Thrift as Solution to the Credit Crisis

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transforming business

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The current credit crunch stems from a deeper moral and spiritual crunch. At stake is a virtue on which capitalism depends – thrift. Peter Heslam argues for the recovery of this virtue as a solution to the current credit crisis.

For most of the twentieth century, nearly everyone in advanced economies had access to grassroots saving and investment institutions, including building societies, mutual funds, saving book accounts and credit unions.

While most of these pro-thrift institutions provided loans, they demanded evidence of credit worthiness and required a substantial deposit before allowing someone a loan. Lotteries, casinos, predatory interest rates (usury) and other forms of thriftlessness were outlawed. For sure, pawnbrokers, bookmakers and loan sharks existed, but their operations were generally considered disreputable.

Today the institutional landscape looks very different. While a pro-thrift sector still exists, it fails to serve ordinary citizens. Indeed, many commercial banks and investment funds have abandoned the small saver in favour of 'high net worth individuals' to whom they supply an ever-increasing variety of tax-efficient investment opportunities. Simultaneously, financial institutions targeting low-income ('sub-prime') consumers have proliferated. Credit card, hire purchase and student loan companies have multiplied, along with cheque cashing outlets, loan brokers, lotteries and online gambling facilities. The growth of this anti-thrift sector is partly responsible for the high levels of consumer debt that have become an accepted feature of advanced economies but now threaten to undermine them.

The emerging two-tier institutional framework serving rich investors and poor debtors not only raises questions about the morality of debt, about which today's moral and religious leaders are generally outspoken, but also about the importance of thrift, about which such leaders are generally silent.

Despite this silence, Hebrew and Christian scriptures provide solid foundations for a theology of thrift. Indeed, the word probably derives from an Old Norse word meaning 'to thrive' and connotes 'prosperity' or 'well-being' – meanings encompassed in the Hebrew notion of *shalom*, which is central to the biblical theme of redemption. Not to be confused with 'stingy', thrift is an amalgam of attitudes and behaviours that leads to prosperity.

True, Jesus warned against laying up treasure on earth (Mt 6:19-21). But his warning is against greed and miserliness, which undermine thrift. In fact, the fear that generally accompanies these vices is evident in the words and actions of the third servant in Jesus' Parable of the Talents (Mt 25:14-30). This servant's fear, based on a harsh picture of God, led to actions that were unimaginative, unproductive and risk-averse. In contrast, the fearless words and actions of the two servants who 'put their money to work' reflect a God who inspires the kind of imagination, productivity and responsible risk-taking that characterise the thrift needed to convert the barrenness of money into the fruitfulness of capital.

Having made this conversion, which underlies all investment and entrepreneurship, these two servants are welcomed into God's shalom economy: 'I will put you in charge of many things. Come and share your master's happiness' (Mt 25:21,23). Their thrift is rewarded with greater stewardship responsibility and with happiness. This resonates with two further meanings of thrift: 'prudence' and 'providence', words that appear in the names of two large investment companies that began as explicitly pro-thrift institutions: the Prudential and Friends Provident.

All this seems a long way from the situation today, in which debt levels have increased disproportionately to income. While easy access to credit can open the door to greater opportunity and freedom, it can, in the absence of thrift, close that door. Indeed, the repossessions associated with sub-prime lending are now slamming shut many doors, not all of them metaphorical.

Some attribute all this to individual greed and recklessness. But institutions, because of the part they play in shaping human choices, are crucial. They have the potential either to build or undermine the norms, values, habits, trust and sense of purpose – ie social capital - that augment individual decisions with wider social considerations and commitments. Because such capital reduces the need for litigation and monitoring, it is 'efficient' and promotes economic growth.

The tragedy with anti-thrift institutions is that they promote a culture of debt in which people often find it impossible to delay gratification and fulfil goals that go beyond material concerns. A psychology is instilled that emphasises the *hedonic* rather than the *productive* use of money. This psychology is alien to the creative, future-orientated and purposive mindset that is commended in Jesus' parable and which encourages investment. The lottery now presents itself to poor debtors as a means of redemption. Decoupled from hard work, reward is attached to chance and fate. Would-be habitual savers and investors prepared to delay gratification are being made habitual bettors content only with instant gratification.

What can be done about this? Those who say 'nothing', either because the obstacles are too high or because the market needs to be left to its own devices, are like those who argued that nothing could be done about the wearing of seat belts or smoking in public places. And there are precedents for taking decisive action. The British government introduced a new threepence coin in 1937

depicting the thrift plant on one side, thereby promoting thrift by way of a pun. Soon afterwards, during wartime, the British and US governments actively encouraged their citizens to save by issuing war savings.

This article is too short to develop pro-thrift proposals in detail. But opinion formers, who are increasingly emphasizing the importance of 'happiness', should draw inspiration to do so from the way in which happiness is obtained in Jesus' parable. In the meantime, the following suggestions may be worth considering:

- a public education campaign on thrift, linked to government-backed bonds;
- the creation of innovative thrift institutions that are relational and community-based;
- the development of national lottery ticket outlets as places where savings tickets can also be sold.

The second of these suggestions could draw from the experience of micro-finance organizations in developing countries, such as the Grameen Bank, whose operations have strong relational dimensions - the pressure to repay is mediated through a group of fellow borrowers.

With regard to the third suggestion, adverts could use a slogan like 'every ticket wins'. Millions of consumers, currently bombarded with gambling and credit options, would be offered a rare opportunity – the opportunity to invest.

This would be no more, and no less, than the freedom and opportunity of the market economy – an economy built on thrift.

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