

In 2008 and 2009 I preached three or four sermons about the economic situation. I painted a pretty bleak assessment of the future. I don't think anybody commented. Perhaps most people thought me a little extreme or even dotty and the silence was perhaps indicative of disapproval or disbelief. My views have not changed. The meltdown of capitalism did not come in 2008 although recently Alistair Darling, the previous Chancellor of the Exchequer, has said that saving the financial system of the world occurred within 2 hours of a complete collapse. That was how long the Royal Bank of Scotland had before the rescue in his estimate. Lehman Brother had already collapsed, and with RBS going too it is unlikely that the world financial system would have survived resulting in a chaos where money – that paper in your pocket or figures in your bank accounts – temporarily ceased to have value. In such circumstances some form of military rule would have been the only option in most if not all states to restore order and get people work and food. The world would have survived, but it would have been a very different world than the one we now enjoy.

Today we are no longer in such an immediate perilous situation. There is no ticking bomb that will go off within hours. However the situation, while not critical in the very short term (days or weeks), remains critical nonetheless. Analyzing this situation is crucial for me. I regard it as the vital prophetic role of the church to say where we are and what from a God perspective is likely to happen. I see a great change that is upon us in the next fifteen years – probably considerably less, even during the next five years – one like that which hit the world with a similar dynamism as it did at the dawn of the modern age 500 years ago. It will mean that things will no longer be there, *as we expect them to be*. However life will go on, and the church will go on, and the church will be stronger, and will lead the way as it always has done in the great changes that have occurred in world history over the last seventeen hundred years.

500 years ago the world was hierarchical led by princes who ruled often brutally and unaccountably with the vast majority of people living in abject poverty. The world was changing. A new capitalist class was emerging, who commanded great wealth and before whom the old powers had eventually to bow. There were demands for government to take account of the will of the people, a new concept. What broke out was a war against absolutism in different parts of Europe and led to the democratic institutions that we enjoy today.

In Britain the process started with the *Magna Carta* in 1215 when the nobility insisted that the King rule by law and not arbitrarily, then in the 1640s when Parliament refused to bankroll the king and his wars, and finally in 1688 when Parliament decidedly placed the will of the people in Parliament before the arbitrary will of the king. The end of this process was the creation of the welfare state. This occurred principally under Lloyd George and Winston Churchill before the First World War, developed under Atlee after the Second World War and reached its apogee under Wilson and Heath in the seventies. This of course is mirrored elsewhere in different parts of the Western World. Britain however was decidedly first. It was a linear development from absolute non-accountability to the accepted understanding that all governments fulfil the wishes of their people.

By 1970 decay had already set in. What started with a demand for the people to be considered, ended with over generous welfare payments that began to undermine the basis of work and the inner strength of nationhood. It was also the welfare state that sucked in the immigrants that has changed the face of the Western World. The wishes of the people amount essentially to security and support which the democratic states have sought to meet. Political parties *offer* the people

increasing incentives to choose them over against their opponents, resulting in ever spiralling overspending by governments. It was in the seesaw of Wilson and Heath that welfare payments outstripped what was ultimately affordable. The same seesaw occurred in America with Lyndon Johnson and Nixon.

The result is that all over the Western liberal democratic world counties are faced with pending bankruptcy. The high point of a strong inner personal character for a people that permitted the defeat of fascism in the 1940s was honed and nurtured in the Nineteenth Century through a common religious and ethical vision. This started to wilt and die as democracy herself advanced towards old age. It was replaced by an ever increasing sense of *inclusion*; that sense that all should share in the advantages of a modern open society, from the poorest to those who flee oppression elsewhere in the world. This notion is noble in itself but without being underpinned by strong character it will not withstand great shocks like those we faced in the past. Inclusion has unfortunately replaced character, for character requires a moral vision that inclusion will not allow.

Something else happened in 1970. The Bretton Woods Agreement made by the Allies in 1944 for post-war economic stability broke down and was abandoned in 1971. The Bretton Woods Agreement among other things established the criteria for stable world currencies. There would be a return to the gold standard under the leadership of the US. The dollar was pegged to gold at 35 dollars to the ounce and other currencies were pegged to the dollar.

Let me tell you something about currencies and gold – the prices in the world have always fluctuated in the short to medium term, but over the long term they have also always been stable *in gold terms*. The price of a loaf of bread in the time of Nebuchadnezzar (600 BC) in gold is remarkably similar to the price of a loaf of bread today. Throughout all history until 1971 the currencies of the world went up and down, but basically the true value of any currency remained hedged to gold. Behind whatever was printed by banks stood something else. At times this was very limiting. In America during the 18th Century under British Rule there was so little real currency that people took the unusual step of cutting coins into four, and each part was called a quarter. This is the origin of the American expression ‘quarter’ for 25 cents. They needed money, and money was not there. There were many other strange attempts to ‘create’ currency. If there is a lack of money in circulation, trade is very restricted. There is only so much gold in the world, and sometimes that is not enough. Credit, putting sums in ledger books, is an alternative and really helps. Another method is to create money out of nothing, but this tends to have dangerous consequences.

In 1970-1 due to US fiscal chaos induced by the Vietnam War and domestic overspending the gold standard was abandoned. Today an ounce of gold is worth over \$1200. This means over forty years a dollar has been devalued by a factor of 34, so that a 2010 dollar is worth only 3 percent of the value of a 1970 dollar. There is only one cause of this, public and private spending, or to put it another way, public and private generosity, generosity to the unemployed, the sick, the elderly and to ourselves. It has been financed by debt and the black shadow of debt, inflation. Debt is a form of theft, theft from the future. Present generations borrow from future generations. Inflation alternatively, is theft from the present generation. Inflation is a trick which wipes debt away defrauding those who have lent in most cases to the government. In the meantime before the inflation hits, or the debt is defaulted, there is a no-man’s-land period when all seems wonderful and carefree, while the money is in the pockets. Eventually comes the reckoning.

Under President Lyndon Johnson during the sixties the American government increased its debt to pay for generous social programmes. By 1970 it was obvious that the gold standard was now a fiction. What replaced it was essentially 'created' money, money that is plucked out of nowhere by the Federal Reserve; termed *fiat money* from the Latin, 'fiat' meaning 'let there be'. Without gold being behind the currency the central bank can create money by merely adding noughts on to balances on computers, and so they do. It is not only America. All governments do this through their central banks. This has had a wonderful effect on trade. Since 1970 trade has mushroomed. Indeed it was probably this more than anything else that caused the demise of communism, for who can resist the wealth created by these means! There is only one check to the creation of money and that is inflation. Every central banker knows this and there that is a limit on the amount that can be simply pumped in. Inflation became a problem in the 1970s (ultimately triggered, not caused, by the spike in oil prices). By the end of the century it appeared that things were in control. Inflation became stable again. However given the model of overgenerous governmental social programmes, if inflation is stable, debt mushrooms instead.

Fiat money has an unpalatable history. In the early 18th Century a Scot called William Law conducted a similar experiment for France of creating money. It led to a wonderful period of plenty and extravagance and gave the appearance of never ending prosperity for the French State. Law's scheme was necessitated by State debt, and for a while gave the appearance of annulling it. Eventually came the reckoning. The ponzi scheme collapsed, and France was thrown into a debt crisis that eventually precipitated the Revolution of 1789.

Where are we today? Democracy promises everything and for a while it can give what it promises. However in all welfare state countries and US is one of them, the question ultimately arises who will pay the bill. The obvious answer is the tax payer. But what happens when what you promise is more than the tax payer can pay? The IMF in a recent report has claimed that the US has a budget shortfall amounting to 14% of GDP in view of its future welfare commitments. In any year that this 14% is not met the burden increases for the future. If Congressional Budget Office calculations are used, this amounts to a budget shortfall of 202 Trillion dollars. To overturn this deficit tax would need to be doubled, but if tax were doubled, the money withdrawn from the economy would destroy industry, employment, and therefore tax revenues. Only extraordinary growth could loose the nemesis of this deficit, and it is normally growth that such governments rely on to bring them through. However the growth necessary is impossible. Therefore according to the IMF, America is bankrupt like France in the 18th Century. The situation is much the same across the board. The reason is all the promises made in terms of benefits to the people who vote in elections coupled of course with a sense of fairness and right. This is the nemesis of democracy. It functions on promises that require ever spiralling debt and tricks to eliminate that debt.

At some stage this will come crashing down. It will happen suddenly, and I imagine before five years are out. The dollar will not be able to sustain its role as the currency underpinning the world financial system as a precondition of being the world currency is a stable economy. Overnight the dollar will become much cheaper. It will be devalued perhaps by thousands or hundreds of thousands of times, becoming effectively valueless like the German Mark in 1922-3. When the world currency (the dollar) collapses, this will undermine all currencies, and create confusion as to where value lies. As for the effects of this collapse, read the history of Germany in the nineteen twenties, where people lost their faith in government, democracy and even in morality.

That's from the financial perspective. From the perspective of work and character the welfare state has created a class of people who are incapable of work and expect to be supported. This sounds cruel, but it is true, and this pool of people has increased year on year since approximately 1970. Therefore 1970 is the crucial year when the democratic world reached its apex.

Into this apocalyptic nightmare we need to throw one more oar, *the climate*. Here there is some unexpected good news. When the world declines economically, so do carbon emissions, so when the economic collapse comes, the climate will be restored.

Perhaps the world's most respected climatologist is James Lovelock. In a recent book he has warned the world that democratic government will not and cannot protect the environment, because it will always choose economic growth (and hence carbon emissions) over protecting the climate. Democracy is enslaved to the will of the people and the people always choose the short term gain over the long term gain – (Harold Wilson once said: "A week is a long time in politics"). Lovelock has painted a scenario of rising sea and heat levels that will *reduce* the world's population because the world will not be able to physically feed the mouths it has under the new conditions which will arise. The price of food has already started its alarming ascent which will only accelerate. What will result, according to Lovelock although he does not say so explicitly, is something akin to the black death of the fourteenth Century, when the population over a period of sixty years fell by half. There is some good news for islands like Britain and New Zealand. These, claims Lovelock, will weather the climate change much better than other areas.

Putting these three elements together, the nemesis of democracy, the coming economic and financial collapse (which will be co-terminus) and global warming – the world around the corner is going to be very different from the world we know today.

Now the good news. In times of global crisis the church can and ought to provide the stability around which civilization continues to flourish. When the Roman Empire fell, the Church was the anchor which permitted the rebuilding of civilization. When the capitalist system as we know it arose 500 years ago and destroyed the previous security of Medieval Society the church was there to direct it. America was built on the principles of Christian responsibility in trade and finance and did so more successfully than any other nation, due to its commitment to Biblical teaching.

Now this task is upon us again. It will need character, iron will, and deep faith in the promises and witness of scripture. The notions of liberal society will go through the furnace and much will not emerge in the new society. When what is useless has been burnt off, that which does emerge will do so because these principles are mirrored in scripture and godly living. Personally I welcome what will happen for a world without a mirror in scripture and God's judgement is ultimately not the world the world I wish to live in. When Jeremiah warned of a similar whirlwind of change in 6th Century BC Judea – the time of Nebuchadnezzar – he went and bought a field in his home town of Anathoth. He paid the full price, not the marked down price of the then current economic times, for he said, a time will come when normality is restored, and this land will then have its price again. What emerged after the crisis that Jeremiah lived through was the godly vision that we find in the Hebrew Scriptures, and which has sustained the world ever since. It was because she had lost this vision that Israel needed to go through the furnace. We must find this vision once again too. As the scripture says: "Where there is no vision, the people perish." In modern society, as *inclusion*

dominates everything, the vision has been absolutely lost. The Church *must* take once again her vital role in earnestness to provide and live this vision.

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