Financial crisis and unsustainable development
by dr. Iván Gyulai

Financial crisis and sustainable development

When people take out a loan, they get advance for consumption for which they will create the financial cover in the future. When certain societies or the whole global population over-consume ecosystem goods, they get advance for consumption of natural resources for which the cover has not yet been created by the planet. Sustainable development means we use resources on the long run according to the carrying capacity of the planet. So development based on the idea of using more than what we have at the moment is unsustainable. At present our global ecological consumption deficit is about one third of the planet – more exactly we are currently using a 1.3 planet. This is how many times our consumption exceeds the global resources available on the long term.

There is an evident correlation between unsustainability and our credit-based banking system. The credit system provides the financial cover of overconsumption. If we look at irresponsible over-crediting and responsible crediting from a sustainability point of view, the only difference is that the first one penetrates into the future even more than the second. They are the same in the sense that they are both based on overconsumption. They only differ in their extent.

The current financial crisis is a good forecast. If we take out too many loans, if we advance too much consumption from the future, sooner or later we will not be able to pay it all back. Today it is the financial system that collapses. Tomorrow it will be our ecosystem – but we will not be able to resuscitate it by merely investing more money into it. Someone will have to pay the price for our advanced consumption on the financial market as well as on the market of ecosystem goods.

No matter if it is a private individual, a company or even a state that asks for a loan. These entities are all financing their present consumption from their future production. When the state rushes to help out its financial institutions, it does nothing more than prolongs the chance for unsustainable consumption. This is a rather strange concept when we know that since Rio almost all states have committed themselves as supporters of sustainable development.

We should not be surprised that states react this way. The state has a vested interest in overconsumption as this is what secures its economic growth – and as a consequence its budgetary income. As decision-makers believe that a working economy will create sources for funding community services, the state cites community interests when it helps out financial institutions. The problem is that a “well-working economy” of that definition creates social and environmental debts for future generations. So the state is in fact financing a growing, constantly regenerating heap of problems. When the state starts to finance its financial market, it actually sets up the next row of future financial dominos. The domino effect will take place when the state is no longer able to finance its expenditures, including its accumulated debts.
Financial crisis and globalization

When we receive enough money from banks, we are in fact enjoying the advantages of globalization. In countries like Hungary, local investors could not finance the same amount of consumption as offered by the global financial market. “Offered”? A more exact term would be “invested” with adequate guarantees and high enough (meaning ‘higher than anywhere else’) base rate of local central bank. So our future will cost even more – life will be even more expensive.

The global credit market is based on the principle that an outside creditor takes possession of the debtor’s present resources detaching them from his or her future. The creditor loans money to the person enabling them to consume. (Let us not forget that every activity counts as consumption – including production as it is also about using natural resources.) Consumption is nothing else than using primary resources, i.e. using up natural capital. The creditor benefits from the resource-chain (production and consumption) by collecting interests for his invested money.

The gap between actual production and overconsumption is quite visible from the following figures: in 2007 the GWP (gross world product) was 65.82 trillion dollars whereas the total external debt of states was 44.61 trillion dollars. (This latter figure is from 2004. The corresponding 2007 figure must be even higher.)

Altogether globalized credits can enable a country that would be otherwise unable to finance its advanced consumption to continue to do so. But we know that this leads to unsustainability – these loans are not repayable on the long run be that either in the form of money or in the form of resources. So the international credit crisis – as any other global problem – cannot be separated from the system itself. We are in the middle of a global crisis which manifests itself in various crisis phenomena. And it is going to grow and encompass the whole world with all its other problems.

Financial crisis and professionalism

From what is happening it is evident that the state favours short-term, individual or group interests instead of long-term, social interests. Of course, our state is trying to explain that its actions serve the interests of us all. It is easy to do so because neither the state itself, nor its citizens understand the connections of these processes. Thus at present we have the unlucky situation where the very same people come up with sophisticated “solutions” to the financial crisis who have caused the crisis in the first place. But the financial crisis cannot be solved by the methods of monetary politics because the problem itself originates from excessiveness and greediness – so basically it is an ethical issue.

Financial crisis and ethics

The financial crisis cannot be solved by money – the same way as environmental and social problems cannot be solved by money – because all these problems are created by money. The institutional system of money is not set up properly so it has changed the value system of society and turned it into a territory for material values. The competition for the “ultimate value of money” has corroded the fine textures of society woven by a culture of cooperation – a culture more and more replaced by a culture of violence.
The current “solution” nicely rhymes with this ethical crisis: at the moment we are taking away the potentials of our future with the help of the state to provide temporary rescue to the ones who have been irresponsible. The ones who have overspent their budgets are forcing the community, the state or more precisely the decreasing number of taxpayers to pay the price of their improvidence. Meanwhile, in the background even more natural resources are consumed in order to repay our debts. Even if we manage to repay our financial debts, the price of this will be unrepayable ecological debts.

Overspending is an ethical issue – a question of responsibility. This is true for every household and institution as well as for every state. As people have gotten used to the idea that there is always somebody to save them from trouble, they have no concept of healthy moderation and have a low level of responsibility. Eventually, they ask for help even when they are not in real trouble, but they just want to get a bigger share of the common property.

It is also an important lesson that there no individuals assuming responsibility either. Those who made irresponsible decisions about the money of their depositors have not returned their fat allowances. Nor do we as individuals feel responsible for our own overspending. How can we at this point expect any ethics that support sustainability, morals where we take care of ourselves as well as of the future?!

So is there a solution?

In a globalized world this problem cannot be solved on a national level. The price of this crisis will be paid by medium rich and poor countries, by the middle and lower classes.

A globalized world and a global crisis demand a coordinated, global response. Apparently, this response has been made: the “leading” countries of the world have come up with a joint financial response. This response is a clear proof of a shortsighted vision and a lack of understanding of the current problems in the system. The fact that we belong to an international community ties the hands of national governments, so they cannot act independently.

Still, what can a responsible nation do? It can make preparations for its future. It can prepare for a future when responses that seem adequate today prove to be a failure, when today’s competing world falls tumbling down, when cooperation between people becomes an overall imperative. The most crucial step is to decrease our dependencies and to get back our potentials for self-determination.

20 October, 2008