

## **The loss of virtue and the economic crisis**

**A talk by Anthony Daniels (pen-name ‘Theodore Dalrymple’)**

I am honoured that the Iona Institute should have asked me to speak to you tonight, and I am particularly grateful to David Quinn who extended the invitation to me.

However, I come before you with a slight sense of trepidation because I cannot claim to be well-versed in Irish history, politics or economics – despite having read Fintan O’Toole’s books. But even if I were an expert, it would hardly need me to come from over the water to tell you that there has been and still is an economic crisis in Ireland. It might seem impertinent of me, therefore, to talk on this subject, the very subject that has filled the press, the broadcasting media and no doubt people’s thoughts in Ireland for many months.

However, it is a rule of modern journalism and intellectual life that one must never let mere ignorance get in the way of opinion; and I comfort myself with the thought that, before the crisis, many experts hardly covered themselves in predictive glory. Their expertise did not stand them in good stead.

The first thing to say about the Irish crisis, it seems to me, is that while it is a crisis *in* Ireland, it is not an *Irish* crisis if by that is meant that what has happened in Ireland is completely *sui generis*, with no connection to, and quite unlike, what has happened elsewhere in the world.

But that is obviously false. Indeed, the interest of the Irish crisis for outsiders, apart from the fact that it could have brought about the

complete collapse of the western banking system, with all that that such a collapse would have entailed, is that Ireland, being a small country, exhibits only too clearly in microcosm what has happened throughout much of the western world, and continues to happen.

Let me just quote a few facts – some of the very few that I will ever quote in the course of this evening – that demonstrate that the crisis, though it *is* Irish, is certainly not Irish alone. Indeed, Ireland could not have produced this crisis by itself: it needed international help and assistance to do so, and a lot of it.

The Royal Bank of Scotland – Gordon Brown’s favourite bank until it collapsed, whereupon he promptly forgot his previous affection for it – lent in the republic the equivalent of \$12,000 per man, woman and child: that is to say, every baby born in Ireland during the last few years was born not with a silver spoon in its mouth, but with a debt of \$12,000 to the Royal Bank of Scotland. A family of four in Ireland – I hesitate in these days of family breakdown to say an average family – would therefore, sight unseen, owe that one bank alone \$48,000.

The Royal Bank of Scotland was not alone in its folly, alas (and of course). The country with the greatest exposure, *per capita*, to Irish debt is Belgium. Each man, woman and child in that country lent the equivalent of \$5,700 in Ireland; each man woman and child in Ireland was lent about \$16,000 by the Belgians. I have worked it out from figures published in the *Financial Times* that the gross foreign debt of Ireland is approximately \$486,000 *per capita*. (Here I must enter a caveat: having become used in the 1980s to billions, we are now being asked to think in

trillions, and it is easy to get one's orders of magnitude wrong with so many zeros in a calculation.)

Let us be generous and suppose that Irish foreign assets are \$186,000 *per capita*; that means that our family of four has a gross foreign debt of \$1,200,000. Let us suppose that interest rates are 5 per cent: that meant that the family has to find \$60,000, or 40,000 Euros, before it has a cent of income to itself. I leave you to draw your own conclusions, bearing in mind that the average household income in Ireland is about - 35,000 Euros.

Well, you can lead a man to a loan, but you can't make him borrow; and you can lead a man to a lender, but you can't make him lend. Thus there is what one might call a dialectical relationship between debtor and creditor in the Irish situation, that puts me in mind of a few lines of poetry by the 17<sup>th</sup> century Mexican nun and poetess, Sor Juana Ines de la Cruz, that, oddly enough, were taught me by a taxi driver in Mexico City:

O quien es mas de culpar?

El que peca por la paga

O el que paga por pecar?

O who is more to blame? He who sins for pay, or he who pays for sin? It is not always easy by any means to decide; but at any rate, there are no innocent parties to the transaction.

Let me move on to what I think has happened in Ireland, which is similar to what has happened in Britain (and has happened, slightly differently, in many other countries). There are three main actors in this tragic-comedy: the government, the financial institutions and the people. None emerges

with a great deal of credit – if that is not an unfortunate term to use in the circumstances.

For easy credit – of the financial and perhaps of the moral kind also – has been at the heart of this problem. Governments saw in it a painless way to create prosperity, or at least the illusion of prosperity, that would guarantee their own popularity and allow them to remain in power; banks, or bankers, saw easy credit as a way to expand and, it must be said, to inflate their own emoluments grotesquely; and the people, or many of them, saw it as the means of become rich without much in the way of hard labour. A man could sit in his house, whose value by 1000 Euros a day, and imagine he was growing rich while watching television. And this, of course, gave him the confidence to borrow, indeed the feeling that he would be a fool not to do so. With interest rates at a low level, and capital appreciation at a high one, there was no way to make a loss, only a profit; so much so that it was perfectly reasonable to live high on the hog on credit also. Sufficient unto the day would be the profit of the morrow.

Let us briefly examine the conduct of the government. It used the boom to increase dramatically the salaries of public employees and to take on new ones; although this was said to be in order to improve the quality and efficiency of the public services, it is difficult to escape the impression that the expected *quid pro quo* was political loyalty, and indeed for some years it was. The fact that, during this time, the budget was balanced, thanks to tax receipts on property deals at ludicrously inflated prices, gave the appearance of sustainability. Few people stopped to ask what would happen when the music stopped, or – to change the metaphor – the pyramid scheme collapsed. No one asked whether the obligations taken

on by the government could be honoured. And, as we have seen, they could not be honoured.

Of the financial institutions and the perverse incentives within them enough has been written. It is an old insight that the shareholders of giant corporations such as banks are not necessarily the chief beneficiaries of the activities of those corporations, or their financial welfare the chief concern of their executives; that power has shifted to the managerial or directorial class, who have almost the usufruct of the companies of which they are in charge. James Burnham pointed this out in his *The Managerial Revolution* more than seventy years ago. The banks were so arranged that, for people receiving bonuses, the long-term viability of the institution was of small concern: the balls had to be kept in their air for only a few years for them to be beyond the reach of any conceivable want, however luxuriant that want might be.

What has brought about this tripartite participation – I will not go so far as to say that it is a conspiracy, both because a great deal can happen in concert without anyone organising it to happen, and also because I should probably be thought mad if I used that word - in a system whose very frail foundations were, or should have been, obvious?

Let me quote a few words of the Taoiseach, Mr Cowen, when he announced that his government would hold elections in the near future, but would remain in office until the new budget was passed:

There are occasions - he said - when the imperative of serving the national interest transcends other concerns, including party political and personal concerns.

Before I go further, let me say that I am not making any party political point, nor do I have any particular animus towards Mr Cowen. I have no reason to suppose that he is any worse than any other professional politician in the western world, and he might even be better than some or many.

But it is worth lingering a moment over what he said, and what his words actually imply. Sometime people speak more truly than they know or perhaps than they intend. Let me repeat, then, what he said:

There are occasions [few, no doubt, but they do come up now and again] when the imperative of serving the national interest transcends – *what does it transcend?* – party political and personal concerns.

This, surely, is a very remarkable confession and confirms what many of us throughout the western world have thought for a long time – that the professional political class of our respected countries is actuated by the narrowest of personal ambitions.

Now it is quite useless to expect of people motives that are a hundred per cent pure and without admixture of such characteristics as personal ambition. If everyone were a saint, there would be no saints. Saints are saints because they are so few and so unusual. And, indeed, a good case can be made out for the virtues of personal ambition. Without it, most human achievements would not have taken place, and there would be none to come, either.

But ambition is like courage, for ambition like courage has to attach itself to something else, something itself worthwhile, in order to be a virtue. In

this respect it is like originality in the arts such as painting, music and literature, or for that matter originality in the sciences: it is not in itself a virtue, but only such when it is allied to some other quality. When completely divorced from that other quality, it becomes mere egotism, a quality that detracts rather than adds anything to human culture.

It is perfectly obvious that of all human endeavours, politics is more likely to require and promote personal ambition than any other. It was ever thus; to demand of politicians that they have regard only to the common or public good and none at all to their personal standing is tantamount to demanding the abolition of politics, a dream of many but against the surely correct Aristotelian view that man is a political animal. And the demand for the abolition of politics is usually allied to politics of a very nasty kind.

But to say that personal ambition is inescapably part of political life is not to say that it should be the whole or even major part of it. We must not mistake necessary for sufficient conditions. And it seems to me that depth of personal ambition, divorced from any other purpose, is the almost only qualification for political ascent in modern circumstances, not only in Ireland but elsewhere, including in my own country and the other country in which I live, France. Of course, too strong an attachment to principles is dangerous also; and vile principles strongly adhered to can be, if anything, worse in effect than a complete lack of principles. Better a rogue than a monster. Still, a complete lack of principle, such as Mr Cowen's unintendedly revealing statement displays, is not what we hope for from our politicians; that the national interest should play slightly more part in their calculations, and not only when there seems to be no alternative.

It is beyond my scope to make any suggestions as to how this tendency to make personal ambition the sole guiding light of politics might be reduced, at least partially, reversed. I have some ideas of what to do in the abstract; but politics is the art of the possible, and there I have fewer ideas.

Suffice it to say that this politics of what one might call floating ambition, of ambition untethered to anything else, has brought in its wake some rather unusual *de facto* alliances, not only in Ireland but elsewhere. It was the grossly speculative economy, in which vast fortunes were made, many of them subsequently to evaporate, that permitted the intemperate expansion of public employment, and the simultaneous and almost fantastic improvement of the conditions of that employment.

Let me give you an illustration from Britain. In the years of the so-called boom, when everything seemed to be going swimmingly, three quarters of all new employment was in the public sector, a fifth of it in the National Health Service alone. This meant not only an increase in current expenditure, but the undertaking of unfunded obligations for decades to come, as if nothing unpleasant could appear on the economic horizon to make the meeting of these obligations difficult, thus heavily mortgaging the future. Salaries at the top of the public service, and in the proliferating parastatal bodies, became enormous; the director-general of the BBC, for example, was paid 1 million Euros per year, and salaries of 3-400,000 Euros were by no means uncommon, with pensions to match.

I worked it out that the increase in the expenditure – not the expenditure, the *increase* in the expenditure - of the National Health Service in those

years amounted to a third of the National Debt. And, of course, and as always, the great majority of that increase went on salaries, both of the newly-employed and the already-employed. I doubt that anyone would venture to say that the National Health Service was twice as good, twice as compassionate, twice as efficient, now that twice as much was spent upon it. It is difficult to believe that the purpose of the increased expenditure was to create a political clientele more than to improve the health of the nation; and indeed, the chief executive of one hospital trust for which I worked as a doctor said before an election that her job was to get the government re-elected.

Incidentally, the same process was a work in education. While twice as much was expended upon education in 2007 as in 2000, standards, as measured by international ranking, and also perhaps absolutely, actually fell. Our international giant of finance and economic thought, Gordon Brown, he who saved the world, was quite unable to make the fairly elementary distinction between expenditure and investment; he constantly mistook the wish for the fact.

Now of course all this was paid for, at least initially, by the proceeds of speculation. The budget was balanced in Ireland with money borrowed from abroad. This means that millions of people were actually dependent upon the speculative economy; and while they might have been outraged by the excesses of the bankers, they were in the position of drug addicts who revile drug dealers. Nor did they complain, to put it mildly, when their own houses went up in value, an increase that, of course, meant (among many other things) that those without a house found themselves increasingly unlikely ever to be able to afford one, and rents were high such that many people were spending a large amount of their income

simply on having a roof over their head. The perverse effects of this were manifold: for example, those privileged to have what is known as social housing (even if, for various reasons well outside the scope of my talk, it is often a kind of aquarium of antisocial behaviour) were more or less trapped by their privilege into remaining where they were. But those who were on what has been called the property ladder were pleased to observe their net worth, as it has been so elegantly and revealingly termed, rising without any effort on their part. They were thus not in a strong position to criticise others with more spectacular profits from asset inflation, or an economy increasingly founded upon it. True, some benefited more than others; but only those without any inflating assets failed to benefit at all.

In some countries, it is true, the problem emerged more from an inability of the government to reconcile its expenditure with its revenue, causing it to borrow incontinently. But in essence, we see similar forces at work, namely a desire for a standard of living, or consumption, higher than that which is earned, even if it means going seriously into debt to obtain it.

Thus we see governments viewing or at any rate subconsciously recognising easy credit and asset inflation as a way of courting popularity, a popularity necessary in order that they should retain the power that, as individuals, they craved and which they made the main aim of their lives. If in the process it meant the large scale corruption of the population, so be it. And, for very reasons only too obvious to mention, bankers were happy to go along with it.

An avidity for power, then, combined with a deeply materialistic outlook on life, which regarded an increased level of consumption as the *summum bonum* of human existence, lay behind the crisis, and certainly not only in

Ireland. Greed, either for power or easy gain, acted everywhere in our societies.

Now it is obviously not the case that this is the first time in human history that these factors have combined to produce an economic disaster. Perhaps things were a little worse in Ireland than elsewhere because the country had so recently emerged from a grinding and immemorial poverty, which I do not want in any way to romanticise, which was partly imposed upon it and partly self-inflicted, and which possibly made the mirage of easy wealth all the brighter and more attractive (the same is true, possibly, of Spain). But one has only to read that remarkable book by Charles Mackay, published in 1844, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, to know that fevers of greed are no new thing in human history.

It seems to me that an avidity for power is perhaps more common now than ever before, but it is certainly not a new phenomenon. Among other things, the search for power assuages and fills the feeling of metaphysical emptiness of many intelligent people who find other purposes, certainly religious ones, unsatisfying. The search for power is a distorted search for transcendence. When the economist, John Maynard Keynes was asked by someone what he thought Lloyd George, the then Prime Minister of Great Britain, thought when he was on his own, he replied, ‘When Lloyd George is on his own, there’s nobody there.’ In other words, it is only by imposing on others that he had any sense of his own existence, and I suspect, though I cannot prove, that this is a characteristic more commonly met with nowadays than ever before. Certainly it seems to fit the personality of another recent British Prime Minister, Anthony Blair,

for whom, one suspect, hell is not so much other people as the lack of an audience.

The desire for something for nothing is not new, either, nor indeed is the inability to restrain oneself in the face of temptation. I will give you an illustration from earlier in my lifetime, but please do not think that I am ascribing the beginning of these human traits to the period of which I speak. Some time in the late 60s or early 70s, I do not recall the exact date, a new credit card called *Access* was launched in Britain. *Access*, of course, was a revealing name; but even more revealing was the advertising slogan with which it was launched. ‘Access,’ said the slogan, ‘takes the waiting out of wanting.’

I will pass over in silence one of the psychological consequences of taking the waiting out of wanting, namely that if you take the waiting out of wanting you will soon destroy the wanting, at least the wanting very much, so that a pall of *déjà vu* soon hovers over every acquisition, and leads to a febrile desire for another acquisition, destined to be similarly disappointing; I shall refer only to other effects on the human personality. Taking the waiting out of wanting invited people not to consider what they could actually afford, or what in effect were the proper rewards of their own work. By doing so, it destroyed, or at any rate undermined, and was intended to do so, all sense of honour in financial dealings, as well as pride in the ability and willingness to cut one’s coat according to one’s cloth. It destroyed, as it was intended to destroy, all sense of the necessity to keep a control over one’s appetites. It encouraged either a loss of independence, in so far as it resulted in perpetual indebtedness, or rank dishonour in the shape of default. It was an incitement to throw two of the cardinal virtues, prudence and temperance, to the winds.

I am not here pleading for a return to the mediaeval attitude to usury; clearly lending and borrowing at interest are vitally important for a modern economy. But it seems to me obvious that consumption cannot exceed production for ever; and that prudence is an economic as well as a cardinal virtue.

I am not an economist, or even a businessman; does one, however, really have to be either to know that it might not be a good idea to do what the Northern Rock did, that is to say extend mortgages of 100 and even 125 per cent of the then value of houses, moreover in an area with high structural unemployment and a public sector that accounted for up to three quarters of all economic activity? Does one have to have a Nobel Prize in economics to realise that to build on credit one new house for every six people in the country, as happened in Ireland, might be imprudent? Perhaps, indeed, one needs a Nobel Prize in economics to be able *not* to understand it.

And temperance, as I have said, went the same way as prudence. Many people, I won't say all, were seized by the notion that there was no such thing as enough; that the sky was the limit as far as their desires were concerned, and furthermore was within their grasp, and that he who consumed stratospherically was stratospherically happy, or stratospherically more important and clever and wise than he who was content with what he had, or wished only for gradual accretion rather than a rocket-like ascent into that stratosphere.

Needless to say, this lack of temperance called forth vulgarity on an epic scale. Let me give you one example that persists, the crisis

notwithstanding. One of the Saturday supplements of the *Financial Times* is called *How to Spend It*, a glossy magazine for people whose main difficulty with money is finding things expensive and luxurious enough to tickle their fancy. There seems to be no sense of limitation, of temperance, in its pages; nor, for that matter, of prudence. In a situation in which millions of people, perhaps partially through their own fault, find it difficult to meet their everyday expenses, it is surely not prudent to make it appear that the most important decision in life for a whole class of people already not supremely popular is which wristwatch costing E100,000 to buy: whether it should be the one that automatically tells you what the time is in Reykjavic to the nearest hundredth of a second when you are in Bujumbura, or the one that tells you what the time is to within a thousandth of a second when you are diving in the Caribbean. No man is less of an egalitarian than I; but I understand the anger when people see such things.

It will, of course, be said that this is not the first time in the history of the world that prudence and temperance have been thrown to the winds – no, and it won't be the last time, either, I think we may be sure of that. But just because humanity repeatedly disregards these cardinal virtues, in economics as in other spheres, it does not mean that they cease to be cardinal virtues and that we can safely stop thinking about them, or trying to practice them. They are cardinal virtues precisely because the temptation to disregard them, in favour of some temporary advantage or gratification, is always there. They are not like the speed limit, say, that can be changed according to circumstances. And the cardinal sins are not cardinal sins because they can be triumphed over once and for all, in a final victory; precisely the opposite is the case. In other words, I think that the current crisis in Ireland, and not just in Ireland, should give rise

not just to a search for better policy in the future, though it should certainly do that, but also to soul-searching and personal self-examination. That self-examination should extend to spheres other than the economic.

I should like to end on a slightly more positive note. Many people outside Ireland have been impressed by the way in which, so far at least, the population has not given way to anger, one of the cardinal sins, at least not in any explosive way. And this points to the widespread practice of a cardinal virtue, fortitude, a virtue that perhaps in its history Ireland has been too often called upon to exercise. But it remains a cardinal virtue. Perhaps also the people are aware that, even if the government is principally to blame for the current debacle, many of them are not wholly innocent; but I leave it to you to decide whether there is any truth in my surmise. Certainly in Britain, by contrast there is not such an awareness, even as people struggle with their own household debt (one of the largest *per capita* in the world) contracted without the slightest regard to any of the cardinal virtues. In a world in which restraint, or a sense of existential limitation, is regarded as treason to the self, this is hardly surprising.

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