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# The Role of Religion in the Global Financial Crisis

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## Abstract

The Global financial crisis of the late 2000s is reckoned as the worst financial crisis since the great depression of October 29, 1929 the Great depression began officially in America with the crashing of the stock market and bank closures which halted businesses and industries including to unemployment. This depression posed some challenges which led to high consumer debt, ill – regulated markets directed by over – optimistic loans by banks and investors, inequality in money circulation and lowered production. It was not a natural disaster but a crisis caused by: wild spread failures in financial regulations including the federal reserve's failure to stem the tide of toxic mortgages; dramatic breakdown in corporate governance including too many financial firms acting recklessly and taking on too much risk; an explosive mix of excessive borrowing etc. These were global effects of the financial crisis: poverty crisis, deplorable human rights conditions, poor foreign aid, debt crisis etc.

Apart from providing the moral framework or principles with which financial institutions are to operate, the church has the duty to present a reasonable and well – argued criticism of the errors to have led to the economic crisis. This mission exercised firmly and courageously avoiding morality but explaining matters using concrete reasons that may be understood by everyone.

## Introduction

The Global Financial crisis of the late 2000s is reckoned as the worst financial crisis since the great depression of October 29, 1929[1].The Great Depression officially began in America with the stock market crash and bank closures which halted businesses and industries leading to scores of unemployment.

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In addition, were the challenges posed by high consumer debt, ill-regulated markets directed by over-optimistic loans by banks and investors, inequality in money circulation and lowered production[2].

Similarly, the Global Financial Crisis that came to its peak in 2007 was characterized by a parochial system of protectionism which prejudices the growth of developing economies. At the heart of this protectionism is the value placed on the insatiable consumption of shareholders over and against the common need of the people. Hence, so long as the financial crisis affects human flourishing it precipitates some ethical and religious evaluation. Suffice it to say that religion without an embrace of the economic sphere (the sphere of social justice) is incomplete and flawed. Thus, religion plays a prominent role in Global Economics because it provides the Universalist moral framework with which economic and financial institutions are to operate. More precisely, we are concerned with the social dimension of religion (the sociology of religion) by which religion plays the major functions of explanation, integration and making of symbolic statements about the universe[3]. This is so, because religion still offers answers to questions of suffering and pain in the world, as well as the question on the purpose of human life.

For instance, African Traditional Religion uses proverbs, folktales, stories, myths etc, to promote human flourishing. In Christianity, the sacred scripture and magisterial pronouncements/teachings are in force while the Muslims have recourse to the Koran and Sharia Law.

Religion remains complex and multi-dimensional and cuts across every aspect of human existence[4]. Be it the church, mosque, temple or shrines, all of these are agents of socialization and as such agents of development or social change.

It is upon this assumption, that we shall be restricting our application of religion to the Christian religion and precisely, to magisterial pronouncements since the latter equally reflects the moral framework that should guide economic and financial institutions. Again, it is the aim of this work, to expose the functionalist perspective of religion in relation to a world destabilized by Global Financial Crisis.

## The Global Financial Crisis: A Synopsis

The Global Financial Crisis of the late 2000's had its origin in the banking system of the United States of America. It was not a natural disaster but a crisis caused by: widespread failures in financial regulation, including the Federal Reserve's failure to stem the tide of toxic mortgages; dramatic breakdowns in corporate governance including too many financial firms acting recklessly and taking on too much risk; an explosive mix of excessive borrowing and risk by households and Wall Street that put the financial system on a collision course with crisis; key policy makers ill prepared for the crisis, lacking a full understanding of the financial system they oversaw; and systemic breaches in accountability and ethics at all levels.[5] All these triggered off the liquidity shortfall in the United States Banking System which saw the bursting of the United States housing bubble which peaked in 2007. At this point, there was a loss of confidence by United States investors in the value of subprime mortgages. This in turn resulted in the United States federal bank injecting a large amount of capital into financial markets.

The housing market in the United States suffered greatly as many home owners who had taken out subprime loans found they were unable to meet their mortgage repayments. As value of homes inflated, the borrowers found themselves with negative equity.

With a large number of borrowers defaulting on loans, banks were faced with a situation where the repossessed houses and land were worth less on today's market than the bank had loaned out originally. The banks had a liquidity crisis, and giving and obtaining loans became increasingly difficult. By 2008 there was a severe global economic recession as stock markets around the globe crashed and became highly volatile. By August 2008, 9.2% of all United States mortgages were either delinquent or in foreclosure. This was followed by the collapse of Lehman brothers in September and by 2009 mortgages had risen to 14.4%.[6] Governments around the world struggled to rescue giant financial institutions as the fallout from the housing and stock market collapse worsened. The response of the United States Federal Reserve, the European Central Bank, and other central banks was immediate and dramatic. During the last quarter of 2008, these central banks purchased United States $2.5 Trillion of government debt and troubled private assets from banks.

This was the largest liquidity injection into the credit market, and the largest monetary policy action, in world history. The governments of European nations and the United States of American also raised the capital of their national banking systems by $1.5 trillion, by purchasing newly issued preferred stock in their major banks. In October 2010, Nobel laureate Joseph Stiglitz explained how the United States Federal Reserve was implementing another monetary policy – creating currency – as a method to combat the liquidity trap. By creating $600,000,000,000 and inserting this directly into banks the Federal Reserve intended to spur banks to finance more domestic loans and refinance mortgages[7]. However, banks instead were spending the money in more profitable areas by investing internationally in emerging markets. Precisely the United States responded to the crisis by enacting some bills: Wall Street reform and consumer and protection act of 2009, Restoring American Financial Stability Act of 2010 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Consequently, the National Bureau of Economic Research (NBER) in September,2010 declared that the Great Recession in the United States had officially ended in 2009 and lasted from December 2007 to June 2009[8].

But currently is the Euro-zone crisis that has been heightened by the Greece dept crisis. European leaders are of the keen interest to avoid a contagion of the Greece crisis to other parts of Europe. Hence, they are calling for bail-outs from developed countries to respond to the crisis.

## Global Effects of the Financial Crisis

### Poverty Crisis

The Financial Crisis has thrown almost half of humanity into a daily financial, social and emotional crisis of poverty and there is little in the way of bail out for these people many of whom are not to blame for their own predicament. Poverty alleviation programmes such as the United Nation Millennium Development Goals are under threat from the effects of the financial crisis which would reduce funds available for the goals. According to the World Bank report in 2009, over 53million are at risk of extreme poverty following the financial crisis.

## Deplorable Human Rights Conditions

Human rights and economic issues go hand in hand. Hence human rights are jeopardized when the economic sphere is in crisis. Long before the Global financial crisis took hold, human rights concerns were high the world over.

But the Global Financial Crisis of the late 2000s has given rise to human rights crisis[9]. As such, the millennium Development Goals that are to address many concerns such as halting poverty and hunger around the world are already affected. In fact the communities most affected by human rights crisis are the real driving force behind the human rights struggle[10]. These deplorable human conditions seen in restiveness, civic unrest, protestations, massive social upheaval have led to a human catastrophe[11]. Across Africa for instance, people demonstrate against desperate social and economic situations and sharp rises in costs of living. Some demonstrations often turn violent and authorities often repress protests with excessive force.

## Poor Foreign Aid

Foreign aids ranging from humanitarian services, emergency assistance, to food aid and military assistance etc have long been recognized as crucial to help poor developing nations grow out of poverty. In 1970, the world's rich countries agreed to give 0.7% of their Gross Natal Income (GNI) as official international development aid, annually[12]. But the Global Financial Crisis has crippled even richer nations so that it cannot be expected that current levels of aid can be maintained as donor nations themselves go through financial crisis.

## Debt Crisis

The Debt Crisis has crippled many developing countries. It is often based on loans taken out by rulers and dictators which subject millions of people to poorer and poorer living standards as precious resources are diverted to debt repayment. Many of these third world debts were incurred not just by irresponsible government borrowers but can also be described as irresponsible lending from Western Banks and institutions such as the IMF and World Bank. However with the advent of the Global Financial Crisis and despite enormous protest and public pressure for odious debt relief or write-off, grand promises of debt relief for poor countries often turn out to be exaggerated.

For instance, it could be announced that a developing country has been granted 40 Billion Dollars debt write-off, but in reality it could be just 17 billion dollars.

But in contradistinction, the 700 Billion Dollars United States bailout as well as bailouts by other rich country governments were very quick to put in place. The money then seemed easy to fund[13]. Simply put, this is a clear show of western capitalism and dominance in the economic sphere, and since Nigeria is not exempt from this trap, one could as well see the telling impact of the Global Crisis on the Nigerian Economy.

## Impact of the Global Economic Crisis on the Nigerian Economy

The impact of the Global Financial Crisis in Nigeria was heightened by poverty, inadequate shelter, low health standard, lack of gainful employment, low wages, and inadequate income for subsistence and self-sustenance.

By the end of 2008 there was panic as the stock market was already at its lowest bearish level and people were of the view that the Nigerian global banks would soon cry for bailouts as many of them are quoted.

The regulators of the economy such the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), repeatedly assured Nigerian banking system that in as much as the economy might not be insulated from the effects of the meltdown, the country's 24 universal banks which was saved by the consolidation exercise of the sector in 2004[14], are strong to weather the crisis.

There was soaring risk aversion, tumbling equity market, falling exchange rates, falling and capital flow decline, while the stock market bearish period deteriorated substantially leading to loss of investor's confidence.

Consequently the World Bank and the International Monetary Fund, (IMF) revised global growth expectations from 2.5% to 0.9% as a result of the economic turmoil. This showed that the world economy was mired in the severest financial crisis since the Great Depression and African countries including Nigeria have been adversely affected. However, the economic crisis has posed a lot of challenges in Nigeria which experts said have led to the shrinking of the economy.

First, the falling oil prices and dwindling revenue for government led to less deposit for banks which depend on the public sector for bulk of their deposit liabilities.

The fall in oil price is also said to have affected the rate of accumulation of the external reserves. Consequently, the naira has been under a lot more pressure losing more than 25% of its value from last year to first quarter of the year. The free fall of the Naira at the Foreign Exchange (Forex) market climaxed with the Naira being exchanged with the one Dollar at 153[15].

Also, the declining capital inflows into the economy, have the effect of worsening the problem of relatively high operating costs occasioned by decaying infrastructure like power and transportation because of the dearth of funds for investment in infrastructural development.

While the impact on banks is mainly based on higher operational costs as well as loss of income that could have been earned from facilitating the inflow of capital into the economy, there was also the loss of income from strategic business units like the local Foreign Currency Unit (FCU), debt in banks due to restrictive foreign exchange policies (such as the reduction in Net Open Positions, etc enacted to defend the naira) which have virtually strangled the interbank exchange market and related transaction income.

There has also been reduction and re-pricing of credit lines from foreign banks and in some cases outright freezing of such lines.

This has led to loss of significant income usually earned from Trade Finance business. The capital market downturn and divestment by foreign investors in the stock market is said to be the most severe effect of the global meltdown. Key financial institutions which directly depend on the stock market such as the stock-broking firms, rating agencies, investment and asset management companies as well as banks that are exposed to these institutions have been experiencing loss of business.

As a result of the financial meltdown, government at national and sub national level have recently increased its borrowing to cover shortfall in revenue and resultant crowding out of the private sector.

In spite of the notable achievements recorded in the banking sector such as the consolidation of the banks, growth in the credit system shows that credit to the private sector grew from N1.52trn in 2003 to N8.13trn in February 2009.

Apart from the growth rate of 2009 which indicators have shown to be 2.8 percent which is about half of the growth rate in 2008 as well as the vital source of deposits which the banks are seen to be losing, there is also serious concern whether Nigerian banks are resilient enough to withstand these impact of the global economic meltdown.

Analysts are of the opinion that the Nigerian banking sectors will most likely, wax stronger and even improve its performance once the global economy returns to the path of growth.

With the current focus on stricter regulations, global reporting standards and enhanced risk management by the new Central Bank Governor, Mallam Sanusi Lamido Sanusi, Market watchers are of the view that the Nigerian banking sector will most likely wax stronger.

## The Role of Religion in the Global Financial Crisis

Apart from providing the moral framework or principles with which financial institutions are to operate, the church has the duty to present a reasonable and well-argued criticism of the errors that have led to the economic crisis.

This mission is exercised firmly and courageously avoiding moralism but explaining matters using concrete reasons that may be understood by everyone[16]. Again, the church is to help bring about a change of direction and show the path of true reason illuminated by faith which is the path of self-sacrifice and concern for the needy[17].

Hence, Pope Leo XIII in Rerum Novarum (1891) addressed for the first time social inequality and social justice focusing on the rights and duties of capital and labour. With a sense of moral outrage at the suffering of the poor Pius XI's Quadragesimo Anno (1931) focused on the basic causes of injustice and poverty. It insisted on the need for both a reform of social institutions and the improvement of conduct[18]. Consequent upon this, John XXIII in Mater et Magistra (1961) and Pacem in Terris (1963) provided a new direction for the modern world.

He insisted that people must have to work together for the common good and that this collaboration is to be facilitated by the civil authorities[19]. Furthermore, he maintained that whatever wealth is available should be distributed more equitably and that more people should become owners of property. This position was later corroborated by John Paul II in Centisimus Annus commemorating the 100th anniversary of Rerum Novarum. Similarly, Benedict XVI in Caritas in Veritate reiterates the social doctrine of the church that unceasingly highlights the importance of distributive justice and social justice for the market economy not only because it belongs within a broader social and political context, but also because of the wider network of relations within which it operates[20].

Without internal forms of solidarity and mutual trust, the economy cannot fulfil its proper economic function. Therefore, at the heart of the Global financial crisis is the utopia to create an autonomous economy that must be shielded from "influences" of a moral character[21]. Again, the error of solving all social problems through the simple application of commercial logic is a grave imbalance that does not acknowledge political action as a means for pursuing justice through redistribution[22]. Economic action must be complemented by political action and all geared towards the pursuit of the common good. And since financial institutions are part and parcel of human activity and precisely because they are human, must be structured and governed in an ethical manner. Every economic decision has a moral consequence and a decline in ethics can actually cause the laws of the market to collapse.

It is strongly the growing conviction of the church's ethical orientation that business management cannot concern itself only with the interests of the proprietors, but must also assure responsibility for all other stakeholders who contribute to the life of the business: the workers, the clients, the suppliers of various elements of production, and the community of reference[23]. In this light, the social teaching of the church has authoritatively affirmed some obnoxious economic systems as being responsible for the financial meltdown: Classical economics, liberation theory and the Marxist economic system. All these have been identified as valueless economic systems because of their shared determinism and their renunciation of ethics as an independent entity relevant to the economy. More so, they are valueless in their power to provide the greatest good for the human family[24], because they concentrate the benefits of economic development at the top making the rich to get richer and the poor, poorer.

## Evaluation & Conclusion

Following the wake of the Global Financial Crisis (Credit Crunch), the church calls to account, economic and financial institutions, their moral consciences and their personal and social responsibilities. And since every investment must always have a moral significance, economic and financial institutions must avoid a speculative use of financial resources for only short term profit. Above this, they must have regard for the long-term sustainability of the enterprise and real benefits for countries in need of development. In other words, there is an urgent need for increasing openness to forms of economic activity marked by quotas of gratuitousness and communion[25]. When this is attained, the Global Financial System would be able to avoid weak internal controls, ignorance of and non-compliance with rules, poor risk management practices resulting in large volume of non-performing credits, succumbing to pressure from stakeholders as well as ineffective management and information system.

## End Notes

1 During the Presidency of Herbert Hoover, the Economy of the United States was thrown into despair on October 29, 1929. This day known as the Black Tuesday was the day the stock market crashed and the official beginning of the Great Depression

2 Randall E. Parker. Reflections on the Great Depression (2000) interviews with 11 Leading Economists

3 Margaret Peil, Consensus and Conflict in Africa: An Introduction to Sociology: England, Longman 1977. P.215

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5 The United States Financial Crisis Inquiry Commission – Press Release – January 27, 2011

6 MBA Survey – Q3 2009. Mbaa.org. November 19, 2009.

7 Stilglitz Joseph "New $600B Fed Stimulus Fuels Fears of United States Currency War" November 5, 2010. Democracy Now

8 National Bureau of Economic Research (NBER) September 20, 2010.

9 The Annual Report of Amnesty International: the State of the World's Human Rights (2009).

10 _____ (2011)

11 The Head of the World Bank Robert Zoellick, in 2009 warned of a "Human Catastrophe" in the world's poorest countries unless more is done to tackle the Global Economic Crisis.

12 Anup Shah, "Foreign Aid for Development Assistance" Global Issues. 05 June, 2011 <http://www.globalissues.org./article/35/foreign-aid-development-assistance.

13 ______, "Global Financial Crisis Global Issues" 11 December, 2010. www.globalissues.org/article/768/globalfinancial-crisis.

[14] In July 6, 2004 the CBN governor Professor Charles Soludo made an unexpected policy pronouncement that increased the minimum capital base for banks from 2 billion to 25 billion. Consolidation is a term used by the Central Bank of Nigeria (CBN) to describe the carrying together of some banks within the country to become one bank and be able to meet CBN's requirement for capitalization to a minimum of N25billion. This is expected to improve services rendered by the bank.
[15] Joel Nwokeoma "Nigeria and The Global Financial Crisis" Global Politician, March 24, 2009
[16] Robert Moynilan "The Global Financial Crisis: Papal Encyclical coming". March 4th, 2009. www.globalresearch.ca
[17] Ibid
[18] Pius XI's Quadragesimo Anno, 77, 97, 98, 127.
[19] Donald Dorr, Option for the Poor (Dublin: Cull and Macmillan Ltd, 1992), 115
[20] Benedict XVI Caritas in Veritate (No. 35)
[21] _____ No. 34
[22] _____ No. 36
[23] _______ No. 40
[24] Joseph Cardinal Ritzinger: "Church and Economy: Responsibility for the future of the World Economy" Communio 13 (1986), 199 - 204
[25] Benedict XVI Caritas in Veritate (No. 39)