WHAT DO ECONOMISTS AND THEOLOGIANS HAVE TO SAY TO ONE ANOTHER? COMMENT AND DISCUSSION

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The comments below are based on the oral presentations by Hans Ulrich, Andy Hartropp, Andrew Henley and Michael Pollitt at the ACE Annual Study Group meeting held at Sydney Sussex College Cambridge University, July 2012 and the written versions of Andy Henley (ACE Discussion Paper 014) and Andy Hartropp (ACE Discussion Paper 015).

I am going to begin with a central issue discussed at the 2012 meeting, and reiterated in the two papers by Hartropp and Henley namely; *is it wrong for Christian economists to be advocating* the *pursuit of (enlightened) self-interest?* This question is predicated on the view that economics as a discipline, and as a way of life, is based on a particular version of *utlilitarianism*, that is, a "*consequentialist"* perspective. It is consequences that matter, nothing else. In essence, this is consistent with a *"positivist"* rather than a *"normative"* approach to economics and to economic policy-making. Of course, as Alistair McIntyre has said, economists, especially Christian ones, should also be concerned with the *quality* of their actions and especially in relation to the impact of their actions on others. *How* we make our decisions is as important as the decisions themselves. For Christians, *external goals* (e.g. greater equality) have to be weighed against *internal goals* (our own satisfaction or utility). Henley goes further by suggesting that Christians, economists or otherwise, should, "*reject a moral framework which focuses solely on outcomes, rather than the process of seeking justice (somehow defined) or pursuing virtue (somehow defined)*".

Ever since Adam Smith's famous, some would say infamous, words in *The Wealth of Nations, "it is not from the benevolence of the butcher" (etc*), the assumption of rational and (enlightened) self-interest has been the cornerstone of economics. It is the basis for what became known as *homo economicus*. In other word, "*we are all economists now".* Modern macroeconomics, in particular, and especially since the 1970's, has enshrined these notions in the more rigorous and doctrinaire concept of *"rational expectations"*. This theory developed its own *mystique (we could even call it a virtue)* that economic agents will behave rationally in whatever settings they find themselves (e.g. trade unions when they are wage bargaining for their members). The notion of *"perfect foresight"*, that is, that economic agents do not make repeated errors but only random ones based on the information available to them when they are forming their expectations, became the accepted wisdom, at least until the recent financial crisis. It was as if (and the *"as if"* assumption lay at the heart of the rational expectations approach), the doctrine of rational decision making was itself *"virtuous"* because it led to good or at least the right outcomes or *consequence*s. Any critique of the rational expectations assumption usually led to the retort from its most vehement advocates that expectations cannot NOT be rational, at least in the sense in which they defined rationality.[1]

So what can a Christian perspective contribute to this debate? From a philosophical perspective, can it add any more than Smith himself added in his famous words, "*how selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others"*. This comes from Smith's less well-known *Theory of Moral Sentiments*. One way of answering this question is to consider what a Christian contribution to the branch of economics we refer to as *Welfare Economics* might be. Welfare Economics is the nearest the discipline gets to a *"normative"* approach to such issues as: *how to achieve a balance between equity and efficiency in public policy in relation to tax and government* expenditure; *what is the right (or virtuous) balance between pursuing the maximum level of satisfaction (utility) for the individual compared with the aggregate level of utility for the society as a whole?* The second of these questions is especially problematic because of the difficulty of measuring utility in any *"cardinal"* sense.

So what might be different about a Christian perspective that makes it distinct from a consequentialist perspective? Henley answers this question by referring to the Christian concept of *telos*. Christians are not opposed to a utilitarian concept of happiness per se. The difference lies in how we might acquire it, "*Christian fulfilment comes from knowledge of Jesus Christ, formation of our lives in response to His love for us through the power of the Holy Spirit, and in the eschatological hope sealed in the resurrection".* In a true sense, the purpose of economic activity is to advance the Kingdom of God here on earth. In a practical sense, the world, the earth and all its bountiful resources and pleasures, are part of a created moral order. As Henley says, it is vital to develop a *"Christian mind"* with respect to

[1] See Struthers, J (1984) 'Rational expectations: a viable research programme or a case of monetarist fundamentalism?' Journal of Economic Issues, Vol. 18, No.4,December, pp1133-1154

economic relationships and behaviour. This, in turn, requires us to develop a focus on *virtue* in all our economic dealings. And, rather than develop an *"alternative Christian economics",* Henley argues that a more pragmatic approach for Christians in order for them to be able to survive in the modern economy would be to develop a sense of *"economic justice".* This is a concept on which Hartropp has also written.

What is *"economic justice"?* Does it have Biblical antecedents? When the Bible in Isaiah 56.1 says we should *"do justice"* or in 2 Cor 7.11 we are exhorted to "*see justice done"* this implies that our *actions and behaviours* should be grounded in justice and not just that the outcomes (or consequences) should be. The key for Christians is "*how should we live our lives"* and not just "*how do economic agents behave".* In practical terms, Henley refers to the reality of the Kingdom of God in our lives, but supported by the "*sub tasks of modelling the economic aspects of that Kingdom".* And what might that economy look like? "*It will be an economy of care and responsibility, an economy of creativity, and an economy where actions as well as outcomes are just".* Such a clearly virtuous perspective would also have the added *"virtue"* of being *optimistic* instead of the rather *pessimistic* Darwinian *"dog eat dog"* mentality that underpins much of neo-classical economics. The specific virtues that Christians would appeal to might be those based on the words of Paul at I Tim 3.16 of "*training in righteousness".* These include *trust* (or *faithfulness*), *honesty, creativity, stewardship, forbearance to exploit others*, amongst others. In our economic lives there is an emphasis on the *relational aspects of our behaviour* rather than just the *transactional aspects* (i.e. what we can get out of them).

Henley presents two examples of recent (and on-going) economic crises; firstly the *2007 financial crisis* and, secondly, the challenge of *global climate change*. With regard to the former, he asks the question whether the crisis was brought about by *"technical failure"* or *"moral failure".* He argues that the crisis may have been averted if only there had been a "*virtue-based approach"* in place. Such an approach could have focused on issues of *justice*, the *absence of forbearance*, *prudence*, *trust* etc. One aspect of the crisis that he does not discuss, however, is the contribution that the sheer *complexity of financial products* made towards the crisis (through the spread of derivatives and securitisation etc). Such complexity, which governments around the world are still grappling with, has led many to even conclude that financial markets are almost impossible to regulate. Although it is appropriate to complain, as we continue to do, that the crisis was caused by *greedy bankers*, the failure of a financial regulatory regime to keep abreast of the complexity of the financial system was also a major contributory factor. If true, the solution to such a crisis has to involve more than just a virtue-based approach. We also need technical solutions, that is policies which achieve the right outcomes (or *consequences*). Policies that might minimise the possibility of another crisis, or at the very least, mitigate its worst effects.

The same issues apply to global climate change and the complexity and magnitude of that issue. All of us, Christians included, struggle to cope with the huge challenges on this issue. Once again, we need technical solutions that take account of this complexity. If possible, these should certainly reflect an approach based on "*economic justice"*. However, I personally have difficulty with the notion of "*climate justice"* which is a term used by a number of Christian organisations. It is now a common mantra among some Christian organisations to lobby governments on this rather vacuous concept, especially in relation to dealing with the negative impacts of global climate change on *developing countries*. Even though there is evidence that such negative effects do impact disproportionately on developing countries, what are needed are technical *solutions* at the micro level to tackle the issue. This may, in turn, have adverse effects on the developed countries who might be causing these negative effects (fuel, and utility prices may have to increase substantially). Mitigating strategies such as *"feed in tariffs"* and "*efficient carbon pricing"* are examples. We may also have to accept lower economic growth. Similarly, in the context of the financial crisis, countercyclical monetary policy and tighter capital requirements will be necessary, which will mean access to credit for mortgages and other expenditures will become more difficult. Are we prepared to bear these costs?[2]

Andy Hartopp's paper addresses a somewhat different issue namely: *why engagement between Christian economists and theologians is difficult*. It is partly that they each speak a different language from the other. They use different terminology and are predicated on completely different concepts. Because economics is concerned with a wholly secular perspective, engagement between them will be difficult. So for example when economists refer to rational self-interest, Hartropp rightly suggests that this is merely to facilitate *prediction* by economists on a range of issues. It is *not* to be viewed as an *assertion* about the

[2] An even more current topic that requires a combination of a "*moral"* solution along with a "*technical"* solution is the highly publicised issue of "*aggressive tax avoidance"* by the very large multinational companies.

actual behaviour of human beings. Part of the problem here, and Hartropp recognises this, is that economics does not set out to be prescriptive. It is merely trying to explain human behaviour within the economic realm. The most extreme version of this is the position taken by many economists where rational self-interest almost takes on the status of a universal truth which is incontrovertible, value free. There is no place for altruism. Indeed in modern day economics, with its high level of specialisation, abstraction and (increasingly mathematical) rigour, this adds to the notion that economics is value free. Because the level of rigour is so high, which it often is, the assumptions on which the theories are based must be acceptable, especially if the models predict well.

Hartropp is correct in criticising the stance taken by Craig Blomberg who analyses the challenges of understanding the modern economy by referencing it to a *Biblical theology of possessions*, especially an Old Testament version of possessions. We have to recognise the *existence of economic structure* (whatever form it takes) in our economic lives. How possessions are actually acquired in a modern economy, how they are used, how they are replaced, all require some form of economic structure. This in turn relates to the appropriate balance that may be struck between allowing market forces to operate in certain contexts, whilst in others there may be a greater justification for government provision. Examples include: *public goods* (or *merit goods*) and when dealing with either *positive externalities* through some form of subsidy, or *negative externalities* through some form of taxation (or equivalent such as a *minimum standard*). Such structures do not prohibit self-sacrificing giving as for example in the Old Testament systems of *gleanings* and *tithing*. The *"value"* of the economist is to come up with efficient (and hopefully equitable) systems to deliver the appropriate balance between the role of the market versus the role of the state, or the role that the individual has to play compared with the role of society generally. This can be done with the aid of the various mechanisms, levers and tools available to us in a modern economy such as tax, public expenditure, incentives, regulation etc. As Hartropp rightly says, whereas the theologian is really concerned with the *"big picture"* questions relating to ethics, right and wrong, the economist is usually more concerned with *"the details"* of how best to utilise these levers and tools.

To take an example. Poverty is a scourge. Everyone, theologian and economist (especially a Christian one) agrees. Whereas theologians can explain this from a Christian Biblical perspective, the economist is really useful in coming up with alternative practical solutions to poverty. This usually involves seeking out an appropriate balance between *incentives* and *sanctions* (e.g. making it worthwhile to work rather than not). This may seem cold and clinical, but I would argue that it also appeals to a virtuous, indeed Christian, approach. Real life examples include: how best to help developing countries through a combination of *trade and aid* (note this needn't mean an *aid OR trade* approach, it may mean an a*id FOR trade* approach); in the domestic economy it may mean a combination of a *just wage* along with a type of "w*elfare to work" programme*. To put it even more strongly, and this might be an uncomfortable point for some Christians to accept though it should not be so for Christian economists, it could mean that in the determination of social policy a distinction has to be made between the *"deserving" poor* and the *"undeserving" poor*. Compare and contrast James 1:27, "*we must care for orphans and widows in their troubles*" with 2 Thess 3:10, "*whoever does not work should not eat"*.

Finally, I believe it is a fair conclusion on both papers that in order for a useful dialogue to take place between economists and theologians, there should be a recognition that such a dialogue will be inordinately difficult. This is partly because of the different languages, precepts and terminologies of each of them. It is also due to the different roles that each may play in a modern society. Due to the sheer power of the concept of the *market*, belief in which in recent times has almost *become a new religion*, the challenge is an enormous one. It is also about recognising what each of our "*contributions to value"* are, to use an economics term. We have to be able to understand the *"big picture"* but also the details in all their complexity. Henley is also correct to recognise that there is a higher *"virtue"* which emanates from the Kingdom of God and the redemptive power of Our Lord Jesus Christ. This will lead, hopefully, to the *"training of our Christian minds*" in economic matters, and the realisation for economists that the impact of our own behaviour on others should reflect a *virtue-based approach* to economic decision making. Such a realisation will require us to achieve an appropriate balance in our economic lives between the *"relational"* dimension and the *"transactional"* dimension in the decisions that we make. Another way to express this is to say that *consequences do matter but they do not matter absolutely!*