. And so we now stand at a new crossroads in the 60-year process of European unification.

Because the nature of the problem is markedly different from that at the beginning of this century, the Council of Churches felt it necessary to produce this new brochure. The policy questions and political choices are too complicated to warrant simplistic answers. But such complexity does not mean that the churches should remain silent on the issue. To the contrary. Precisely in such times of radical change, it is important



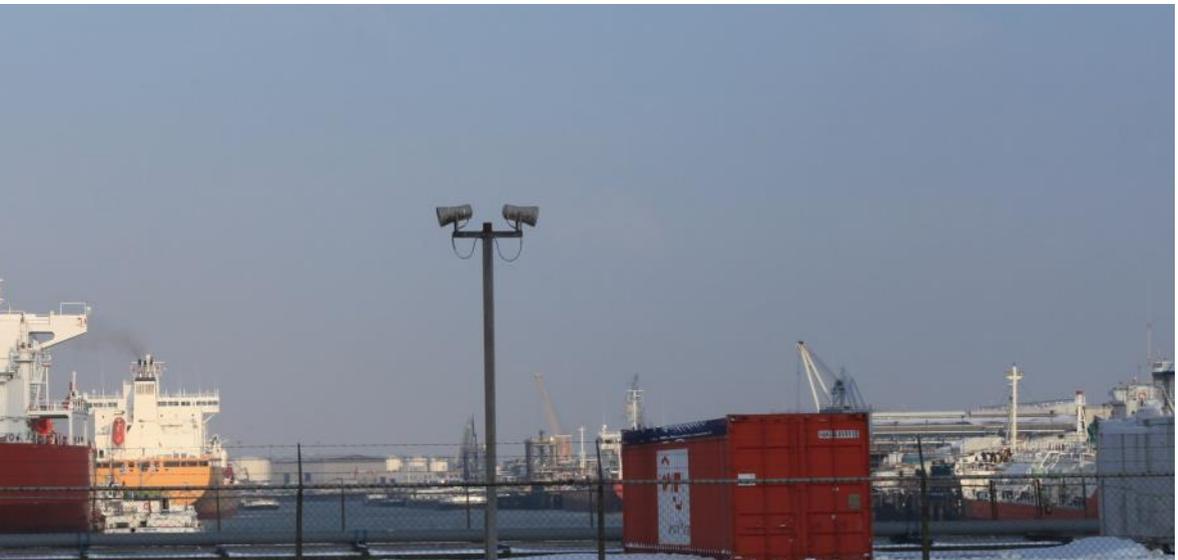
World-wide economic change: continuing industrialisation

that we reflect on the question: what difference can faith make in the economic reality in which we live and how we regulate it? Certain principles derived from the Bible and the Christian tradition of theological reflection on social issues can provide guidelines for personal and social conduct in the current societal context.

The Council of Churches does not presume to provide concrete solutions to the current economic crisis, but hopes to offer a concise analysis of the crisis in the larger framework of Church and Society. The guiding principles we use draw upon the social thought developed in the Ecumenical Movement.

The contents of this booklet are as follows: Firstly, in Chapter 2, we offer a brief description of the background and causes of the [present] economic crisis. Then in Chapter 3 follows a sketch of concepts

central to the churches' reflection on economic questions, from both the Protestant and Catholic traditions. Chapter 4 sheds light on certain aspects of the economic crisis using these concepts. The analysis in chapters 2 to 4 offers points of reference to provide perspective on current developments in the economy and society. What that means for church communities and individual believers in the variety of roles they play in the commercial context is illustrated in Chapter 5. Finally, we conclude the brochure with some basic premises as well as discussion questions to stimulate further thought and debate. In the limited space available here, all aspects of the economic crisis cannot be addressed. To explore the practical implications of these reflections further, we depend on each other, and on continuing discussion and engagement.



Background to the Economic Crisis

At the end of 2012, the economy found itself in a serious and complex crisis, caused by ethical failures connected to unrealistic and unsound loans to property owners, promotion of non-transparent mortgage packages ('securities'), unreliable ratings-systems and risky investment practices driven by exorbitant bonuses. Giving attention to the moral shortcomings of financial professionals is distinct from the more general critique of the neo-liberal free-market model, but is, on reflection, compatible with the critique of that model. According to this critique, deregulation, from the 1980s onward, is one of the causes of the crisis. With the abolition of various rules and restrictions, an unlimited competitive struggle emerged which gave financial intermediaries incentives to take greater risks.

Deregulation has at its basis the free market ideal, as advocated by Friedrich Hayek and Milton Friedman. This is also referred to as the so-called Anglo-Saxon model of capitalism (a.k.a. the neo-liberal or Wall Street model), which is in contrast to the Rhineland model such as is practiced in the Netherlands, characterised by a market regulated by an active government and consultation between government, employers and unions.² What constitutes a 'free market' is not straightforward. As a rule this concept is applied to markets where price formation occurs independent of government intervention and on the basis of free competition and access. According to economic theory, a free market produces, under certain conditions, an optimal outcome. Among the more important

The economic crisis must be considered in the context of a complex of developments. We note some of the most important aspects here:

- a world-wide imbalance in the flow of trade, and an imbalance in financial flows (such as the dollar surplus in China);
- strong increases in international monetary transactions;
- an enormous growth in debt positions;
- use of complex and opaque financial instruments and products to finance loans;
- stagnating housing markets, beginning in the US;
- resulting large write-offs by financial institutions, leading to a collapse in mutual confidence between banks and the failure of financial markets;
- divergence among European countries owing to differences in competitiveness, differing levels of investment in the financial sector and real estate market, and different approaches to public finance, resulting in a crisis of confidence in the euro.

conditions, there must be adequate competition (in other words, substantial or at least sufficient supply and demand), the price and quality of products must be transparent, that the goods in question are private rather than public goods (like dikes or lighthouses), and that external factors do not intervene. External effects come into play where the activities of an individual or firm have consequences for the costs and benefits of others but are not translated into market prices. An example is environmental pollution, which creates broader social costs. Production for the company concerned may then be 'too high' and inefficient and the price of the product may be 'too low.'

From the free-market perspective of the Anglo-Saxon model, a well developed system of private-property relationships is of primary importance to the proper functioning of the economy. Businesses are structured around the principle of protecting private investments: the task of a company's directors is to represent the interests of the company's owners, the share-holders. This implies that companies seek to maximize profits with a view to increasing value for shareholders. In this perspective, government intervention in the economic process is counterproductive, because the government has relatively little information and the future remains uncertain. Macro-economic policy, industrial policy and price-and wage-policy are therefore all rejected. Even with respect to anti-trust policy in order to promote competition or to the control of negative external effects of corporations, the government is expected to react cautiously, since the risk of government error is seen to

be greater than that of market failure. So argued Milton Friedman, who was initially a great proponent of anti-trust legislation, because this sort of regulation does more harm than good and can best be avoided.³

The Anglo-Saxon model, based on Hayek's thought, was popularised as utopian, particularly in the US, through the objectivist philosophy of Ayn Rand, author of *Atlas Shrugged* (1957) among other works. According to this philosophy, egocentric self-interest alone is regarded as rational and the cornerstone of a healthy society. Sympathy and altruism are 'vices'. 'Do not live for another and never ask another to live for you' is the premise that underlies her book. Hence, this form of capitalism is based on 'principles' completely at odds with Christian norms and values.

More ostensibly Christian sources of inspiration for free-market ideology can be found in the thought of John Locke and Adam Smith. John Locke was an English philosopher who lived from 1632 to 1704. According to Locke, reason teaches us that none may do injury to another's life, health, freedom or property. Everyone has a right to be free, as well as to enjoy the fruits of his or her labours. The government's role is to protect these rights. Economic freedom is indeed an important public good which we citizens of western countries enjoy every day. Recent research indicates that respect for economic freedoms is not only of great importance to the economy, but also for human joy in life. This applies equally in poor as well as rich countries.⁴

Love in the Bible

In his inaugural lecture *Public Love: Agape as a source of social renewal in times of crisis*, Prof. Dr. G.J. Buijs gave the following definition of Biblical love:

‘One’s concrete commitment to the flourishing of another [person or thing] as a way to achieving shared joy’.

‘Love is therefore my contribution to the flourishing of another. It is creativity that is oriented towards something outside of me. The motive is the other. The motive is not: I aim to profit from the other. It is also not: I will make an effort for others but I also expect compensation for it. What *does* happen is this: the service I render to another seems, unintentionally, to be reciprocal. The colleague with whom I work, the seriously-ill person whom I quietly visit, year after year, the student to whom I give extra personal attention, all of this enriches me. She or he gains new meaning for me. And we are all, regardless of our role, more fulfilled by this. This is shared joy.’

Source: sermon by Roelf Haan d.d. 12-08-2012

See also discussion question 1.

Adam Smith, who is considered the founder of modern economic theory, lived from 1723 and 1790. Smith was a Scottish deist. Deism was a liberal variant of Protestantism. Deists believed that God created the world, but thereafter left the world to run its course according to innate laws. This inspired the metaphor of the Great Clockmaker, whose ‘invisible hand’ could be discerned in the clock’s machinery. Adam Smith was particularly concerned with moral philosophy, the theory related to proper human conduct. Within moral philosophy is also the field we refer to as economics. Smith employs the principle of sympathy in his moral philosophy. It has compassion as its starting point. Owing to the compassion which God placed in humans, they are enabled to discover sound ways to relate to each other. The

sympathy principle or commercial principle is translated into economic theory in the form of self-interest. A trader will only be commercially successful if he or she is able to understand the client’s needs. In this sense, then, Smith has a *positive* view of self-interest in mind. If everyone follows their (enlightened) self-interest, this leads to a more commercial society, that is, a society where compassionate interaction (‘commerce’) is foremost. It is important to note that concepts such as self-interest and commerce have thoroughly positive connotations in Smith’s thought. They are not burdened with the negative associations identified with them today.

Smith envisions a natural theology where an invisible hand moves self-interested economic actors to cooperate unconsciously to promote the general welfare. In Smith's thought, this law of unintended consequences is framed by institutions and morals, such that one can speak of 'enlightened self-interest'. In later interpretations of Smith's work, this moral and institutional framework is often ignored.

can have positive consequences for the general welfare and the reduction of poverty. Even so, Smith himself was insufficiently attentive to the rather destructive effects of self-interest. Evil would always ultimately serve the purposes of God, in accordance with God's providence.⁵ But the negative effects of self-love are not in fact always corrected by unintended positive outcomes.

It cannot be denied that self-interest is a powerful engine in the economic process and



Bulletin board of the Occupy movement in Amsterdam

The philosophy of Ayn Rand has had a major influence on financial and economic policy in the US in part because Alan Greenspan, chairman of the Federal Reserve (the system of American central banks) from 1987 to 2006, was a fervent follower of Rand and applied free-market ideology through his policies. These policies were contributing factors in the financial crisis. That does not mean that the Anglo-Saxon model is the only or even the principal cause of the economic crisis. Though it can certainly be argued that the economic crisis is linked to this model, we are aware that the reality is more complex. After all, serious economic crises have occurred in the past in countries not attached to the Anglo-Saxon model, such as Japan and Sweden.

An element of the Anglo-Saxon model which is indeed clearly connected with causing the crisis is that within this model, of all the parties involved in a company (employees, management, shareholders, customers), the shareholders are prioritised: maximising share values is the ultimate aim of a (listed) company. European companies have also focused more on this principle in recent decades. The boards of corporations have adapted to it. One aspect of this approach is that managers are increasingly compensated with bonuses, stock options, and shares.

In one of his most significant books, *Capitalism and Freedom*, Friedman emphasises that it is the social responsibility of banks and companies to earn as much money as possible for their investors. This approach led to specific theories on the task of management and the motivating role

bonuses play. The theories assume an antithesis between managers and shareholders. Managers, on the one hand, have an interest in continuity and the provision of goods and services to society, so they are less inclined take risks; shareholders, by contrast, are purely interested in short-term high-profitability, where risk-taking can pay off. To resolve this inherent friction, bonuses were contrived. Managers received higher bonuses according to whether they succeeded in meeting certain expectations of the shareholders. The more they earned for the investors, the more they earned for themselves. In this way, directors were stimulated to take a short-term, high-profit view, which won out over concern for the long-term continuity of the company.

One problem in the system is that improved performance, on the part of thousands of employees, translates into big increases in earnings for top directors. As if the success of a company is solely down to *their* competence, rather than the performance of their employees or favourable economic conditions beyond their control. We regard such high remuneration as unethical, even where the amount (at least in the Netherlands) is inconsequential compared to the profit generated. Between 2002 and 2006, the compensation for CEOs (Chief Executive Officers) of large corporations in Netherlands rose, as a result, by an average of 26.4% per year (compared to 1.4% for the average employee).⁶ The other side of this type of performance pay is that it also encourages managers to take greater risks. These risks seldom affect the managers



Barcelona: visible signs of the crisis include rubbish in the streets, and abandoned and demolished houses

themselves. The effects of risks on compensation are asymmetrical. If things go well, that leads to larger profits and higher bonuses. If things go sour, managers may temporarily lose their performance payments, but their careers remain largely unaffected; company losses are borne by shareholders, employees and other interested parties. It is generally accepted that this approach led banks to take irresponsible investment policy risks in the years leading up to the crisis, helping precipitate the crisis itself and contributing to the immense damage to the economy that resulted.

The development of the crisis

The crisis has now already endured a couple of years. New problems continue to emerge, such as in Cyprus, which greatly increase uncertainty. Meanwhile, the situation in countries like Greece and Spain has gotten dramatically worse, with huge unemployment and cutbacks to social welfare programmes. The poor prospects for Spain are particularly worrying given the size of its economy. In Portugal, too, unemployment is high. In some countries such as Ireland an increase in exports points to renewed economic growth. Even so, there is still a long way to go. In Italy, a full recovery of competitiveness has not yet taken place.

This is partly due to the fact that structural reforms have not occurred, not least because of political resistance to change, which has undermined the markets' confidence in the modernization of Italy's economy.

One of the reasons the crisis in the European Union has been so persistent is that there is a divergence in economic development in Europe and convincing measures to halt this divergence were introduced too slowly. Many economists and politicians point to a need for more thorough-going political and economic integration in the European Union in order more effectively to combat the crisis. Such integration already applies to monetary policy. In the seventeen countries of the Euro zone, it is no longer possible to operate a national monetary policy, owing to the common currency. Since the pegging of the gilder to the D-mark in 1983, the Netherlands had already de facto been following *German* monetary policy. Since the Introduction of the Euro in 1999, the European Central Bank (ECB) in Frankfurt has been responsible for a stable monetary policy.⁷ The margins for budgetary policy are similarly restricted. The conditions have been set by the Treaty of Maastricht of 1992 (= Treaty of European Union) and the Treaty of Amsterdam of 1997 (= The Stability and Growth Pact). Later EU-treaties, such as the Treaty of Nice and the Treaty of Lisbon respecting the functioning of the European Union, continue along these lines. Near-term policy plans for further integration of the European Union include the establishment of a banking union, a permanent emergency fund, the setting up of a deposit insurance scheme, more international oversight over banks, the

introduction of Eurobonds and a budgetary union. Though there are good arguments for (and also against) such measures, the main problem is that they would inevitably involve a further surrender of national sovereignty to European institutions. Precisely now that things are going badly, large portions of the population of the European Union have great difficulty with such proposals. The churches of Europe have generally spoken supportively of European unification, provided that adequate priority is given to vital concerns such as social justice, international solidarity, environmental protection, democracy and transparency. They have repeatedly pleaded for these concerns in recent years.⁸



Care for the Creation



Christian Values

Economics is an area of life where norms and values are thoroughly relevant and demand application. Economic Science involves describing and studying the decisions people make in the context of scarcity, taking all plausible options into consideration. All such choices are significant for human welfare. In the workaday world, though, 'economics' seems to have become synonymous with 'making money'. If we look around us, we see, in fact, that for most people it involves for more than earning money alone. They yearn for happy and healthy lives, peaceful co-existence with others, and fulfilment in their work and activities. There is substantial interconnectedness between the economic and other areas of life, such as the political, religious and social spheres, where a variety of norms and values play a role. Life is seriously diminished whenever it is assumed that the only norms and values that ought to apply in our society are those derived from a concept of economics which revolves solely around earning money.

In the Bible and the Christian tradition we encounter a variety of concepts which highlight what is important to the economy, such as human dignity, the common good, justice and solidarity, and stewardship of Creation. Human dignity originates from the creation of humans in the likeness of God. Each human is a unique person. Being a 'person' implies that one is able to formulate one's own thoughts and actions and to be capable of self-awareness and community with others. Freedom is coupled with, and is a prerequisite for, responsibility for oneself and for fellow humans.

Human freedom and the Sabbath year

The Sabbath year is discussed in Exodus 23:10-11 and Deuteronomy 15 and contains provisions to break the devastating cycle of slavery. Now and again, in Biblical times, an Israelite was forced by poverty to sell himself into slavery. But such a situation was not permitted to endure forever. After six years, the Hebrew slave was entitled to a new start, to build up his life again.

Deuteronomy 15 addresses the cancellation of debts. At the end of seven years, a general cancellation of all debt was proclaimed. The aim of this command was that no indefinite debt situations should exist, and so to prevent people from permanently losing their freedom. In addition, Deuteronomy prescribes that, when a slave is freed, he should be generously provided for with livestock and grain and whatever the winepress produced, so that a man and his family could stand a real chance of making a new life.

See discussion question 2.

The 'common good' relates to those social conditions under which people can realise their destinies. An individual cannot achieve the good life alone, but only in conjunction with others at various levels of social life, such as the family, company, city, region, country, or global community. Each person is called to serve others. That demands sustained effort, for which we can hold each other responsible. Over the last decades we have become more aware of the need to care for nature and the environment (stewardship in partnership, in other words, our dependence on connectedness to the

eco-system) such that this concern is now central to the public agenda. Sensitivity to the vulnerability of the earth and the limits of its natural resources, and acceptance of what satisfactory or adequate ('sufficiency' in economic jargon), is inescapable.

Right and just action that emerges from this way of thinking assumes, according to common sense, that everyone deserves what is their due. Hence, the principle of fairness. Because dishonesty in commerce implies that one has unjustly appropriated the property of another.



Uninhibited: money is not yet a matter of great concern

Trustworthiness and stewardship

¹⁰Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much. ¹¹So if you have not been trustworthy in handling worldly wealth, who will trust you with true riches? ¹²And if you have not been trustworthy with someone else's property, who will give you property of your own? (Lucas 16:10-12, NIV)

"Mammon-worship' is usually identified with greed. In Jesus' time, the word denoted wealth or profit, often criminally obtained. The Bible does not warn against the use of money as such, but against placing faith in money as the greatest certainty and aim in life.

One of the dangers of greed is that it encourages dishonesty. In economic transactions, reliability or trustworthiness means that you will not mislead others or fail to keep your commitments. If commercial partners share information honestly, they may each be able properly to assess whether a proposed deal contributes to their well-being. We can speak of an economic surplus for both sides. But if one of the parties withholds information vital to the other, he manipulates the other's decision-making, for his own profit and at the other's expense. This damages the interests of the other, doing him wrong.

How we make use of money also has implications for other areas of life. One cannot be dishonest in money matters and at the same time insist that one is reliable in all other ways. The use of money therefore has an important signalling function. We do not often discuss money or how we earn it with each other. That may seem appropriate, but should not imply that we never dare to discuss it. Because trustworthiness in money-matters is fundamental to all our activity.

The words of Jesus also imply that money has but limited, relative importance. Where one does not prove reliable with respect to something as small as money, one cannot be expected to look after greater things. We tend to regard money as of supreme importance, especially in relation to meeting our individual material needs. But Jesus points out that our tendency to identify our interest with money easily leads to unequal access to resources for meeting our material needs.

See discussion question 3.



The Foot Washing

Righteousness and justice entail reciprocity, i.e. the Golden Rule

Luke 6: 31: 'Do unto others as you would have them do unto you.' No one wishes to be cheated by others. So one should not cheat others.

Biblical righteousness and justice are not confined to so-called commutative justice, which focuses on reciprocal obligations.

Righteousness and justice are connected to community and charity. One's personal righteousness is expressed, in Ezekiel 18:5-9 for example, mainly in one's compassion for others: oppress no one, give the debtor his house back, do not to commit robbery, give bread to the hungry, clothe the naked, demand no interest (on loans), refrain from injustice. Both so-called commutative justice (returning the debtor's house, not committing

robbery) and care for the needy fall under the concept of righteousness (justice).

This involves commitment that starts from recognition of the vulnerability of the other. In the tradition of the Church, this is expressed by the term 'preferential option for the poor.' It demands that we place care of the needy at the centre of community life, on the understanding that if a person's development is impeded by poverty or unemployment, the quality of community life is also affected. A generalization of this is the principle of solidarity, which rests on the assumption that we form a community of people. A community where we are interdependent and responsible for one another. A community whose quality and rich variety we undermine if we exclude some people from it.

A value that is less prominent, but quite specific to Christian ethics, and speaks eloquently to the present economic crisis, is the virtue of humility (akin to the biblical words for lowliness and humbling oneself). Christ called himself humble of heart (Matthew 11:29). In our contemporary context humility is understood as modesty. Modesty does not seem well-suited to an economy driven by competition. It is nonetheless of great importance to socio-economic life, because it encourages openness to learning from mistakes, to an awareness of vulnerability and to the capacity lovingly to submit to one other. To consider another better than oneself (Philippians 2:3), means not to look down on the other, but to look up to another appreciatively.

The final notion we wish to consider is grace. Grace is the basis of all Christian faith. Every area of the economic life is touched by destructive forces that find their source in the Self. Life will always pose challenges to achieving what is good. We know and experience that we sometimes only partially succeed in this, and sometimes monumentally fail. Nevertheless, this need not lead to utter failure. Because God is merciful and wants to redeem our failure. The Church is called to take this message of grace to heart and bear it others, even in times of economic failure and disaster. The renewal that God's grace brings also touches our economic activity. Economic problems must be solved economically. But because evil has so many dimensions that transcend the individual, the Christian faith perspective emphasizes that our actions should not be based in the logic of 'the system' here and now, but should derive from our 'citizenship in heaven' (Hebrews 13:14). It is inspired by the 'yet'/'even so' [... I will rejoice in the Lord' (Habakkuk 3:18)!

We believe that the values mentioned above are significant for understanding the economic crisis. In this section we would like to illustrate this with some examples. These examples are *not* intended to place the blame entirely upon certain sectors in society. That approach would be far too simplistic. Precisely because the crisis reveals the shortcomings and even the structural flaws in the system, it is difficult to attribute responsibility to any particular group or individual. Besides, everyone's responsibilities and possibilities are not the same. So particular care is required.

Human Dignity

The concept of human dignity requires that humans, though individually subject to a variety of influences, have, in principle, the freedom to lead their own lives. The economic crisis demonstrates that both a severe decline in welfare and increase in unemployment undermine human dignity. A tragic example of this is the suicide of one 77 year-old man in Greece. In a farewell letter, he explained that he saw no other way out of his dilemma, and wanted a 'dignified end before I have to sift through the rubbish for food.' The economic crisis has increased the suicide rate in the European Union. In Spain, suicide has become the largest non-natural cause of death. This illustrates the extent to which harsh economic conditions deprive people of perspective and a feeling of influence over their own lives. This is especially true of young people in countries like Spain and Greece, where the youth unemployment rate is above 55 % and 58 %, respectively. The financial situation has also

touched human dignity in other ways. Self-interest and an overwhelming desire for financial gain have also adversely affected the social compassion that people should feel and express for each other. The social consequences of the 'bonus culture' have been devastating. It is such a culture that can contribute to such financial excesses as we seen in public housing corporations.

The Common Good

The economic crisis indicates, too, an utter neglect of the common good, that is, the common interest in social conditions in which people can develop. This erosion of the common good is driven by the powerful incentives for material gain. In the financial world, this is exemplified by the bonus culture. Even in the Netherlands, a change occurred in the second half of the 1980s when market-listed companies and managers were increasingly rewarded with bonuses and options packages. Since they bring huge returns when stock prices increase, stock options encourage speculating on one's own business operations. This introduced a degree of unethical behaviour in management that was unprecedented. Hence, the emphasis on financial incentives influenced the behaviour of bankers. Although the banks' own conduct codes prioritised the clients' interests, in practice clients came to be seen merely as means to the end of higher sales and profit margins, leaving little concern for customer service. Specialists succumbed to the temptation to exploit the customers' relative ignorance, selling them financial products that served the bank's profit, but not

the customers' interests. The aforementioned subprime mortgages sold in the U.S. are an example of this, and as such were a partial cause of the crisis. Prior to the sale of these mortgages, no thorough background checks were done into the income and personal circumstances of clients. For subprime mortgages, clients initially paid low interest, but the rate gradually increased. The mortgage packages ('securities' and 'collateralized debt obligations') which were sold to investors included these faulty mortgages, and so the risk was partly passed on to others. As interest rates rose, families could no longer afford their mortgage payments, resulting in the forced sale of their homes and a drop in housing prices. This had far-reaching social consequences and led to the banking crisis. As a result, confidence in the financial sector collapsed, to the great detriment of the banks and the broader society.

International financial flows can work both correctively and in a destabilizing way, and can thereby harm the common good. They determine the room for manoeuvre of the individual countries. The international money market has grown tremendously in recent decades. Considerable attention was given to this phenomenon the Council of Churches brochure of 2002. There it was noted that, among other things, developments in communication technology allow banks to profit from exchange-rate differences on a certain currency sold in different markets around the world. More and more financial constructions have been introduced, even in the trade of securities and commodities, such

as options, swaps, futures and other so-called 'derivatives'. What all these new banking products have in common is that they extract profit by way of spreading financial risk over different times and places.

Through these developments a situation has emerged where the international trade in currency and financial products has become considerably more extensive than the total international trade in real goods. So money is no longer merely the other side of the 'goods coin', as it were. It has also become a good or product in itself, with considerable spin-off effects.

Speculating on a 'deficit', i.e. speculating on whether a company - or even a country - will go bankrupt, so that one may reap profit from it, has a destabilizing effect. One of the hidden causes of the economic crisis is that some of those who saw the crisis coming chose to engage in this kind of speculation for their personal gain (by 'short-selling', as it is called) rather than sounding the alarm and bringing the problem to others' attention. Seeking private benefit from and thereby actually contributing to the bankruptcy of a company or breakdown of a country, we consider immoral.

Justice

The issue of remuneration also illustrates a lack of justice. Banks had become so large that governments, aware of the enormous social consequences, could not allow them to go bankrupt ('too big to fail'). They took too many risks but could make large profits provided the market performed well. When

the market turned, though, the burden of these excessive risks fell onto the broader society. Bankers' pay packages were not proportionate to their contribution to the general social welfare or even corporate prosperity. All this demonstrated a lack of reciprocity. If we make a greater effort to see ourselves through others' eyes, as the Golden Rule advises, we may well also gain deeper perspective into what constitutes fair pay, commensurate to the social benefit we provide.

Economists attribute (bad) banking behaviour to the so-called 'moral hazard'. But it is questionable whether Dutch banks were sufficiently aware of the risks of bankruptcy they ran, since 'the state' would not allow them to fail. Since bank failures were relatively rare before the economic crisis (after World War II, only four relatively small banks went bankrupt, namely Teixeira de Mattos, Tilburg Mortgage Bank, Van Der Hoop and DSB) and since the Dutch deposit guarantee scheme was in place, banks themselves bore most of the risk. This



An artwork depicting a person living out of a rubbish bin

deposit guarantee scheme requires banks to contribute, in proportion to their share of the total savings, to guarantee the savings of all banks, in the event of a bankruptcy in the system. When DSB went bankrupt in October 2009, Rabobank was, as the largest savings bank in the country, therefore compelled to cover most of the bill, but also smaller not-for-profit banks had to chip in. Until Lehman Brothers went bankrupt in 2008, few realized how far financial globalization had reached, and not many would have expected European banks to be threatened by an American mortgage crisis.

Nevertheless, even in some banks in the Netherlands, respect for others' property and investments came under pressure. The social function of banks is to serve as an intermediary between capital supply and demand and to ensure agreement on financial risks. In recent decades, the size of the financial sector has grown beyond what was required for this intermediary role, and the profitability of the banking sector grew far faster than the rest of the economy it should have served. In addition, risk assessment received little priority, partly because few really understood the risks. Further, the fear of being left behind by other competitor banks played a role. If other banks earned massively on certain derivatives, it was unwise not to follow suit. Meanwhile, the balance sheets of the banks themselves were thrown out of equilibrium as was the relationship between various interested parties. To solve the economic crisis, a restructuring of bank balance sheets is a necessary pre-condition to make recovery and economic growth possible.

Lack of reciprocity is also reflected in banking relationships with businesses. Banks usually have strict requirements regarding the solvency and liquidity of the companies to which they extend credit. Strict rules are also imposed on banks by international treaties. Precisely what sort of equity requirements are needed to compensate for shortfalls and insure stability has been a longstanding question dating back to the crisis of the 1930s.

Solidarity

In Dutch society, as elsewhere, the economic crisis primarily affects the people with low income potential. Unemployment is rising. The number of people who have difficulty paying off their debts has increased. Despite new measures, healthcare costs continue to rise. Public services are in decline. All these developments affect a broad array of people, but especially those who are financially vulnerable.

Since 2011, national church organizations have received increasing reports of requests for financial assistance from local churches and emergency funds. Food banks, too, have seen an increase in demand for weekly food packets. The Catholic National Diaconal Council, Church in Action, Poverty in the Netherlands/EVA and

the National Council of Churches in the Netherlands took the initiative to organize a new ecumenical study on poverty in 2013. The aim of this research was to make an inventory of churches' aid to the poor and produce policy recommendations for the government.⁹

Our data on poverty in the Netherlands is based on the Poverty Survey which the Social and Cultural Planning Bureau and the Central Bureau for Statistics published in December 2012. The number of households with incomes below the poverty line increased from 515,000 in 2008 to 604,000 in 2011, and is expected to have risen further to 656,000 in 2013. The percentage of the population with a low income similarly increased from 1.05 million in 2008 (6.7%) to 1.33 million in 2013 (8.5%). The effects of the coalition agreement between the VVD (Liberals) and PvdA (Social Democrats) have not yet been figured in, but the impact of those measures will only begin to be felt in 2014. Of those who are currently unemployed, 261,000 have no (more) right to unemployment benefits (NRC, 22-03-2013). According to the authors of the Poverty Survey, the rise in poverty has been brought about by purchasing power losses due to cut-backs and tax increases that particularly impact people with low incomes, such as the increase in health insurance deductibles and the reduction in housing allowances. The same applies to the personal contribution for mental healthcare and the discount on childcare. The publication *The Shopping Cart 2012 - Purchasing Power in Practice* attempts, by way of interviews, to show to what this means in the lives of those affected.¹⁰ From these interviews, it appears that many wonder, 'Now what next?'

It has also been suggested that the economic crisis was caused by too much concern for the poor. The American government, after all, sought to broaden access to the housing market by stimulating mortgage provisions for poor families. The very fact that the U.S. government wanted to resolve the social problem of the lack of adequate housing for the poor via financial markets stems from the aforementioned ideological resistance to state intervention in the distribution of wealth, to taxation, and to income assistance to the poor. It was left to the banks to meet these social needs. In retrospect, it must be noted that this approach fell short of its aim, because oversight failed and risks were offloaded on others. Although the free market can contribute significantly to the reduction of poverty, outcomes are never certain. Critical assessment of whether the expected social benefits actually pan out, or whether they are sustainable, or whether the mechanisms and arrangements to maintain them are adequate, is therefore warranted.

Concern for the environment

Earlier, we mentioned the vulnerability of the environment and exhaustibility of natural resources. Although there is increased awareness of issues like sustainability and socially-responsible entrepreneurship, growth in Gross Domestic Product (GDP) is still one of the most important measures for economic policy. It is well known that GDP benchmarking ignores important things that do contribute to our well-being, while on the other hand encouraging growth which consumes resources. The massive increase in credit that we have observed all over the

world plays an important role in this: the interest owed must be earned through economic growth, after all. This system contains a strong compulsion for growth which can have serious consequences because of the constraints it places on our way of life. If we wish to survive, but also allow others outside the rich countries to have a decent life, we will need to set certain conditions on growth.¹¹

Modesty

According to the *21 Minutes* survey of 2012¹², the vast majority of the Dutch population want to live in an inclusive society where modesty and quality of life are central. But only a small minority (10%) of the population considers our society humble. One possible reason is that the virtue of modesty seems to be problematic in a market context. In a market economy, it is of essential importance that producers or traders present their products in the most advantageous way possible. In such a competitive environment, you disadvantage yourself if you fail to communicate all the good deeds that you do, because, if not, other, less-qualified people might surpass you. Even so, we may well ask ourselves whether the economic process and our society generally might not be better served by greater modesty.



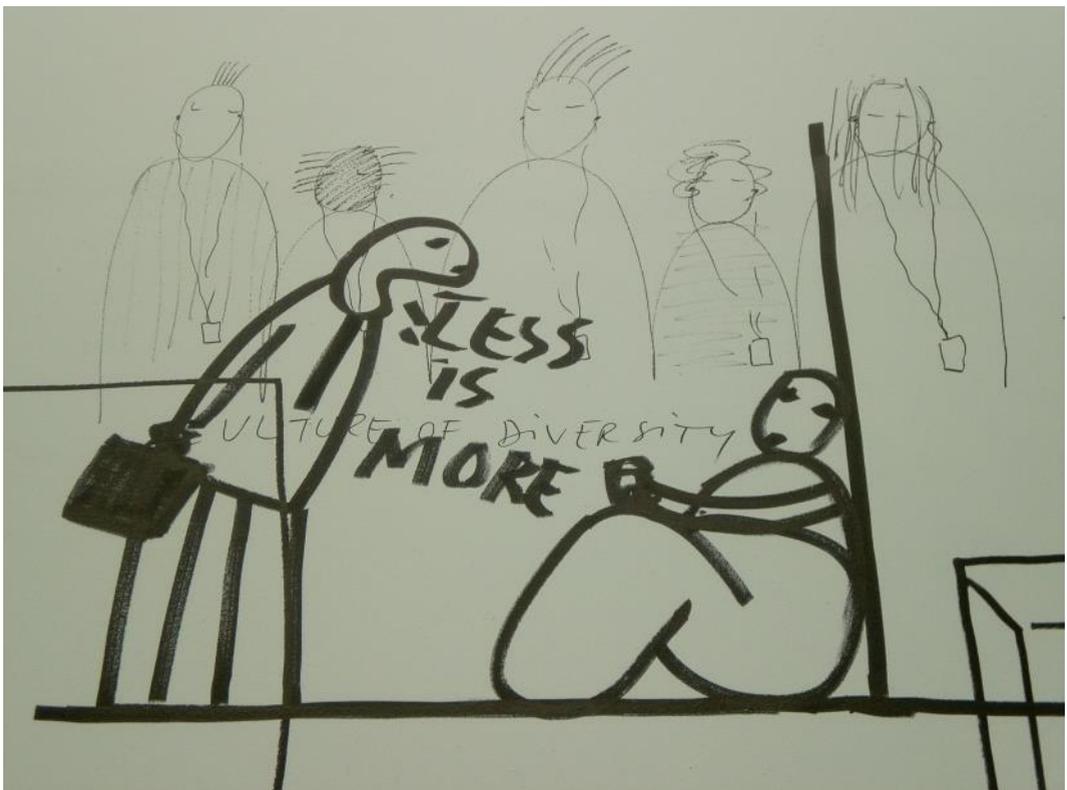
Sustainable?

Where people in organizations are not open to criticism, the possibility for correction is diminished. A certain degree of stubbornness seems to figure into the financial world. Only when one is personally persuaded that one has failed and caused others harm, comes an openness to correct one's actions to prevent future failures. It is by no means easy to bring such virtues as humility and penitence into common practice. Companies are all too quickly faced with legal claims if they admit to certain mistakes. It demands courage to permit oneself to be vulnerable.

Modesty is also connected to simplicity. In our personal lives, simplicity helps build integrity, making it easier to keep sight of the essential matters in life and speak up about them. This

runs counter to modern life and all its complexity. Such complexity is exemplified by various products developed and traded in the financial world (for instance, 'mortgage-backed securities' and 'collateralized debt obligations'). These products are so complicated

that even banking specialists and regulators



Graffiti: in case you didn't know

cannot properly assess their value and risk-profile. Although there are benefits for risk distribution associated with these innovative financial products, their complexity increases the likelihood of market failure due to inaccurate evaluation of greater risks and manipulation due to the lack of transparency. Complexity is, in itself, not a problem. Without intellectual challenges, people cannot develop sufficiently. But where systems, due to their complexity, begin to lead a life of their own, and where oversight is inadequate, they pose a threat to society, so that simplification and revision of ambitions is warranted. In such cases, greater constraints on the policy freedom of those with decisive roles in the system are required, so that they take more responsibility for the external effects of their decisions, coupled with more and better oversight by regulators.

Debt and Forgiveness

So far, the examples we have given for why the financial crisis should prompt us to rethink things focus primarily on the banking system and the behaviour of bankers. However, we fully recognize that, for many in other sectors, greed and short-term profit are temptations that prove hard to resist, just as they are for consumers looking for big loans or higher interest rates on their savings. The question is where the dividing line lies between reasonable debt and a lack of responsibility. Moreover, the economic crisis was not so much brought about by the actions of individuals as by an accumulation of patterns of behaviour, risks, policies and a general lack of adequate checks and

balances. There were many stakeholders, and the precise outcome of the whole global process was largely unknown. This means that, if we can or must speak of 'guilt,' it is largely of a collective nature. At the same time, we can distinguish the degrees to which various parties bear responsibility. Institutions can and do have a major influence on individual actions.

It is *not* the task of the churches to allocate blame. That also holds with respect to the credit crisis. Many did not knowingly act irresponsibly. Still, it is proper to note that grave mistakes were made. In the Christian tradition, we are freed to admit our fallibility precisely because of our awareness of God's grace. Relationship with God and the experience of His love and mercy give us deeper insight into our own shortcomings. God's loving acceptance of us gives us the freedom to become aware of our failures, to admit them, to reflect critically on them, to gain new perspective on them, and, finally, to work for change.

The examples above are intended as a stimulus to reflect together on what (economic) life is all about, what our collective responsibility is, and what we can do together to fulfil it. The Council of Churches hopes hereby to contribute to a more widely-shared rethinking of our own economic behaviour and the institutions and economic systems which shape it.

Such reconsideration may actually require that we go back to the drawing board. The economic crisis requires constructive reflection: 'What was the point of it all?' What was the original purpose of banks? What are or were education or health care actually intended for? Why do I do what I do? Is it only for money or for some broader purpose, such as the service of others? Such a constructive approach may stimulate growth and learning. The central point is that we consider together, on a fundamental level, what we really want from our own lives and society. This connects up with the basic desire of every human to be happy. Becoming more aware of fundamental concerns can point to a way out of the economic crisis. It is crucial that, in spite of the crisis, solidarity become more visible, more 'lived'. This will require that the solidarity which actually does exist between us, though often inadequately expressed in society, be better articulated. We talk ourselves into the idea that no one cares anymore, but in practice, if we look, we see miracles of compassion on a daily basis. Many people know full well that a life lived in isolation from others or from the natural world is no real life. This applies equally to our daily activity. People do want to make a difference. But too much external pressure to

do 'the right thing' can also demotivate, upsetting the innate desire people have to want to take responsibility. They may then be discouraged to contribute out of their own ethical desire to serve.

So how to bring change needs to be worked out on a variety of levels. It begins with individuals, in their roles as managers, employees, consumers, savers or investors. Without transformations in the culture and structure of organizations, though, nothing will change. It is therefore important that the nature of business regulation itself also changes. The room for manoeuvre for individual companies is set by the market environment and civil society. So there is also a role for numerous social and professional organizations to play in facilitating the necessary change. And the government, for its part, is responsible for adapting the legal framework accordingly.

Basic Premises

1 It does belong to the tasks of the churches to speak out about the economic crisis. It is not the role of the churches to offer policy solutions; that is also not expected from the churches. It is the duty of the churches to bring to light those societal developments which run contrary to what the churches stand for. 'Economy in the service of life' is a good statement of core values: for the churches, the economy as well as the monetary and banking systems are intended to serve life on earth as God intended it. Key principles in connection with this include care, justice and sustainability.

2 The economic crisis calls us to face up to fundamental flaws in the organization of the financial sector of the economy. These shortcomings are largely attributable to a way of thinking where the ideal of serving others no longer figures, an attitude that can be typified as hubris or arrogance. Because of this, a sector intended to serve the broader society brought it into difficulty instead. Within this sector, serious reflection is needed on fundamental questions about its own function and purpose and how what has happened can be guaranteed never to recur. In this sense, the current crisis presents new opportunities. An example might be drawn from those financial institutions which, from the outset, were opposed to such troubling developments, because, for them, short-term gains were not all that mattered. Other companies have focused on 'socially-responsible investment'. Even though there is considerable chaff among the wheat, we nevertheless consider it an important development that some companies choose a different route in their activities, taking into account long-term and non-financial interests.

3 What we see predominantly in the financial sector, we can also observe outside of it: many other organizations and institutions are estranged from their original purposes. The financial sector's mindset began to dictate behaviour in the rest of the economy, a development aptly typified by the phrase that 'companies became things you made money on, rather than being establishments in which you earned your pay.'

4 It seems that a manner of thinking took hold in our society that is in many ways in conflict with what civilized society is about: a humane and dignified existence for all, here and elsewhere, now and in the future. At the same time, few seemed capable of distancing themselves from the aforementioned destructive way of thinking. This even applied to churches and people of faith. In our discussions, the mindset was characterized by the following terms: management thinking, everything is a 'product,' rule fetishism, financial return as the only measure of good or bad policy, and short-term thinking.

5 Underlying all these developments are basic attitudes that need to change. The Ecumenical Movement (for example, in the Conciliar Process for Justice, Peace and Integrity of Creation) regularly brings attention to this.

First of all, growth-driven thinking, without regard for the limits of our finite planet, is problematic. Awareness of the need for sustainability is growing, but it needs to be worked through to bring changes in institutions and patterns of behaviour which favour sustainability. On this we urge more attention to 'the economics of sufficiency' or the earlier notion of 'selective growth'. It is also important in economic life that we seek a balance between the interests of all stakeholders: customers, suppliers, employees, shareholders, other investors and the society as a whole. The ideology that only certain interests (such those of shareholders) need be served has had far-reaching consequences. An image of humanity has been contrived which suggests that everyone need only look after his own interests and that all must compete to produce the best results. 'Public service' has become suspect, and the role and function of government to safeguard the common good has been trivialized. Money-making potential has become the determinant of whether a particular policy is desirable.



People's voluntary commitment to each other remains huge

Finally, the notion that market forces and market mechanisms are adequate and effective ways to organize social and economic interaction, and that more liberal regulation is desirable – a way of thinking that contributed to the crisis – deserves critical scrutiny in the light of actual economic practice.

6 We observe, too, that public authorities have also not been able to escape these trends. The government has, in many areas, withdrawn as guardian of the public interest, on the assumption that the market could better fulfil this role. This has led to policies that have undermined confidence in government generally, a development which seriously threatens democracy.

7 On the level of individual activity, there seems to be a paradox. On the one hand, the commitment to voluntary work seems largely undiminished. Mutual assistance and solidarity seem to be as strong as ever. On the other hand, there are conflicting visions of ‘the other’ and of ‘society’ as a whole, and both are characterized by distrust. People who believe in caring for others *feel* they are a dwindling minority. At the policy level, little is made of the first (persistent solidarity), and even less is done to reduce the second (distrust). This is partly because of the view that competition and the pursuit of self-interest are important guiding principles, even in areas such as health care and education. Solidarity in society has not disappeared, but receives little attention or expression. We see a similar development when it comes to taking on responsibility. In healthcare, for example, some forms of regulation have been introduced which seem inspired by mistrust and an obsession with rules, both of which undermine job satisfaction and personal motivation. Those elements that should serve to cement society together must not disappear. Otherwise, life together becomes impossible. It should be the concern of everyone that the foundation of mutual trust be restored, and that trust and mutual aid are given every opportunity to flourish.

8 The printing of money must also serve the public good. In the run-up to the economic crisis, there was an excess of credit growth, which was partly speculative but also threatened the real economy. The permissive monetary policy of the U.S. at the time seemed to reinforce this trend rather than limit it. Reflection on sound monetary policy is needed to curtail the instability caused by the growing dominance of the financial sector.



Where do you stand?

Discussion Questions

- 1** In his sermon, R. Haan argues that *the* central word in the Bible is not 'self-interest', but 'love'. But is this biblical understanding also applicable to everyday economic interactions, for entrepreneurs, managers, employees, and consumers? If so, how? If not, why not? Can we speak of an enlightened or healthy self-interest and how does this relate to such Christian values as 'agape'?
- 2** One of the components of the Sabbath year is debt forgiveness. Do you think that this concept can also be applied in the current crisis? If so, how? If not, why not?
- 3** What symptoms indicate that money or other possessions are in danger of becoming 'Mammon-like'? Do you see examples of this in our society?
- 4** Many feel that the economic crisis itself, and also the responses to it, have been socially unjust. Do you agree? Can you give practical examples of how we might better respond to the crisis?
- 5** Do we, as ordinary citizens, share some of the blame for the economic crisis? For example, in our consumption, our saving patterns, or our assumption of debt?
- 6** How do you feel personally about the tension between a Christian way of life and your role as manager, employee, saver or investor in the market economy, especially with respect to such Christian values described in this brochure as justice and modesty (humility)?
- 7** In this situation, should churches have a prophetic voice? If so, what should their message be? What role should pastors and priests play in this?
- 8** Where do you see evidence of practical attempts to stimulate a sustainable economy? How can these efforts be further enabled?

For Further Reflection

1 You have come to the conclusion that you have to reduce your costs in order to put your financial house in order over the long-term. You sit down (with the members of your household) and make a list of areas of spending where you might want to cut back:

- vacation(s)
- donations
- consumption of disposable goods: food, drink, clothing
- sport
- subscriptions
- hobbies, culture, art

Where will the focus lie in your own situation? Are there items that are 'sacrosanct' for you? How susceptible are you to social pressure on some of these matters?

2 This paper suggests that the present global crisis has no single cause, but is the result of a variety of factors. What, in your view, is needed to turn the tide? Which of the approaches below would you prioritize?

- There needs to be stronger regulation of the banking sector by independent institutions.
- Bonuses must be immediately withdrawn and banks should use that money to restore their own financial health
- A new attitude needs to be developed, from the 'ground' up, so that greater respect for creation and human dignity is instilled in every person.
- The causes of the crisis mentioned can offer a starting point to reflect on what local initiatives churches can take that might meet the needs of crisis' victims in their neighbourhoods.

3 Youth workers in your congregation/parish have come up with a proposal to take a group of your young people to participate in a construction project in Ghana. The aim is to collaborate with locals to construct a school building for toddlers during a three-week period of the summer holiday. The plan demands considerable advance preparation, including having the young people raise funds by doing various chores and activities. How might you react to such a plan?

- You encourage your child to take part.
- You do not feel compelled to discuss it with your child.
- Your child is keen, but you set pre-conditions: his or her own education takes priority; he or she has to finish the school year with good marks before getting carried away by activities related to the project.
- Your child is not excited about the plan, but you decide to give financial support to the project on your own.

4 The new iPhone 5 is out! How do you react?

- You count yourself among those who regard this iPhone as a 'must-have';
- You consult with members of your household before buying one;
- You shrug it off and stick with the older model;
- You consider these sorts of products and all that surrounds them to be a threat to sustainability;
- You believe that all the investment in development and production of new smartphones would be better spent on other things.

5 Your child is following a course of study. A renowned institute offers a six-week summer school that broadens and deepens the knowledge acquired in his or her course. The cost of the summer school is 4,000 Euros. Your child's main argument for wanting to take part is that a certificate from this institute substantially increases one's potential for success on the job market. You, as the parent, do have the means to pay the tuition. What do you?

- In your view, your child is old enough to bear the financial responsibility that goes with his or her choices. You suggest he or she finds a job to cover the costs.
- You test the motivation of your child by suggesting that he or she first saves up half the money for the course, and you will cover the other half.
- You generously pull out your wallet and encourage your child to sign up straightaway.
- You suggest that your child first finish off his or her own course of study and work for a few years. *Then* enrolling in such a summer course might be in order.
- You contend that it is ridiculous to be taken in by the institute's claims that its students have an advantage on the job market. It's not about what you do (or what certificates you hold) but *how* you do your work.

6 Is the economic crisis a cause to reflect on your own choices with respect to money and banks? Are you familiar with the Fair Bank Guide (www.eerlijkebankwijzer.nl)? Below are two questions to stimulate reflection.

- Have you ever thought about asking your personal banker about how to invest in sustainability and fair trade?
- Have you ever considered having your savings, mortgages, investments and accounts with banks which make sustainability and ethical investment a priority, such as the Triodos or ASN banks?

End notes

¹Economie in dienst van leven, Oecumenische Bezinning, 2002, nr. 23

²See Albert, M. (1991), *Capitalisme contre capitalisme*, Parijs, Editions du Seuil. For various forms of capitalism, see also Van de Klundert, T. (2005), *Vormen van kapitalisme. Markten, instituties, macht*. Utrecht, Lemma.

³Friedman, M. (1999), The Business Community's Suicidal Impulse, *Cato Policy Report*, March/April 1999, Vol. 21, No. 2. ⁴Graafland, J.J. en Compen, B. (2012), Economic freedom and life satisfaction: a cross country analysis, with Bart Compen, Centre DP CentER 2012, <http://arno.uvt.nl/show.cgi?fid=122605>; http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2057751.

⁵Long, B. (2011), Adam Smith's Theodicy, in: P. Oslington (ed.), *Adam Smith as Theologian*, London: Routledge, pp. 98-105.

⁶Laan, G. van der; Ees, H. van; Witteloostuijn, A. van (2010) Is pay related to performance in the Netherlands? An Analysis of Dutch Executive Compensation, *The Economist*, vol. 158, nr. 2 p.123-149.

⁷The members of the most important decision-making body of the ECB, the 'governing council', are experts who are presidents of national central banks. Its aim is to make the ECB independent so that politicians have no direct influence on monetary policy, but rather an indirect one, through the appointment of experts.

⁸See <http://csc.ceceurope.org/index.php?id=834> en http://www.raadvanekerken.nl/pagina/93/charta_oecumenica.

⁹For more information, see 'Armoedesignaal 2012' (Poverty Survey 2012). This is a publication of Kerk in Actie (Church in Action), the work group Arme Kant van Nederland (Poverty in the Netherlands)/EVA (Economy, Women and Poverty), the Council of Churches of the Netherlands and the Catholic National Diaconal Council. This document is only digitally available via www.kerkinactie.nl en www.armekant-eva.nl

¹⁰The publication 'De Boodschappenmand 2012 – Koopkracht in de praktijk' (The Shopping Cart 2012 – Purchasing Power in Practice) was produced by the work group Arme Kant van Nederland (Poverty in the Netherlands)/EVA (Economy, Women and Poverty) of the Council of Churches and the industrial chaplaincy mission organization DISK (Dienst in de Industriële Samenleving vanwege de Kerken).

¹¹The Council of Churches has produced other publications on this subject. See, for example: Kwetsbaarheid, verantwoordelijkheid en moed. Klimaatverandering: het moment van de waarheid, 2009, nr. 34, 28 pages, <http://www.raadvanekerken.nl/fman/861.pdf>.

¹²The 21 Minute survey was an initiative of McKinsey and de Publieke Zaak. Zie <http://www.denationale dialoog.nl/empty/land.aspx>.

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