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From the Editor:

This issue contains two papers. The first is Stephen Frowen's interesting paper on a the way money and financial markets function from a Christian perspective, which was given at last July's Study Group. The second paper is by Donald Hay and on an evangelical approach to economic issues. It is to be published in April 1993, in a book entitled *Anglican Evangelicalism*, edited by R.T. France and A.E. McGrath by S.P.C.K. He, and the editors, have kindly allowed it to be previewed in advance here. Finally there is a review by myself of Richard Harries' book, *Is There A Gospel For The Rich?*.

I would like to give a further reminder of next year's Study Group meeting. It will take place again in Jesus College, Oxford, on Monday and Tuesday, 5th and 6th July 1993. If you would like to present a paper (even if at this stage it only exists as an idea) then Donald Hay would very much like to hear from you. Please tell anyone else who may be interested in coming about the meeting. Residential places in Jesus College are limited, but we have not in previous years been bound by that constraint.

Finally a further call for contribution to the ACE journal. If you would like to contribute, or would like to review a book which relates to Christian approaches to economics, then I am very keen to hear. from you.

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THE FUNCTIONS OF MONEY AND FINANCIAL CREDIT: THEIR OBJECTIVES, STRUCTURE AND INBUILT DEFICIENCIES

Stephen F. Frowen

INTRODUCTION

In a diplomatic note sent by the Vatican to all governments on the eve of the "Earth Summit" in Rio de Janeiro in June 1992, the Holy See reiterated that the ecological crisis is essentially a moral one, requiring strategies and motivation based o a morally coherent world view. This statement could equally be applied to the financial sector in which domestic markets, at least in the Western advanced economies, have been globalised and frontiers removed as a result of deregulation and liberalisation, and the financial innovations resulting therefrom. The financial world, which includes regulatory authorities and government, is now in desperate need of new strategies and of motivation based on a morally coherent world view where acceptable solutions depend not only on technical expertise, but also on justice.

For thousands of years attempts have been made to apply ethical precepts to money and finance in order to develop financial ethics. Among the long and continuous list of those foremost concerned, one immediately thinks of Aristotle and his contemporary in India Kautilya in the fourth century B.C.; the long-neglected tradition of the Middle Ages, developed by Aquinas and adapted from the 19th century onwards in papal social teaching; Adam Smith in the eighteenth century; and Keynes and his increasingly prominent Post-Keynesian followers in the twentieth century.

Keynes, who always considered economics a moral science, was greatly influenced by the philosophical ideas of G.E. Moore and, encouraged by Moore, pleaded for the Ideal. When this Ideal was not produced by individual self-interest, it should then - according to Keynes - be achieved by state intervention. This state intervention would have to take the form of setting boundaries and determining rules for the regulation of money and other aspects of economic life within the framework of a managed, capitalist system. But for Keynes the ultimate aim of state intervention and government activity generally has always been the happiness of the community.

Ethical reasoning, whether in its utilitarian form of the greatest happiness of the greatest number, or in its deontological form of duty for duty's sake, applies to the world of finance as well as to any other field of economic activity. But even duties, as Amartya Sen (1991) has pointed out, should not be regarded in consequence-independent terms. What in reality is highly relevant to financial ethics is the interrelation between duties and consequences. I shall attempt to analyze post-war monetary developments in the light of this dictum.

PROBLEMS OF CHOOSING ECONOMIC GOALS

Ideally the main goals of economic policy should be achieved simultaneously. The Federal Republic of Germany even introduced a special law in 1967 for just this purpose, the so-called Law on Stability and Growth. But despite these efforts the ideal was never achieved implying, strictly speaking, unlawful behaviour. The four goals in question are price stability, a satisfactory balance of payments (however defined), an adequate growth rate and a high level of employment. The problem is that policy measures favouring the first two more often than not lead to a deterioration of the remaining two, and vice versa. How to select the goals on which to concentrate is at least partly an ethical and moral problem. The actual achievement of the economic goals is effected through the application of economic policies consisting basically of monetary and fiscal policy, and maybe an incomes policy.

The question then arises whether to go for price stability and a sound balance of payments even if the policy measures required keep both the growth rate and the level of employment down, or whether for humanitarian reasons to favour growth and employment. Monetarists will tend to opt for price stability and a sound balance of payments; Post-Keynesians for the alternative goals of growth and employment. To be fair to monetarists, however, one has to admit that if price stability leads to substantial export surpluses, this policy may in the longer run also favour economic growth and the employment level, as has in fact been the case in West Germany over a great part of the post-war period. But this "virtuous" cycle never applied to the UK during the post-war period. In any case, maintaining the dignity of man through adequate employment should always be the first priority of any government.

THE CHOICE OF ECONOMIC POLICY INSTRUMENTS

Another ethical question is the combination and extent of various types of economic policy employed. Where should the emphasis lie when using simultaneously fiscal and monetary measures (1), and maybe an incomes policy? What should be the role of an exchange rate policy?

Although Keynes himself was not greatly concerned with either fiscal or exchange rate policy in his *General Theory*, under Keynesian-dominated demand management policies, as pursued by most of the Western advanced economies during the earlier decades of the post-war period, full employment and growth were the main economic goals. The emphasis was distinctly on fiscal rather than monetary policy. Nevertheless, the part played by monetary policy in the UK was by no means insignificant even under successive Labour Governments. Then, in the early 1970s, monetarism took over in most of the Western advanced economies, which implied a shift to money supply control and the setting of monetary targets for the purpose of price stabilisation. In West Germany, for example, price stability has been the main goal of economic policy throughout the entire post-war period, this being the principal mandate laid down in the Bundesbank Law for the Federal Republic's independent central bank system.

The early 1990s have produced further reasons for the predominant use of monetary policy in some of the leading industrial countries. In the US, for example, fiscal profligacy in the 1980s has been such that any macro-economic stimulation of the economy would now have to be instigated through monetary rather than fiscal policy. In Germany, on the other hand, the cost of financing the unification of the two parts of Germany left the Federal Government with insufficient budgetary control and a lack of control over public sector wages and salaries. This means that the real burden of returning to a greater degree of price stability has to be carried by the Deutsche Bundesbank and the Central Bank Council relying on monetary policy measures. An alternative deserving consideration is a new type of Keynesian policy incorporating at least some degree of exchange rate flexibility (see Smithin and Wolf, 1992).

THE CHOICE OF MONETARY POLICY INSTRUMENTS

When deciding which among a whole range of instruments of monetary policy to apply in a given situation, the choice of a monetarist is likely to differ from that of a Keynesian. There is a twofold explanation for this distinction: First, monetarists prefer control of the money supply, leaving interest rates to be determined by market forces. Secondly, monetarists tend to go more for direct rather than indirect monetary controls. Needless to say the opposite applies to Keynesians. The use of each instrument of monetary policy has its own costs and benefits, and in the choice of the instruments ethical considerations should not be neglected.

Much depends on who has to bear the cost and who will gain the benefit. Neither costs nor benefits of monetary action will be distributed equally among the population at large. In fact, a redistribution of income and wealth can often not be avoided. In whose favour will it, or should it, be? Who is to decide this rather fundamental issue? We as economists can draw attention to the pros and cons of each decision, but ultimately the choice is with policy-makers, may they be politicians or the policy-makers of independent central banks.

MONEY AND THE ECONOMY

In discussing the application of the instruments of monetary policy, it may perhaps be more correct to use the past tense, because of fundamental changes in the financial sector of Western advanced economies, a process which is by no means completed. It is the consequences of these changes which have recently drawn more attention to the moral aspects of financial decision-making. This moral dimension is of decisive importance, because of the effects money, and in particular changes in the quantity of money, have on the economy, and therefore the economic well-being of the population at large. Central and commercial bank decisions have a marked direct, and an even more far reaching indirect, effect on the life of the nation. Following a morally justifiable course is therefore essential.

The paradox here is that we find ourselves able to talk about the consequences and effects of monetary operations, such as the impact of money supply changes on the economy, without, at the same time, being able to define exactly what money is. What in this respect comes nearest to the truth is the definition of money suggested by G.L.S. Shackle (1971). He defined money simply as the means of payment, i.e. the means of final settlement of a debt rather than as the medium of exchange. To show the distinction he used trade credit as an example which is acting as a medium of exchange, enabling the exchange of goods and services, but ultimately has itself to be settled by using whatever is acceptable as money. Shackle also thought that unused overdraft permission, 'lines of credit', ought to be included in the stock of money if we are using as our definition of money 'the means of making payments'. However, in practical terms the difficulties of quantifying unused overdraft facilities would make it virtually impossible to include them in any statistical measure of the money supply.

Having a satisfactory definition as the means of payment is helpful, but we still have to tackle the more difficult task of identifying the assets which fulfil that function. The intricacies of this problem are reflected in the fact that most monetary authorities operate with a whole range of different money supply definitions, ranging from the most narrow one of just notes and coins to definitions not only including the liabilities of banks but also those of non-bank financial intermediaries. In theory "safe" short-term securities, such as Treasury bills or Eurocommercial Paper, could just as well serve as means of payments. In fact, the £-note started it; it is a promise to pay. Ultimately, it all depends on what the creditor is prepared to accept in final settlement of an outstanding debt.

Financial innovations, since the latter part of the 1970s, have introduced a whole range of new financial assets in both money and securities markets, many of which could potentially be regarded as money. With this going on, where do the authorities stand when trying to control "the" money supply and setting targets for it? Even if a specific money supply definition is chosen as the one most likely to affect income, interest rates and wealth in a predictable manner, one would still be faced with the problem of disrupting shifts among financial assets included in different definitions of the money supply. These shifts are the unavoidable consequence of changes in relative interest rates.

This is one of the reasons, but not perhaps the primary one, why many countries, including the UK, have given up setting targets for specific money supply definitions. The real and more important reasons for this abandonment, however, are firstly that monetary policy has not been effective because of inconsistencies, and secondly because of the truthfulness of Goodhart's Law, which states "that any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes" (Goodhart, 1975, p. 5).

In this situation we are back to a Post-Keynesian position in which the money supply, however defined, is allowed to be endogenously determined, but only within the boundary conditions determined be the central bank. With no adherence to such boundaries the central bank will essentially rely on interest rates to influence the demand for money and through it lending by financial institutions. The problem then arising under present-day conditions is that interest rates do not represent a flexible enough instrument of monetary policy. Individual industrial countries, except core countries such as Germany, the USA and Japan, have little freedom in this matter. For them interest rate changes in line with domestic requirements require the acceptance of the consequential effect on the exchange value of their currencies.

ERM, THE UK AND MONETARY STABILITY

Under a fixed exchange rate system, such as the European Exchange Rate Mechanism (ERM), the restraints for such countries on independent monetary policy measures are even more severe. Thus, failing a reduction in German interest rates, the UK had little choice but to leave the ERM in September 1992 in order to set domestic interest rates at a level required to prevent the economy from moving into an even deeper recession and to create confidence in at least a slow economic recovery. As the Governor of the Bank of England pointed out in the First Bank of England Lecture at the London School of Economics in November 1992;

> "The ERM...certainly offered a very visible sign of our commitment to price stability...But an increasing divergence emerged between the domestic policy needs in Germany and elsewhere in Europe, including in this country, and this was forcing us into unduly rapid disinflation. There was a real risk of these disinflationary forces doing quite unnecessary damage to the real economy". (Leigh-Pemberton, 1992).

In a more severe inflationary situation with a government anxious to restore price stability, nominal interest rates would have to be set and maintained at a level so high that the hardships imposed thereby on the business community and in the personal sector would be in danger of proving politically and economically unacceptable in terms of the increasing number of business failures and, in the special context of the UK situation, house repossessions as householders can no longer cope with the rising cost of their mortgages. The justification of such a policy in terms of human suffering might well become questionable.

In his *General Theory* John Maynard Keynes regarded a stable general level of money wages rather than the level of interest rates as the key to price stability "provided that equilibrium with the rest of the world can be secured by means of fluctuating exchanges" (Keynes, 1936, p. 170). Once a fair degree of price stability is achieved, money wages - according to Keynes - could rise in line with increases in productivity without endangering price stability.

It would be difficult to deny that for the common good the long-term objective of economic policy and in particular monetary policy should always be the stability of the value of money (2). For Keynes himself the greatest evil of a change in the value of money derived from its social consequences because its incidence is unequal and because
"when the value of money changes, it *does not* change equally for all persons or for all purposes... a change in prices and rewards, as measured in money, generally affects different classes unequally, transfers wealth from one to another, bestows affluence here and

embarrassment there, and redistributes Fortune's favours so as to frustrate design and disappoint expectation". (Keynes, 1922; 1971, p.1)

It is not surprising, therefore, to find Churches of different denominations paying attention to this issue. In Catholic Social Teaching, for example, Pope John Paul II stated in his Encyclical Letter *Centesimus Annus* that the activity of a market economy presupposes not only sure guarantees of individual freedom, private property and efficient public services, but also a *stable currency*. To guarantee this security the Pope regards as the principal task of the State "so that those who work and produce can enjoy the fruits of their labours and thus feel encouraged to work efficiently and honestly" (*Centesimus Annus*, 1991, Chapter V, par. 48).

That monetary instability is not only a narrowly economic matter, but also a sociological and psychological one, has been highlighted by G.L.S. Shackle. "For plainly", he writes, "if all of us guided our conduct with a sufficiently enlightened self-interest and enough self-restraint, we could have a stable price level along with no matter what degree of full employment". (Shackle, 1966, p. 219).

THE ESSENTIALS OF MONEY SUPPLY CONTROL

Milton Friedman (1956) always maintained that the quantity theory of money is in the first instance a theory of the demand for money - not of output, money income or the price level. Based on the hypothesis that the demand for money is stable, he recommended a monetary growth rate rule, in other words setting targets for the growth of the money supply.

The difficulty, which then arises, apart from those already mentioned, is that in most of the advance economics, the money demand is rather unstable for most definitions of the money supply, with the exception of a few selected countries, among them West Germany (at least for certain money supply definitions) until the reunification in 1989 (see Frowen and Buscher, 1990, and Frowen and Schlomann (1992). But even with a stable money supply, we would still need a stable velocity. But this, too, shows a high degree of instability.

It is for these reasons, and for the already mentioned elusiveness of money caused by financial innovations, that most central banks have given up any reasonable attempt to achieve established monetary targets, or to keep targets nominally to show good intentions. Admittedly, Germany, Switzerland and Japan still adhere to monetary targets and achieve them to some extent by limiting the availability of short-term interest-bearing alternatives to bank deposits. Germany, in this context, is helped by a rather underdeveloped money market and a lack of financial deregulation and innovation - at least in comparison to the US, UK and Canada. For example, Germany still has minimum reserve requirements for certificates of deposit.

However, it is not only the elusiveness of money which is creating problems. The fact is that the bulk of our money supply consists of the liabilities of financial institutions, in other words they consist of customer deposits largely created as a result of lending these institutions. And it is not only banks which through their lending operations are involved in money creation, but a wide range of other financial institutions as well, including the whole sector of institutions formerly referred to as non-bank financial intermediaries and the increasingly powerful investment banks.

Money supply control in the UK was relatively easy during pre-1971 days when an overwhelming percentage of the bank lending was handled by the London Clearing Banks, in particular by the then Big Five. The lending operations of these institutions could be controlled by the Bank of England with relative ease through a wide range of direct and indirect controls including exchange control.

The first step towards dismantling the existing system was through the implementation of policy recommendations contained in a document called *Competition and Credit Control*, introduced in 1971. These developments were followed in October 1979 by the abolition of exchange control. This and the financial innovations since the end of the 1970s has left the field open for literally hundreds of domestic and foreign financial institutions to operate with a minimum of supervision in the increasingly liberalised London market. Admittedly, the bulk of these operations is in eurocurrencies, but the backlash on sterling should not be underestimated.

The Bundesbank and other central banks do not like transactions in some of the new financial instruments to be conducted in their own country and prefer their domestic banks to engage in these transactions through their foreign branches in London, Luxembourg and other financial centres. Undesirable transactions by branches of German banks abroad could of course be prevented by the Bundesbank through pressure on the parent bank. Generally speaking, globalisation of financial transactions meant the removal of frontiers for financial operations. In this situation central banks were bound to loose control over their domestic economies and, of course, over the domestic money supply and interest rates.

As technical as these points may seem to be, they are closely related to the moral dimension of financial decision-making. The connection can easily be found, I think, in the effect which changes in the money supply and in interest rates have on income, income distribution, prices and employment, and therefore on everybody's life. Is it wise then to assume that the efficient pursuit of self-interest among financial institutions will also deliver justice for all? As Roy Harrod once said in a letter to Maynard Keynes: "Banks affect everybody's life". Strict control over them is therefore essential on moral grounds.

CONTROL OF FINANCIAL INSTITUTIONS

During the earlier post-war period, relatively successful policies were followed in the UK and elsewhere to control the volume of bank lending. This at times took the form of direct quantitative and qualitative measures, which the UK applied to the London clearing banks only. The philosophy behind this policy - which in the UK was in operation from the mid-1950s until 1971 - found theoretical underpinning in the Radcliffe Report (1959). Among those in favour of this approach in Germany is Claus Kohler, a former member of the directorate of the Deutsche Bundesbank (see Kohler, 1977).

Unfortunately, the situation today is not as simple as it was then. The abolition of exchange control in the UK, the globalisation of financial markets and the process of securitisation since the late 1970s have created serious problems for the control of bank lending and through it the control of the money supply, as well as for banking supervision (see Chick, 1986, 1988 and 1992).

A major impact has been securitisation, which has been defined by Henderson and Scott (1988) as "the process which takes place when a lending institution's assets are removed in one way or another from the balance sheet of that lending institution and are funded instead by investors who purchase a negotiable financial instrument evidencing the indebtedness, without recourse (or in some cases with limited recourse) to the original lender". This device is therefore a shift away from traditional bank borrowing to a securitised form of borrowing. Its main significance lies in the fact that banks now act as agents rather than lenders unless they themselves acquire the securities issues. In the latter case bank assets on average would become more marketable. The main danger appears to be that through securitisation, financial institutions accumulate off-balance-sheet commitments which can become on-balance-sheet items at a later stage.

Even for the top management of financial institutions it is often difficult to have a clear picture of their commitments arising from off-balance-sheet transactions, such as swaps, financial futures and other derivatives and standby facilities. Through these type of operations, financial institutions assume risks, the extent of which is difficult to assess. If things go wrong, who suffers? Obviously the shareholders and depositors of the financial institution involved. Shareholders, however, know they are taking a risk, while depositors look on their 'money' as safe. We all know the suffering caused as a result of the UK Local Authority swaps debacle not so long ago.

The fact that many financial transactions have become impenetrable, even to supervisory authorities, has no doubt been a major contributory factor for a number of recent financial scandals. Another factor inducing financial institutions to engage in unsound business transactions is the result of reduced profits caused by both increased competition and risks arising from the liberalisation and globalisation of markets, as well as the desperate attempt to maximise growth rates even when it is unjustified by market conditions.

One should have thought that after the disastrous consequences of the banks' policy of providing unsecured sovereign loans in billions of US dollars to the richer of the developing countries, following the oil price rises of the 1970s, banks would have learnt their lesson. In many instances borrowing countries cannot even service these loans let alone repaying them. Far from helping the developing countries, they have by now thrown them into economic despair with a substantial proportion of their meagre export earnings being absorbed by interest payments. The result is a decline in per capita income in the heavily indebted developing countries and a transfer of real resources from poor or rich countries. Fortunately, there has been some recent improvement in the economic condition of some of the Latin American countries.

Despite the often tragic state of many of the heavily indebted countries, the banks, among them major ones, do not seem to have learnt any lesson at all, other wise the Maxwell and BBCI scandals could never have occurred. This is worrying because of the impact of banking transactions on the economy as a whole and on everybody's life. Loans which the banks now have to write off must be financed by somebody. This somebody is usually the customer of the bank - the banks' own capital and reserves being insufficient to do so in many instances.

The solution to the banking crisis - and it is no less than that - obviously lies in a far stricter supervision of financial institutions, preferably by an international supervisory authority. The Basle committee on banking supervision has therefore become of increasing importance, and so have the attempts now being made by this committee to design and implement new mechanisms for the G10 group of large industrial nations to share information and monitor the supervisory ability of countries outside the core group, i.e. offshore financial centres and lately certain East European countries to which some of the shadier banking business appears to have moved. This new type of international banking supervision is meant to be part of the war against the laundering of criminal proceeds and drug money, in which apparently some of the most reputable financial houses, even in Switzerland, have in the past - knowingly or unknowingly - been involved.

Throughout this paper the focus has been on domestic and international market forces, and on the (largely governmental and/or central banking) "controls" needed to regulate them. Using this approach we have to be aware of the danger that it might tend to crowd out the issue of co-ordination by intermediate means, such as suasion, negotiation, informal pressure from public opinion or monitoring bodies and disclosure effects, not to mention appropriate corporate "motivation" (3). In the financial sector there is no doubt a need now for increased direction, but the importance for informal controls or for voluntary responsibility on the part of financial decision units should not be underestimated.

CONCLUSIONS

The conclusions one may draw from the above analysis are as follows: Firstly, the far reaching financial deregulations and the whole range of financial innovations resulting therefrom require fundamental changes in the application of the instruments of monetary policy. For example, the question arises whether minimum reserve requirements, still extensively used in Germany, may not after all be a useful instrument. We all know, of course, that the eurocurrency market would never have taken off in London in the way it did, and reaching its present astronomical size, if minimum reserve requirements had been in operation. But when it comes to the regulation of financial transactions in domestic currency, different priorities arise, and commercial banks and other financial institutions have to be controlled in a much more effective manner than they are at present - at least in the UK. It seems quite extraordinary, for example, that the Bank of England was allegedly totally unaware of the billions of pounds lent by the London banking community to the Maxwell empire. If this should be true then something is lacking in the UK supervisory system. The capital adequacy and other rules alone have proved rather insufficient.

What I hope has also emerged from the arguments presented above is the fact that the money supply in whatever form has to be brought back under the firm control of the central bank by means of an efficient control system over bank lending. To this end a wide range of monetary policy instruments should be applied. In the present economic climate, this does require for the UK freedom from the exchange rate restrictions the ERM imposes on member countries - a fact which quite rightly has led the Government to suspend UK membership of the ERM in September 1992, clearing the way for an independent monetary policy directed towards the domestic economy with the aim of reviving economic activity. The inherent danger looming in the background is a resurgence of inflationary pressures. Strict control over money wages must therefore be a prime objective as well as a rejoining of the ERM as soon as economic conditions permit.

However, the problems discussed in this paper have wider implications and require actions on the part of all industrial nations, if they fail in these attempts, it is not only their own population which will suffer, but also the developing and Eastern Europe now undergoing dramatic changes in their economic system.

Finally, the astronomical expansion of globalised financial markets due to deregulation and financial innovations is another development that should cause serious concern. The swap market, for example, will reach an estimated turnover of $ 4 000 billion in 1992; there is the vast volume of both euromoney lending and foreign exchange transactions, the estimated trading volume of the latter in the London market alone being around $ 100 billion per day; in fact, most financial markets show growth rates quite unrelated to the growth of the real sector of the world economy. These financial transactions yield high rates of return in terms of company profits and in terms of excessive salaries paid to their leading staff. One cannot help fearing that those operating financial markets, and many of those operating in these markets, are syphoning off an increasing part of real output, in any case more than they seem to be contributing to it at present. On this issue, too, and by implication on money laundering and related transactions, Pope John Paul II again has something relevant to say in *Centesimus Annus*: "... the spread of improper sources of growing rich and easy profits deriving from illegal or purely speculative activities, constitutes one of the chief obstacles to development and to the economic order" (Chapter V, para. 48). The transfer of real resources from poor to rich countries are not entirely unrelated to these issues, although it must be admitted that many of the financial institutions in the developing world are rapidly joining the game.

Admittedly, cooperation among national supervisory authorities, especially in the industrial countries, is closer now than in the 1970s or 1980s. Yet, the crucial point is that the removal of national frontiers for financial markets quite logically requires a decision-making supra-national supervisory authority, and serious efforts ought to be made to get it established whatever the difficulties and the costs may be. A return to the *status quo*, that is reestablishing national frontiers for financial markets, is scarcely a viable or even desirable alternative. Thus, it seems imperative on moral and ethical grounds for monetary authorities and national governments world-wide to gain control over the situation by establishing such an institution. If they fail to do so, the balloon, already close to bursting point, will eventually burst and financial markets will collapse (more severely than ever before) - and the sooner this happens the better. It would be a true disaster, but the road towards an inflation-free and better world may then be marked by fewer obstacles.

NOTES

(1) For the relative impacts of fiscal and monetary policy measures, see Frowen and Arestis (1983), and Frowen, Arestis and Karakitsos (1978).

(2) This view received strong support almost simultaneously in lectures given in November 1992 by the Governor of the Bank of England, Robin Leigh-Pemberton, at the London School of Economics, and by the Deputy Governor and Governor-Elect of the Deutsche Bundesbank, Hans Tietmeyer, at the Von Hugel Institute, St. Edmund's College, University of Cambridge (see Leigh-Pemberton, 1992 and Tietmeyer, 1992).

(3) For a discussion of some of these issues, see Jonathan Boswell on the theory of public co-operation (Boswell, 1990).

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AN EVANGELICAL APPROACH TO ECONOMIC ISSUES

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[For technical reasons we are not able to reproduce this article.]

Is There a Gospel for the Rich?
by Richard Harries, Mowbray, 1992, £12.99

Richard Harries will be familiar to many as the voice behind "Thought for the Day" most Friday mornings on Radio 4. Anglicans in Oxford will know him as their diocesan bishop. He recently made the headlines because he was, along with others, responsible for taking the Church Commissioners to the High Court over the question of whether their investment policies should be conducted on ethical grounds, regardless of whether such policies would imply lower rates of return for the Church of England. *Is There a Gospel for the Rich?* is a series of addresses to all who in one way or another meet with the economic world. In that sense it is written for the widest possible audience since none can avoid the economic sphere. Thus, in the later half of the book, there is a chapter "For those engaged in the creation of wealth", another "For shareholders, employees and the rest of us", another "For investors" and so on.

The book beings by posing the question of whether riches can rule an individual out of the Kingdom. It takes as its starting point the passage in Mark 10 vv. 17-27 in which Jesus confronts the "rich, young ruler" with the challenge that, in order to inherit eternal life, he must sell all his possessions and give them to the poor. Does this mean that the market system, which works on the basis of financial reward for the pursuit of individual self-interest, in effect disbars the economically most successful from eternal salvation? To often this attitude, Richard Harries argues, can lead Christians into a paralysing sense of guilt about wealth accumulation. He goes on to say that we should emphasise the positive side of the market-based capitalist system and at the same time support policies which will correct its inevitable biases in favour of the rich and powerful. So the author seeks to enable those Christians concerned with the economic world to balance the ethical teachings of Jesus with their experience of God's providence and grace; an experience that for Christian members of the professional classes of the developed Western economies provides, in comparison with the rest of the world, an extremely comfortable and wealthy existence.

In the second chapter Richard Harries explores the familiar question of who are the poor, as posed by the two accounts of the Beatitudes; in Luke's account Jesus "blesses the poor" (Luke 6 v. 20) and in Matthew the "poor in spirit" (Matthew 5 v. 3). He, in my opinion rightly, argues that there are sufficient grounds elsewhere in the

Bible to show that God's favour is as much on the economically poor as much as on the spiritually poor. But does this mean that, by default, that the rich are less deserving of God's favour? The question of why the poor are blessed is not an easy one to answer but it is perhaps because "their emptiness allows the fulness of God to dwell within them" (p. 25). This is good news for the rich because it suggests that they too can become part of the poor. Perhaps this spiritualises the Christian understanding of the poor too much. On the other hand it is perhaps easier to get to grips with than the almost utopian call that writers such as Ron Sider give to the the rich.

Chapter three reviews for us the attitude of the early Church towards riches, pointing out that, for early scholars such as Chrysotom, Ambrose and Augustine, the alleviation of poverty was more a matter of justice than of charity. Chapter four will perhaps provide most interest for present readers since it tackles the relationship between Christianity and economics. The discussion is wide ranging, drawing on the papal encylicals on social teaching and the work of writers such as Brian Griffiths and Donald Hay (both apparently wedded to the Calvinist tradition of social ethics), to show that very different conclusions can be reached from a Christian approach to the economic order. Harries finds much to agree with in the eight guiding principles in Hay's *Economics Today*, yet he has great difficulty with the proposition that the Bible can be used paradigmatically to produce specific economic policies for today's world. Having said this, he comes very firmly to position that all must work for economic justice and that will arise not solely from well-intentioned charitable activity but will also require state intervention on behalf of the poor.

Chapter five takes up the perennial theme of the relationship between the Christian faith and socialism, in particular through their recent point of contact in liberation theology. While remaining sceptical of liberation theology in its most overt political forms, Richard Harries' account is very balanced. Liberation theology, as well as other recent theological movements, have initiated a welcome and substantial debate concerning the relationship between theology and the society in which we live. One aspect of this, which Richard Harries finds very encouraging, is the development of evangelical social ethics, with its radical approach to the economic order. Clearly he has in mind authors, including Ron Sider, who are to be found on the editorial board of "Transformation". What he particularly welcomes is that evangelicalism now seems to have broken away from the stultifying atmosphere of its conservative, Victorian traditions. As the Bible demands individual transformation that process ought also to lead to the transformation of social structures. Thus, there is a gospel for the rich in that the rich as much as the poor need liberating into God's kingdom.

As already indicated, the next five chapters develop the first part of the book, by addressing directly various groups of the economically active. The emphasis is on maintaining Christian ethical standards of individual behaviour, although with broader "macroeconomic" concerns in view. On the creation of wealth Richard Harries comes down in favour on a "sustainable development", which does not destroy the environment or deplete non-renewable resources. The aim of wealth creation must be to improve the quality of life for all, particularly in the developing world. In the market place, he argues that thought needs to be given to the social framework within which market transactions take place. Markets are highly efficient, and are compatible with human freedom, but their operation must be limited where that impinges on the well-being of the least able. The chapter "for those with possessions" is, at least in part, a discussion of how far Christian teaching supports egalitarianism. The Biblical material used to investigate a possible Christian stance on equality is entirely drawn from the New Testament. I, for one, found this odd given that there is so much about social justice in general, and institutional arrangements with redistributive implications in particular in the Old Testament. (Discussion of the Jubilee principle does surface in chapter eleven, but largely in connection with the question of debt forgiveness for the Third World.) While remaining somewhat equivocal about income redistribution, the author explores a number of themes, in particular the issue of employee share ownership and participation in decision-making. He is very much in favour of this. Ownership of property, such as through home ownership, does provide a level of dignity and self-worth in society, and indeed participation in decision-making can provide the same in the workplace.

On advice to "investors" a good deal of space is given over to the ethical investment movement, something that as we have seen Richard Harries regards as very important. Indeed he admonishes both Griffiths and Hay for their failure to discuss this topic in the respective books. However, in some respects, the supporting theological argument is at its weakest here. He makes an implicit parallel with the prohibition by the Church of usury in earlier times, arguing that this indicates that money should be lent for motives other profit. Investment should be undertaken similarly for motives other profit, and gives a long list of issues that we should consider before making investments. The problem is that share purchase, or building society deposit, actually confers ownership on the investor, whereas the usury prohibition was concerned with the lending of money. In essence we are exhorted to adopt good intentions in the way we invest. For me the key Biblical priniciple, which ought to be at work here, is stewardship but this is not developed to the extent that it is Donald Hay's *Economics Today*, for example.

Chapter eleven discusses the "desparately poor" in the Third World and rightly highlights the lending policies of the First World as in significant measure being responsible for their poverty. Debt forgiveness is an important issue and can find solid Biblical support in the Jubilee of Leviticus 25.

The message of the concluding chapter is, in essence, a personal one, directed to individual Christians. Given that this is a book written by a pastor to his (wider) flock then this is to be expected. Most readers will reach the end feeling challenged in a personal, spiritual sense. Some of Richard Harries' advice is very practical; for example he recommends personal contact with communities in the developing world as a means of identifying the economic problems that they face. He also raises the issue of commitment through personal giving, arguing that the ten percent tithe, while not a substitute for political action, can be liberating at the personal level. An earlier reviewer in the Financial Times, last year, seemed staggered by this suggestion - it was all very well but how would he pay his mortgage! It is precisely a liberation from the western addiction to financial security that Richard Harries has in mind for us. While economists might feel that there is quite enough in this book for them to get their professional "teeth" into, I nevertheless have no hesitation in recommending it. Richard Harries writes very well, in a clear and polished style, and what he writes is intended to make us think. In that he succeeds.

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