Available online at www.sciencedirect.com
ScienceDirect
Procedia
Social and Behavioral Sciences
Procedia - Social and Behavioral Sciences 185 (2015) 84 – 90

3rd World Conference on Psychology and Sociology, WCPS- 2014

# Creditor-Psychology, with Special Emphasis on the Eurozone Crisis

Sinan Caya[a]*

[a]*Dr., Marmara University, Faculty of Engineering, Instructor of Social Electives*

**Abstract**

Creditors seem to share a common psychological profile, which, moreover, applies to legal personalities, besides individuals. It could be possible to shed some light onto the recent (and for many scholars ongoing) economical crisis of the European Union (which also triggers social and political repurcussions), by an analysis of the creditors' traditionally encountered attitudes and moods towards their debtors, which are handled in this article. The prominant "ingredient" involves a keen fear regarding the re-gain of the lent amount, let alone the interests.


Peer-review under responsibility of Academic World Education and Research Center

*Keywords:* Debt; creditor; fear; loss; gain; the Eurozone Financial Crisis.

## 1. Introduction: Generally Accepted Concepts Regarding a Debt and its Payment

The lending-and-borrowing procedure is an age-honored tradition in all societies and almost in all creeds, as an indispensable aspect of commercial activities.

Research about the early ages indicate that lending money with interest was not regarded as a good act (Masca, 2011). Aristo (B.C. 384-322) considers the trade and exchange of essential goods as natural and just while he considers trade and exchange for sheer gain as not being natural and just. But, hee does not object to lending money with an interest rate (Masca, 2013).

[Famous Christin scholar and religious figure] Saint-Thomas d'Aquin (1225-1274) proclaims interest-taking as being unlawful (Masca, 2013). But he makes two exceptions: One is when the lender is undergoing a danger of losing his Money. The other is when the lender initially makes it a term of the agreement as a reward for the service he would provide (Masca, 2013).

* Sinan Caya. Tel.: +0-548-067-5442.
*E-mail address:* sinan.caya@gmail.com


Peer-review under responsibility of Academic World Education and Research Center
doi:10.1016/j.sbspro.2015.03.386

With the advent of the Renaissance and Reform, the former idea of just pricing dwindled; profit began to seem legal, credit institutions and industry began to develop (Masca, 2013).

The Islamic tradition itself contains and endears many rituals relating to economic issues. Taking interests on lent capital is definitely forbidden and condemned, for one thing. Other regulations are also specified. (The Blessed Prophet had worked as a traveling merchant, commuting by caravans between his Mecca-home and far-flung cities. He is known to have said that trade is lawful and rightful, with 90 % of one's living (rızk) lying in commerce. Trade should of course be done decently and honestly. The Holy Qur'ân ordains giving full weights and measures on more than one page).

It is a cherished Islamic creed that in the Afterworld, God-Almighty, will hold his creatures responsible for neglect in worship towards Himself, while personal accounts and rights (kul hakları) will be handled among the involved individuals, themselves. In case of "default"(**) a generous creditor may always forgive his rightful claims, including lent-money (there in the Afterworld as well as here in the material world), if he / she wishes to do so.

The creditor lends money solely with an expectation to receive it back, along with satisfactory interests, thereby affecting some gain. He might even be tempted to act as a sheer usurer (loan shark), if he ever captures the chance. Now, who is a usurer? He is one who intends to make enormous amounts of money, as he is the perfect opportunist. After all, he is away from the framework of official regulations of all kinds. He feels free to act arbitrarily.

Indeed; especially nowadays and for the crushing majority of the people, the economical theater is a merciless arena where essentially everyone is for himself and it is sheer profit which really counts, with all other values shifted onto a lesser place of importance.

In one of his most philosophical novels, the great American writer, Thornton Wilder (1897–1975), we encounter the illogical fear of a bank client, if only as one of the many tiny sub-themes of the book.

The hero of the novel; young devout George Brush, is in front of a town-judge, because of a misunderstanding. (The judge appreciates the unique character of the accused secretly and even calls his wife to come and watch the curiosity show at the court, while delaying the procedure for her to catch up with). Regarding the issue of voluntary poverty, the following dialogue takes place:

The judge— So, you advocate voluntary poverty?

G. Brush— Yes, your honor, the essential point is that a poor man, even if he is a millionaire, is one who has a head full of fearful thoughts about money. And a rich man is one whose head contains no worries regarding money (p. 69 of the German translation).

In another episode, the protagonist is talking with a bank manager:

G. Brush— There is nothing to be afraid of. To spare money is a sign that one is fearful. This fear in turn produces another, and still another one, again. Nobody with money deposited in a bank can be happy. It is a wonder that your depositors can sleep at night, Mr. Southwick!

Mr. Southwick, the bank manager— Stop! Away with your talk! (He is red-faced. A cop enters the bank) Mr. Gogarty, arrest this man! He came to cause trouble. Take him away at once! (p. 24 of the German translation).

The police chief understands the affair. He threatens the young "lunatic" with a straitjacket (*) and a sentence of six months if he does not disappear from the town. He orders officer Gogarty to lead him to the train station. On the way, the policeman asks him how come he knows that he Mariana Bank is in danger. Who had whispered the secret?

Brush retorts back that he meant not only the Mariana Bank, but all the banks. The answer does not satisfy the officer. He drags his captive in front of a house, inside of which a woman is washing dishes. He tells her that, as a law-enforcer of the city, he must urgently use her telephone. On the phone he whispers to his wife to go to the bank and withdraw their family deposit until the last cent. He warns her to keep silent about this act, too.

In a novel by Hailey, an American bank gives large loans to a seemingly reputable multi-national corporation, which is mismanaged and in bad shape, in actuality. By the time the bank discovers the true situation of the corporation, it is too late. The corporation crashes down and bad publicity hits all associated institutions.

"A bank survives on its reputation and the trust of others — fragile plants which adversity and bad publicity can wither" (Hailey, 1975).

[A run does occur in a certain branch of the bank]. "Still others surged forward, voices raised, their faces revealing anger and alarm. Someone threw a cigarette package which hit Gatwick [the local manager] in the face.

Suddenly, he realized, an ordinary group of citizens, many of whom he knew well, had become a hostile mob. It was the money, of course; money which did strange things to human beings, making them greedy, panicked, at times sub-human. There was genuine dread, too — the possibility, as some saw it, of losing everything they had, along with their security. Violence, which moments ago appeared unthinkable, now loomed close" (Hailey, 1975).

— "There'll be cash coming" Alex [the vice-president] assured the branch manager.

—"Meanwhile get the money you have out of the vault and stack it up on desks and tables where everyone can see it. Then walk among your customers. Talk to them. Assure them our bank is in excellent shape, despite what they have been reading, and tell them everyone will get their money" (Hailey 1975: 392). "Meanwhile, get the money you have out of the vault and stack it up on desks and tables where everyone can see it. Then walk among your customers. Talk to them. Assure them our bank is in excellent shape, despite what they have been reading, and tell them everyone will get their money" (Hailey, 1975).

The good leadership barely contains the bank run in its locality. Luckily, no other runs occur before the first wave of shock is thus overcome.

Those realistic descriptions in novels let alone; after the collapse of Lehman Brothers in mid-September, 2007, in the US and the contagious turmoil following in Europe; the western banking system was hit hard, as an author vividly depicts in his work:

"My first-hand shock took place one Saturday morning in September 2007 when I was astonished to see a long queue of fellow Cambridge citizens form outside Northern Rock. I had never seen a bank run before, and immediately recalled photographs from 1931" (Duff, 2012).

## 2. Similarly Spreading Fears on Larger Scales

On a tremendously larger scale the same feelings of probable losses may hit a whole government bureaucracy, in a very similar manner. Even more so:

"In many ways international lending is similar to domestic lending. Whether they are lending across town or across international borders, lenders care about the risk of default and the expected return from making loans. However; International lending has been plagued by recurring horror stories of regional financial crises that have imposed large losses on lenders" (Husted & Melvin, 2010).

Latin American debt crisis of 1980s; 1994-1995 Mexican, 1997-1998 Asian and 1998 Argentine financial crises; Russian bond default in 1998 with concurrent losses are [other] examples (Husted & Melvin, 2010).

If panic ever strikes, a chaos ensues, which is detrimental to all parties and which usually can not be successfully controlled any more:

"The Eurozone debt crisis began in late 2009, when a new Greek government revealed that previous governments had been misreporting government budget data. Higher than expected deficit levels eroded investor confidence, causing bond spreads to rise to unsustainable levels. Fears quickly spread that the fiscal positions and debt levels of a number of Eurozone countries were unsustainable" (Nelson et al., 2012).

[Once the situation in Greece became known] "The rating agencies penalized the countries confronted with big government deficits and this led to a lack of confidence of the financial markets" (Paraschiv, 2011).

"The eurozone environment deteriorated dramatically in spring 2010 with the emergence of the eurozone sovereign debt crisis. Various fault lines that had existed since the launch of the were exacerbated by the financial crisis, notably through a noisy feedback loop between bank solvency and concerns about public finance sustainability" (Drudi, Durré & Mongelli, 2012).


Fig 1. The Future Lesson to be Taken from the Unnecessary Fears in the Eurozone Financial Crisis, as Depicted in a Cartoon by the Author of this Article.

In forensic sciences there exists a concept called secondary victimization. It involves the further suffering of a crime victim (usually that of a sexual crime) through publicizing of the bygone event at the court processes. In a similar manner; a country in default of its debts is further harassed, via publicity, vis-à-vis the world public opinion:

“As a result of its debt problems, Portugal has been at the forefront of the news in recent months. In a context in which the future of the euro looks more and more uncertain, the daily evolution of the public finances of countries such as Greece, Ireland, Portugal, Spain and Italy have increasingly become a topic of international interest” (Alves, 2011).

Despite the usual lack of intrinsic altruism and the predominant desire of gain; the creditor is; nevertheless; quite aware of the benefit provided to the debtor by his loan; if only this is only a by-product of the transaction in his overwhelmingly “egocentric” mood.

Donations in charity are almost universally urged and fostered; but cancellation of actual loans are never deemed compulsory even in spiritualistic cultures. The Ottoman State in principle was based on Islamic ideals. The legend goes that when Sultan Selim the Second ordered the construction of his magnificent mosque in Adrianople, the seasonal capital of the empire as a gate to the Balkan regions, a difficulty in expropriation of a certain portion of the highland was encountered.

An old, poor and cantankerous widow resisted to selling her property, a shabby log cabin. Finally the worth of the land was paid off and the parcel forcefully appropriated. However; due to lack of free will; that section of the mosque contains an indoors-water-pool, an unprecedented architectural element within an Ottoman mosque. So, no faithful prayer can prostrate himself on this particular zone. (Moreover; an inverse tulip motif was engraved onto the nearby column, to refer to the adverse nature of the woman, who had formerly been engaged in tulip-raising).

## 3. States vis-à-vis Foreign Debts

Debt is acknowledged as an obligation to be paid back, universally. It should be settled. Under normal circumstances the debt serves a good purpose and provides a relief to the debtor, enabling him to surmount a bottleneck. Accordingly; it is granted only to friendly parties. A state also gives credit only to a friendly power.

The Ottoman State got its first official debt from its allies during the Crimean War. This was accomplished via minority bankers at Galata (Demirci, 2013).

During this war, the Ottoman State, allied with France and Britain, fought against Tsarist Russia. Later on, further debts accumulated and usually got wasted in luxurious spending instead of productive means, creating a situation impossible to sustain any more.

At a certain point the creditors virtually intervened, devising methods of payments for their claims:

The Administration of the Public Debts (Düyun-u Umumiye) got established in 1881, where a representative of each state involved, took place (Demirci, 2013).

At the Lausanne Treaty those debts became a problematic issue. An inheritor takes over the related debts, as well, as a rule of thumb. The inheritors of the Ottoman state were also loaded with fractions of the former debts.

Syria, Lebanon, Greece, Iraq, Yugoslavia, Bulgaria, Palestine, Albany, Yemen, Jordan, Arabia, Italy [due to its capture of Libya and Dodecanese from the Ottomans in 1912 constituted those other states (Kongar, 2007).

The Republic of Turkey, with disproportionately higher loads with respect to other newly-emerged states, kept paying its own installments for decades. (The common notion used to specify the last date as 1954; however, in a recent live history program on TV, former Minister Güneş Taner corrected the date as 1997 during his own office).

Some Flexibility in Payment, for the Sake of Both Parties

To make the process of repayment function smoothly, some criteria determining favorable circumstances, can be recited in the form of a list. The most important criterion, however, is the credibility of the debtor.

It is just natural that a creditor should take back all of the lent-away-money along with the accumulated interests. But, if the real circumstances would not allow for such a possibility; the creditor has no other choice besides recognizing the outcome. His new decision then falls in the line of recovering as much as possible, as soon as possible , in order to smooth out the affair.

After the invador-Greek army got routed by the Turks during the national struggle, at Lausanne peace talks; Greece had to pay a war indemnity, as a compensation for the destruction affected in Aisa Minor. The Greek government was in financial crisis and agreed to give up the village of Karaağaç, instead. The River Maritsa is the borderline and this particular village is annexed to Turkey, even though it lies on the opposite banks of the waterway.

Usually; the eagerness of a creditor to somehow facilitate the payment, at the cost of some moral hazard to itself, is considered only as sensible behavior. A Portugal author calls this a "haircut" on the part of the creditor:

"Whenever bailouts of bankrupt states do materialise, they should not only be conditional on immediate fiscal restraint but also force creditors to take a substantial haircut on their claims" (Alves, 2011).

"Legally, the European Central Bank was not responsible for rescuing Greece or other countries in a similar situation. In fact, in the beginning, the European Central Bank officials stated that they would not change the rules for one country's sake. But the dramatic evolution of the events determined the European Central Bank and the European Union to support countries in difficulty in order to save Euro" (Paraschiv, 2011).

## 4. The Lender Perceives himself as far Superior to the Borrower

Borrowing is mostly a demeaning act. The borrower is humiliated and fully grateful to his lender. While the author of this paper was working at the Chair of Legal Medicine at Çukurova University as a toxicologist; his boss, then an associate professor of psychiatry, used to be an extravagant (and open-handed) middle-aged bachelor (who would later get married and only then find himself exposed to some financial discipline).

Once at the end of a bygone month, the boss joyfully clasped his hands and proclaimed to his assistant that he had closed the month with his own resources! As a full-timer physician, he had no other gains besides his salary. His best friend, a part-timer-professor, used to keep a lucrative private microbiology laboratory down town. He was the usual financer of both of them.

When the young toxicologist got broke, his boss would make a phone call to his well-to-do friend, point out to the fact that his thriftless (!) assistant is penniless once more; and he would add:

—"By the way, I, personally, wouldn't object to a loan of so many liras for my own sake, either".

While a medical student at Cerrahpaşa Faculty of Medicine, the boss had encountered special financial difficulties because of his addiction to horseracing bets at Veliefendi Hippodrome. (Once he said that the losers used to walk home like Prisoners of the Volga, since they had no coins left in their pockets for the bus fare, either).

At the time, an acquaintance taught the medical student a good strategy for facilitating borrowing, his recurring problem:

—"If you ask for a small loan, the would-be giver is reluctant, thinking that his money is just gone with the wind! Do ask for a substantial sum. In that manner, you will look important and credible! Creating such an impression is a must, let me tell you.

—"But, what if I spend it all? How could I ever pay it back then?"

—" As the intelligent medical student you are, you surely won't do that! So, ask for a really big amount: settle for a smaller. Chip off a tiny portion of it for your spending. When you procure your government allowances or your elder sister's [bank-official in his home city, Mersin] dispatch from the post office; replenish the missing amount and toss the whole sum back, will you do that?"

From then on, the medical student tried to put the advice into practice and it really worked.

## 5. The Potential Lender is Suspicious and Cautious

One basic reason for the unwillingness of the rich to get into social interaction with people of lesser economic levels, is the fear of a probable request for a loan of money. While a poor person may hope for a new opportunity in making a new friend; a rich person usually is not eager to make new friends, either; thinking that the new friends might also resort to "pluck this fatty goose".

Affluent people shut themselves in inaccessible residences and associate with their selected few. A white sign with a warning about the presence of a dog, hangs from the garden gate. As a left-wing chronicler pointed out in his column some years ago, in most such wealthy dwellings, there exist no dogs in reality!

One adverse effect of social seclusion is a tendency for psychological disorder. After all; it is the mainstream society who stigmatizes some people as “crazy”. Being abnormal or at least being odd is just being different from that good old majority. Isolation completes the spiral movement and further aggravates the paranoid inclinations, like a chicken-and-egg relation.

Years ago, a scientific debate between two doyens of Turkish Psychiatry, Rasim Adasal (the boss of the above-mentioned-boss himself during his specialist studies at Ankara Faculty of Medicine) and Fahrettin Kerim Gökay (ex-mayor and ex-governor of İstanbul, besides his medical career) was released for a second time by the state television in black-and-white some years after being videotaped as a live show. On one occasion, Gökay told his colleague that from time to time he gets on a crowded municipal bus just for the sake of his mental health, in order to mingle with people from all walks of life!

## 6. Conclusion

Borrowing money sometimes becomes a necessity for states as well as people. Big powers are the usual providers of loans. But they do this for their own gains. Inability to pay back, may cause a contagious panic among the involved creditor parties and the “epidemic” may become devastating, which only worsens the existing economic circumstances.

With some over-simplification, it is in fact the parallel situation of a single bank-run in an isolated town being extrapolated onto a large scale at international level. The European crisis is only one more similar recent, a sad example.

## References

Alves, A., (2011). *“The Portuguese Malaise: Structural Causes of the Crisis and Lessons fort he Eurozone” in Economic Affairs, Institute of Economic Affairs,* Blackwell Publishing: Oxford.

Demirci, S., (2013). HTR 311 Classnotes, Boğaziçi University, Atatürk Institute for Modern Turkish History, İstanbul.

Drudi, F., Durré, A. & Mongelli, F. P., (2012). “The Interplay of Economic Reforms and Monetary Policy: The Case of the Eurozone” in *Journal of Common Market Studies*, *50,* (6), 881–898.

Duff, A., (2012). *On Governing Europe, published by Policy Network* [Tufton Street, London] & ALDE [The Group of the Alliance of Liberals and Democrats for Europe; Rue Wiertz, Brussels].

Eldem, E., (2013). HTR 101 Classnotes, Boğaziçi University, Department of History, İstanbul.

Hailey, A., (1975). *The Moneychangers*, Pan Books, London & Sydney.

Husted, S. & Melvin, M., (2010). *International Economics*, eighth edition, Addison-Wesley, Boston & San Francisco.

Kongar, E., (2007). *Tarihimizle Yüzleşmek,* Remzi Kitabevi, Bağcılar, İstanbul.

Masca, Mahmut (2013). *İktisadi Düşünceler Tarihi* [History of Economic Thoughts] (slides in the form of a power-point file), Kocatepe University, Faculty of Economics and Business Administration, Afyon.

Nelson, R. M., (2012). The Eurozone Crisis: Overview and Issues for Congress, Congressional Research Service, Washington, D.C.

Paraschiv, R., (2011). “Euro under Crossfire: Will the European Monetary Union Survive?”. *CESS Working Papers, III, (4).*

Wilder, T., (1962). *Dem Himmel bin ich auserkonnen* [Heaven is my Destination], (trans. by Herberth E. Herlischka), Fischer Bücherei, Frankfurt & Hamburg.