ISSN 0956-3067

JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 16, December 1993

From the Editor:

In this issue there are three papers, two of which originally appeared at the 1993 Study Group in Oxford. The first is an interesting assessment by Esmond Birnie of utilitarian-based economics from a Christian perspective, which asks some hard questions about the effects that economists may have on their world. The second paper by Donald Hay takes up the same theme of whether economists are safe let loose in the real world, looking in particular at the late-1980s UK spending boom. The third paper is by myself and reviews the literature on "corporatism", its possibly Christian origins and whether it offers a worthwhile means of tempering the "excesses" of liberal, individualist free markets.

The next ACE study group meeting will take place on Monday 4th July to Tuesday 5th July, 1994, once again in the beautiful surroundings of Jesus College, Oxford. Booking forms will appear in due course. Extrapolating the trend from the last three years we hope to fill all the available places at this next meeting. If you like to give a paper, or lead a discussion at the meeting (even if at this stage your ideas are embryonic) Donald Hay or myself would be delighted to hear from you.

Finally, as always I am keen to hear from anyone who has a paper to contribute or would like to write for the Journal, and from anyone who has a found a book worth reviewing.

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ISSN 0956-3067

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Contents

UTILITARIAN ECONOMICS: A THEORY OF IMMORAL SENTIMENTS

Esmond Birnie, Queen's University, Belfast*

Introduction

"Economists are not merely dismal, it appears, but selfish and uncooperative as well... Perhaps, then there is a public interest in curbing the study of economics." Thus wrote *The Economist*[1] in reporting the results of a research study which suggested that students of economics become less inclined to act in a cooperative manner as their studies progress (Frank, Gilovich and Regan, 1993). The Christian economist has an obvious concern as to whether the discipline is in fact an anti-social influence.

This article considers this question and begins with the contention that modern economics, at least in its mainstream or neoclassical expression, is to a great extent utilitarian and that this is the cause of many of its problems. For example, the inability of utilitarian-based economics to cope with the reality of ambivalence and instability in the preferences of individuals is traced, as is the poor explanatory record which is the outcome. Yet, despite the weak explanatory power displayed within the economic domain, the so-called imperialism of economics has developed. The article briefly outlines this attempt to use standard economic theory to explain a variety of types of social behaviour (for example, marriage and religious activity).

It is then shown that utilitarian economics has indeed produced cynical economists. They fail to understand that market exchange is alien to the essential nature of certain social institutions (notably the family). Such economists and their way of thinking have had an influence on wider society and this influence has not been for the good. For example, an

* The author is grateful to colleagues at Queen's University, Belfast and elsewhere who provided comments at a seminar presentation of an earlier draft of this paper. The usual disclaimer applies.

[1] "How do you mean `fair'?", *The Economist*, May 29th, 1993, p. 85.

unqualified emphasis on self-interested (or even narrowly selfish behaviour) may actually discourage virtuous behaviour. Perhaps rather late in the day some economists have realised that the successful operation of a market economy requires that individuals exercise some restraint on their capacity to be selfish. In fact utilitarian economics has not been very helpful in elucidating the factors which make for economic growth at the national level, partly because of this down-playing of the role of cooperation. The paper closes with some responses from a specifically Christian perspective.

1. The so-called mainstream of modern economics is still largely utilitarian.

This contention holds in spite of extensive criticism of utilitarianism as a basis for economics. Schumpeter (1954) described it as "... the shallowest of all conceivable philosophies of life...". Keynes (quoted in Röpke 1960) described utilitarianism as "... the worm which has been gnawing at the insides of modern civilisation and is responsible for its present moral decay". (It is unclear what the Bloomsbury Group would have made of Keynes in this role of a guardian of moral civilisation, nevertheless he may well have been right).

Now it might be argued that economic utilitarianism has been developed and refined over the years from Jeremy Bentham to John Stuart Mill and from John Stuart Mill to Paul Samuelson. I will attempt to identify three variants of utilitarianism. These, in the best traditions of Hollywood blockbusters, will be designated utilitarianism I, II and III; the special effects may have changed over the years but the underlying nature of the monster lurking in the undergrowth of much economic analysis has not really altered.

Utilitarianism I

In the crudest and earliest utilitarian theory, associated with Bentham, people are simply motivated by the desire to gain pleasure and avoid pain (his argument owed a lot to Thomas Hobbes over a century before). An individual's goal in life is to promote his or her own interests, preserve his or her own life, increase his or her own pleasures and diminish his or her pain. This theory was thought to have strong explanatory power (i.e. individuals would always act in accordance with their material self-interest). It should also be stressed that Bentham *et al*. did not observe any so-called positive-normative divide. They claimed to describe the way things were and the way things should be.

Utilitarianism II

There was a dissatisfaction with a theory which viewed people as merely a magnetic element repelled by the pole of pain and the attracted by pole of pleasure. It was felt necessary to make an apparent concession to the complexity of human behaviour so that utility could be derived from being charitable to others. Once again, the theory was at one and the same time positive and normative. In the hands of J.S. Mill it was a prescription for the way people should live (i.e. eudaemonistic utilitarianism; people ought to act to improve the general happiness of society as a whole). Subsequently economic theorists have used the utilitarianism II approach to try to explain an ever wider range of human behaviour as an exercise in utility maximisation (this will be discussed later). What they have done is to assume preferences are perhaps wider than would be the case for the model of the greedy and rational consumer. For example, we have the "bequest motive" of Laitner (1979), the "salvation motive" of Azzi and Ehrenberg (1975), the "taste for discrimination" of Becker (1973), the "taste for nationalism" of Johnson (1965), and the "taste for the perception of the welfare of others" of Boulding (1979).

The greatest problem with utilitarianism II is that it can explain everything; "it is possible to define a person's interest in such a way that no matter what he does it can be seen to be furthering his own interests" (Sen 1977). In his anxiety to prevent the theory of the rational and self-interested economic agent degenerating into a tautology, Stigler (1966) argues, and I suspect this view would predominate in the profession, that it is sufficient to assume narrowly self-interested behaviour (i.e. the individual is out to better his material position and will not be benevolent). Although people may make protestations that ethical principles matter to them, if these clash with self-interest, "... most of the time... self interest (as interpreted on Smithian lines) will win". This brings us back to Bentham and Utilitarianism I.

Utilitarianism III

In most modern microeconomics textbooks utility is a formal designation. It is whatever consumers maximise but the textbooks are unable and/or unwilling to specify what it is. Some would claim that this is all fairly innocuous. All we are doing is finding a common denominator to compare heterogeneous goods and then put them into a rank order in terms of our preferences.

However, there are problems with this approach. Everything, by assumption, is considered to be a commodity; see for example Becker's assumption (1973) that a marriage has an aggregate output. Karl Marx (1867) and Fred Hirsch (1976) feared that such a process of commodity comparison would devalue the worth of certain social institutions; for example, Titmuss (1970) highlights the problems which arise when payment rather than charitable motivation are relied upon to produce blood donations. Moreover, we have come back to the idea that there is some all pervasive substance called utility which people are out to maximise. As Boulding comments, "... economists do not know what utility is but cannot do without it".

2. *The view that agents always maximise utility subject to constraints does not do justice to the difficulties which most encounter in their decision processes.*

Hahn (1991) has argued that all the mainstream theory of maximisation entails is the assumption that individuals have, "integrated personalities". They are therefore able to rank order their preferences. As he puts it, a man (and presumably a woman as well!) knows what he wants. But it is precisely this assertion which can be challenged.

There is abundant evidence that preferences are unstable and in fact within each person there can be a conflict between rival sets of motivations. This is indicated by the strategies they implement to ensure one set of preferences turns out victorious. For example, some people will pay a third party to ensure that they are forced to eat less, give up smoking, take exercise or put money into a savings fund for Christmas. In contrast, the rational maximiser of the textbooks has no problems with his/her self-control and would simply have followed his/her preference to diet etc. It is probable that most of the human race do not possess Hahn's integrated personality. It has been be stressed, for example by Schelling (1984), that if they do take steps to bind themselves against their own frail and fickle preferences this could, (horror of horrors!), lead to Pareto inefficiencies. For example, the television-watching addict who throws away his television will deprive himself of that moderate consumption of TV which would have been efficient and the potential heavy drinker who removes all alcohol from the house removes his opportunity to enjoy a moderate number of drinks. However, regardless of Pareto inefficiency, their behaviour is quite sensible.

A number of economists have noted that models of decision making need to make some allowance for the splits and conflicts within our personalities. Thaler and Schefrin (1981) propose a two persona model. One of our persona is a doer who will, unless otherwise constrained, always pick that course of action which will maximise our instantaneous utility. However, this doer is subjected to the authority of our second persona; the detached decision maker. This decision maker can take an inter-temporal perspective and so can force the doer in any given time period to consume less so as to allow saving. The fact that this theory can accommodate savings is an advance (if people were simple minded hedonistic maximisers it is not clear why they would not simply live for the moment and consume everything). However, it should be noted that the decision maker is assumed to be a utilitarian so all the problems described above also apply to this two persona model (all that has happened is that in addition to having a Bentham in our soul it is now assumed that a Stalinist central planner resides there as well!).[2]

[2] A neoclassical might claim that the standard inter-temporal optimisation framework can incorporate the Thaler and Schefrin (1981) dual persona. The strength of the detached decision maker's authority being seen in the rate of time discount. However, this approach may suffer from the weakness which affects utilitarian economics as a whole, in that a variety of conflicting motives are being simplified to a single vector. A Christian economist might prefer to preserve the richness of indicated motives (on the one hand we want to spend now but on the other hand we should wait) in order to emphasise that true fulfilment sometimes consists in overcoming certain preferences rather than in satisfying them.

The second persona could alternatively be seen as a voice of conscience which might follow Kantian or Judeo-Christian ethics to over-rule some of one's own preferences in order to attain the morally right (Cramp 1991). Indeed, in a Christian view, true freedom may be achieved in spite of our own preferences, indeed in over-riding some of them (Romans 7).

3. *All these theories (whether labelled utility maximisation, the integrated personality or rational economic man) have poor explanatory power.*

This is important to note because it means the proponents of economic utilitarianism cannot use the line, "it may not be desirable that people act like this, but it is the way things are". It has, for example, been claimed that savings over a lifetime are in aggregate higher than the simple theory would suggest. It would seem that even when capital markets allow people to borrow they are often held back by an "irrational" dislike of getting into debt. (Laitner attempts to rescue the mainstream theory by positing a concern for the utility of descendants into the infinite future). A self-interested utility maximiser would not be expected to turn down the offer of welfare benefits. In practice rates of take up are often substantially less than 100 per cent. Partly this is a result of ignorance but may also result from the perception that it is undignified to depend on hand-outs from the state.

A self-interested utility maximiser would exploit to the full all opportunities to free ride. Fortunately, from the point of view of health of society and the overall economy, many people forgo the opportunity to free ride. The proportions of citizens paying their income tax in full and paying their way on public transport is probably much larger, for example, than would be expected given firstly the probability of detection of evaders, and secondly the scale of the sanctions applied to non-payers. Individuals working in team work situations, where total output is a joint product and from which it is difficult to allocate the responsibility of individuals, often supply more effort than would be expected on grounds of rational self interest.

The non-correspondence of the utility maximisation theory with substantial areas of reality is suggestive of the need to introduce an alternative theory which admits that economic agents are motivated by two and not one source of value. For example, Etzioni (1986) admits that individuals are concerned to enjoy pleasure but they are also, to varying extent, guided and limited in their behaviour by the desire to affirm moral principles. Sen (1990) argues that individuals are not only concerned for their well being but also by what he terms agency, the ability to exercise responsible control over their own destiny and that of wider society. Neither Etzioni nor Sen finds it helpful to fall into the trap of compressing all aspects of human behaviour into a quest for utility maximisation.

4. The arrogance of the imperialism of economics.

There are some indications in the writing of J.S. Mill and Edgeworth that even they were uneasy about the use being made of the assumptions of self-interested behaviour and utility maximisation. Perhaps they only intended this model as a limited "as if" construct which was not to be applied outside the bounds of economic life narrowly defined. Unfortunately, Mill and Edgeworth chose to bury their doubts while some later economists have thrown aside all restraint in their attempts to apply the standard maximisation models in the non-economic areas in life; the so-called imperialism of economics.

It is ironic that a model which is not working well at home (i.e. within its own discipline, for example in forecasting consumer behaviour) should be used in the attempt to conquer new colonies in the farthest reaches of the social sciences and elsewhere. However, it is a familiar story that imperialism is often an attempt to distract attention from internal difficulties.

We now have a large body of literature (some of which has already been referred to in passing) which purports to show how human behaviour in such areas as family, religion and politics reflects self-interested maximisation subject to constraints. This literature may show how such behaviour is compatible with some aspects of standard consumer theory but it should be remembered that a cultural, social, religious or political explanation is usually more plausible than the economic one (for example Becker's (1973) article on the economics of marriage contains the "interesting" assertion that the prevalence of monogamy as opposed to polygamy is to be explained by diminishing returns!). What the economic imperialists have yet to do is to really test the applicability of their model by using it to generate potentially falsifiable predictions (the Popperian approach). As long as we carry on making the assumption that all behaviour is by definition self-interested genuine testing is impossible.

In any case, it is possible to argue that the utility maximisation model has a poor explanatory power when applied outside of economics. There may be some negative association between rates of crime and the "price of crime" (i.e. the probability of being caught times the severity of punishment). However, most of the very large variance between countries (e.g. the US murder rate is about ten times that in Western Europe) cannot be explained by price effects. Margolis (1982) has judged public choice theory (i.e. the attempt to develop an economics of politics) a "catastrophic failure". At the most basic level we have the rational voter problem. In most constituencies the vote of any one individual has a negligible impact on the final outcome. The question arises, if people are as "rational" and self interested and lacking in public spirit as public choice theory assumes, why do any waste their time by voting?

5. Utilitarian economics can seriously damage one's moral health.

The way in which this happens is that prolonged exposure to the utility maximisation model leads to the theoretical practitioner becoming unable to take seriously the width of human motivations. In a sense the conventional positive-normative divide which mainstream economics and most of the textbooks propagate is bogus. Efficiency, the goal of positive economics, is defined relative to the preferences of individuals who are assumed to be utilitarians. That is, if one is to use this theoretical apparatus one must be prepared to take on board some of the baggage of utilitarianism.

In fact, the recommendation that we should pursue efficiency is itself a value judgement and on occasions cuts across the imperative of more traditional, non-economic morality. For example, Posner (1977) argues that a market for the buying and selling of babies should be established because it would be "efficient". Schwartz has argued that duelling is an efficient way of solving disputes. Cynicism becomes pervasive amongst academic practitioners and it may be argued that people are only as honest as they have an incentive to be (Johansen, cited in Sen 1977).

6. Utilitarian economics harms the students and society too!

Solow (1981) has expressed reservations about exposing millions of students to a theory which "underplays the significance of ethical judgements". In a series of game experiments Maxwell and Ames (1981) found that US economics graduate students were significantly more liable to exploit opportunities to take a "free ride" than non-economic students. This begs a question of direction of causality; does studying economics tend to produce unscrupulous behaviour or do a disproportionate percentage of the cynical and egotistical study economics because they perceive it matches their own value judgements? Subsequent games-based research by Frank, Gilovich and Regan (1993) indicates that the egotism of US economics students increased as they went through their courses while this was not true for a control group of non-economists.

It is to their credit that two of the proponents of public choice theory, Brennan and Buchanan (1982), have addressed the issue "Is public choice theory immoral"? They conclude it is not, but can it be good for the long term health of democracy that a theory has become popular which views most citizens, voters and politicians as being characterised by deviousness and trickery? Public choice theorists have tended to argue that the growth of big government in the US is dangerous since it undermines the liberal political rights contained in the original eighteenth century United States Constitution. It seems somewhat inconsistent for them to invoke the noble conceptions of the Founding Fathers whilst building models of political behaviour where cynicism and not Constitutional values of public spirit or patriotism is the order of the day.

Unfortunately, utilitarian economics is likely to continue to have a corrosive impact on the quality of public life and governance in the USA (and elsewhere). One reason for this is that the economic way of thinking is increasingly infiltrating legal thought and practice. I have already mentioned Richard Posner's view that a market in commercial adoption should be established. The potential importance of such views is brought home by the fact that he is the Chicago Circuit Court of Appeals Judge, having a degree from the Chicago Law School and a doctorate in economics from the University of Chicago. He has been tipped as a possible candidate for the US Supreme Court. The two recently rejected Supreme Court nominees Douglas Ginsburg and Robert Bork were also adherents of Chicago "economic imperialism" in the law, as is the successful nominee, Judge Anthony Scalia. (Clarence Thomas' views on economics and ethics remain obscure!)

Samuelson (1986) makes the interesting statement, "Let those who will write the nations's laws, just as long as I can write its textbooks". He certainly sees the teaching of mainstream economics (of which his textbook has been a very successful representation) as having very strong effects in terms of shaping society. The question which should be asked is whether this power has been well used.

7. *The irony – theories built on the assumption that individuals selfishly maximise utility do not give much understanding of how economies in aggregate grow*.

In the January 1991 centenary issue of the *Economic Journal,* Morishima made the penetrating argument that General Equilibrium Theory (GET), and the assumptions of atomistic consumer and firm behaviour from which the G.E. is derived are in fact somewhat culture-specific products (Morishima 1991). He argued that they are the product of post-Newtonian 18th and 19th century European thinking and will not necessarily transplant well to the Pacific Rim economies which have not absorbed all the characteristics of Western rationalism. Certainly, when Morishima attempted to explain "why Japan succeeded" (to use the title of his

1984 book) it was to the characteristics of Japanese philosophy and religion that he turned. The essence of his argument seems to be that group loyalty in Japan is sometimes stronger than individual maximisation. The consequence of this is that prisoners' dilemma problems are avoided and hence national macroeconomic performance is improved. There is an irony in the fact that it is in the English-speaking countries where the idea of the individual relentlessly maximising material self-interest has been most prevalent, and that these have been least successful over the long run in increasing their level of material enrichment. Even Adam Smith may have doubted the sole efficacy of the invisible hand. According to Evensky (1993), Smith in his final revisions to the *Wealth of Nations* (1784) and *Theory of Moral Sentiments* (1789) tried to combat the potentially damaging effect of factions and interest groups by an appeal to the citizen to put the well-being of society first.

When asked what it was that economics economised, Dennis Robertson replied that it was benevolence. (Becker echoed this when he said "love has a price".) Marshall went further and argued that economic models should be based on those human motivations which were the strongest, though these would not necessarily be the best. However, it could be argued that both Robertson and Marshall have misunderstood the nature and significance of certain sorts of benevolent or virtuous behaviour. For example, honesty and the commercial morality built upon it may be a public good and not a private good (as assumed by Robertson, Marshall and Becker). For production of this good leads to general benefits which are non-excludable. These virtues may be a very necessary basis for the operation of a market economy. Indeed, Jacob Viner (1972) has argued that Adam Smith took it for granted that the self interest which is lauded on some pages of the *Wealth of Nations* would always be constrained, contained and channelled by pre-capitalist moral sanctions. Denison (1979) has demonstrated how the weakening of commercial morality has been reflected in a trend rise in transaction costs and hence decreased growth.

Thus a paradox is implied: the more people actually behave in the way described by the utility maximisation model, the less well a market economy will actually operate.

8. *Some Christian reflections*

I close this article by offering some Christian reflections. The Christian economist cannot but be concerned at the extent to which utilitarianism underlies modern economics (Hay 1989). Human life does not consist solely in the abundance of material possessions (Luke 12:15) nor should we readily accept the calculus of costs and benefits over-rules judgements of right and wrong (Romans 3:8).

A Christian economist would certainly not deny the prevalence of self-interested behaviour in some spheres of human activity. Indeed, such behaviour is not necessarily morally reprehensible. If it were would Jesus have told us to love others to the same extent as we love ourselves (Matthew 22:39)? It would therefore be a case of throwing the baby out with the bath water if we were totally to reject neoclassical modelling of, say, consumer and firm behaviour. What we must contest are statements such as, "the average human being is about 95 per cent selfish in the narrow sense of the term" (Tullock 1976). Notwithstanding the Fall, and the continuing corrupting influence of sin on all our actions and thoughts, the Bible makes clear that believers and non-believers alike are capable of commendable behaviour (Matthew 7:11, Luke 6:33, Romans 2: 14-15). The mark of the Divine has not been totally erased.

The Christian economist should therefore not be surprised when people sometimes opt for co-operative solutions to games and often refuse to free ride. However, we do not take such behaviour for granted. Humanity is to some extent over-performing relative to its innate sinfulness and this situation has only been sustained by the grace of God (or indeed His "common grace", as some theologians have named it (Berkhof 1984), in order to emphasise that this grace impacts to the benefit of all, Christian and non-Christian, whereas there is a further special, saving grace which He gives only to believers).[3] The secondary causes through which

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[3] Calvin did not himself use the term "common grace" in this sense. He did, however, give the following comprehensive summary of how providence acted both to restrain evil and promote good: "... some are restrained only by shame, others by fear of the laws, from breaking out into many kinds of wickedness. Some aspire to an honest life, as deeming it most conducive to their interest, while others are raised above the vulgar lot, that, by the dignity of their station, they may keep inferiors to their duty. Thus God by his providence, curbs the perverseness of nature, preventing if from breaking forth into action, yet without rendering it inwardly pure"

this grace operates include those co-operative attitudes which, as we have argued above, the uninhabited teaching of mainstream economics seems to diminish. At the very least the Christian teacher of economics should remind students that the imperatives of self-interest need not be allowed to over-ride moral principles (we are similarly obligated to do this as good scientists because, as discussed above, the crude model usually has poor predictive powers).

The narrow utilitarian basis of modern economics is therefore something Christians should not totally accept and should seek to ameliorate with the much richer Biblical view of human nature. A second trend which Christians should resist is the imperialism of economic method (see section 4, above). Of course there are some considerations of opportunity cost, and maximisation subject to constraints in such areas as marriage, sexual activity, family planning, organised religion or casting one's vote. But perhaps the "non-economic" influences sufficiently predominate as to render many of the suggestions for the wider application of economics either misleading, bizarre or trivial.[4]

Just as one fears most economic textbooks could encourage cheating, stealing and free-riding, so there is the danger that the popularity of the ideas of those such as Gary Becker (1977) and Richard Posner will contribute to people acting in the way described. For example Posner's recent (1992) consideration of sexual activity as simply an opportunistic response to perceived costs and benefits is likely to be used by those who would favour the removal of all legal and societal constraints on this area of behaviour (see Grayling 1992). This outcome would be particularly damaging because the economistic way of thinking may be fundamentally alien to certain institutions. For example, a marriage could in principle be based on a contingent contract but this would have little in common with any Christian ideal of a lifetime

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(*The Institutes of the Christian Religion,* Book II, Chapter 3, Section 3).

[4] Try the following assertions of the "economics of religion" drawn from Iannaccone (1990): most conversions occur early in life because later on people are concerned about the sunk costs they have made in their existing beliefs; a desire to exploit scale economies (e.g. the use of one car trip to take both partners to their place of Sunday worship) underlies the infrequency of marriages across the boundaries of faiths or denominations. (Professor Steve Bruce provides a thoughtful critique of these views in his unpublished paper "Religion and rational choice: a critique of economic explanations of religious behaviour" (University of Aberdeen, 1992).

trust with love as an expression of unconditional commitment. More generally, the Christian economist might wish to argue that the quality of human relationships is a good thing in itself and not just a means to the production of goods and services within the firm, household or community (Schluter and Lee 1993). Turning to Christian faith itself, this would become something at odds with lifelong discipleship if it were to be simply a piece of cosmic cost-benefit analysis.[5] Christians seek to serve and glorify their Lord because they love him, not because they have time horizons stretching beyond death!

None of the above is to argue that the moral health of society requires the collective suicide of the economics profession. I do believe there is a God-ordained sphere[6] within which economic analysis can be operated legitimately. For example, there are occasions when economists can use such tools of analysis as efficiency (allocative or X-), market failure, scarcity and opportunity cost both to explain and to advise how things can be made better. As Christians our concern should always be to keep these tools subordinate to our moral principles.[7] Like fire, standard economic analysis is a good servant but bad master. Our task is

[5] This is notwithstanding Pascal's apologetic argument that Christian belief was a form of wager. (That is Christian belief may lead to a pay-off of infinite bliss, but even if it proves not true you are no worse off for believing. However, the consequences of unbelief when Christianity turns out to be true would be so horrendous that it would be rational to believe even with the smallest probabilities in favour of its truth.) The New Testament certainly urges us to lay up treasures in heaven (Luke 12:33) but a crass literalism of interpretation would not always be advisable!

[6] The idea of "spheres" is associated with the Amsterdam school of Christian philosophy which derived from the work of Kuyper (1898). It is argued that the sovereign God has delegated some of his authority to certain cultural structures each of which has its own sphere of responsibility. The spheres of church and state (Matthew 22:21) are perhaps most readily identifiable and, perhaps, the family as well. According to the Amsterdam school the duty of Christians is to ensure that each sphere is regulated according to its own God-given norms. Notwithstanding the quality and quantity of the academic work coming from this Dutch Calvinist approach, certain problems remain; for example how many spheres can be identified from the Bible, and when the boundaries of various spheres overlap in practice who is to adjudicate their rival claims?

[7] It seems incontrovertible that scarcity actually exists (this is notwithstanding such arguments as Goudzwaard, 1992). For example, even at a much higher level of spending scarcity is likely to persist in public health care resources. However, this does not mean, for example, that we should accept the arguments of those who would favour diagnostic gene-testing with consequent abortion of foetuses indicated to have certain diseases because the

therefore to identify the legitimate boundaries of economic analysis.

costs of tests plus terminations would fall short of the projected cost of life time care for someone suffering such illnesses. The challenge for the Christian economist would be to devise means of rationing health care which is not narrowly utilitarian in the way health economics has increasingly become.

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CAN ECONOMICS BE TRUSTED? CONSUMPTION AND DEBT IN THE UK IN THE 1980s[*]

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1. Introduction

It has become fashionable to make derogatory remarks about economics and economists. Much of this disillusionment with economics among policy makers and opinion formers arises from the perceived failures of economic forecasters to foresee the course of the UK macroeconomy since the mid 80s, first the boom and then the prolonged slump from which the economy is only just beginning to emerge. Confidence in economics is not improved by the public disagreements between economic analysts and advisers, not least those appointed as a panel to advise the Chancellor of the Exchequer about macroeconomic policy. More thoughtful observers go beyond the media attention to ask two questions about the present state of economics. The first question is simply to ask how scientific is economic analysis? Is economics presently able to provide accurate descriptions of economic behaviour? What is the (scientific?) status of economic models? Why is economic forecasting not more precise, if the models are correct? These questions suggest the need to understand and evaluate the methodology of economics as it is usually practised. The second question focusses more on the prescriptive aspects of economic analysis. It asks what is the basis for economic evaluation leading to economic policy. How do we decide whether a particular policy or economic institution is in the public interest? How is "the public interest" in economic matters to be defined? What weight should be given to the goals of economic efficiency, equality and employment? How does economic evaluation relate to wider issues of ethics and politics?

For Christians there is the further issue as to whether they have anything distinctive to say on these two questions. One might expect Christians to have a particular interest in economics as a social science, based on models of human behaviour. Christians have a

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[*] The Victorian Institute Lecture, 1993. Andrew Henley made valuable comments on a first draft of this paper.

distinctive view of human beings as created in the image of God, but fallen, with consequences for human behaviour. Prima facie, therefore, one might expect Christians to have something to contribute. It is even more likely that there is a Christian position on how economic life should be evaluated. There is a long Christian tradition of social ethics, exploring God's purposes for human life and community.

The purpose of this paper is to explore these themes in the context of a specific example - consumption, savings and debt in the UK economy in the past 15 years. The puzzle for economic analysts focusses on the behaviour of the ratio of savings to income in the UK personal sector (i.e. household). Over the 1970s this ratio was relatively stable at between 9 and 11%. In the late 70s, it began to rise reaching a peak of about 13% in 1980, before falling fairly steadily to less than 6% by 1988, after which it went into reverse and reached nearly 12% again by 1992. The significance of these swings is that they had major impacts on consumer spending: the fall to 1988 was a proximate cause of the mid 80s boom, the rise thereafter of the recession as people stopped spending. It was the failure of macroeconomic forecasters to predict either the strength of the boom, or the severity of the recession that followed, that generated some of the current mistrust of economics. We will look at this example in more detail in section 3 of this paper, after a brief survey of economic methodology in section 2. In section 4 we will turn to evaluation from within both the standard normative framework of economics, and a Christian ethical standpoint.

2. *Economic methodology : is economics "scientific"?*[1]

It is easy to identify two reasons why a social science must differ from a physical science. The first is that the basic units of analysis are people, so that introspection ("how would I act in these circumstances?") is a significant source of information in building models of economic behaviour. The second is that human actions, conventionally at least, are thought to be based on reasons, preferences and motives rather than cause and effect: any economic modelling which does not incorporate this fact is likely to be dismissed as not being true to life. These two reasons have some far-reaching consequences for economic analysis, both theoretical and empirical.

2.1 Economic theory

The pattern for economic theory set by J.S. Mill's *Essay on the Definition of Political Economy* (1836) has proved extremely durable. He argued that economic analysis should proceed by reasoning through deductive logic from basic assumptions about economic man. He rejected inductive approaches, based on observation, on the basis that reality was too complex to be comprehended and analysed in that way. Mill's approach was the dominant theme in economic analysis in the nineteenth and early twentieth century, reaching its classic expression in L. Robbins *An Essay on the Nature and Significance of Economic Science* (1935), which emphasised the derivation of economic theory from self-evident truths about human beings. As far as the neo-Austrian school of economics[2] was concerned, the only interaction with the "real world" was the identification of these self-evident truths, with a strong reliance on the economist's introspection rather than, for example, surveys asking other people how they reasoned about their economic decisions. A more open-minded approach is espoused by most modern economic theorists, who see theory as parable. Given the complexity of the "real world", it is in practice difficult to evaluate theory empirically. The typical journal article will therefore often appeal to some real world situation as the starting point for analysis. This is followed by specification of a model which "captures" the aspects of that situation which have been identified by the theorist as the most important. The objective is to present an analysis which is robust to specification changes so that it will "apply" widely. A seminal article will usually be followed by extensions and refinements of the theory along these lines.

What then is the model of human behaviour that underpins these analyses? The dominant model is that of "rational economic man" (REM), who by definition has preferences over the set of consequences of all possible actions open to him within the economic constraints which he faces. These preferences are rational in the sense that they conform to formal definitions of rationality such as completeness (<u>all</u> possibilities can be evaluated by the REM) and transitivity (if the REM prefers outcome A to outcome B, and outcome B to outcome C, then he must prefer outcome A to outcome C). Given these preferences, REM chooses that action which gives the most preferred consequences. The content of the preferences is left undefined. They could be altruistic, but in general they are assumed to be egotistical and self-regarding (or selfish!). In this, the REM model betrays its origins in the nineteenth century utilitarian model of Bentham which explained human behaviour in terms of pain/pleasure calculus: human beings seek pleasure and avoid pain. While modern theory has long abandoned Bentham's notion that utility might be measureable, it retains the concept of maximising utility or preferences or "satisfactions". The utilitarian ghost still lurks in the REM model.

The REM model has had its critics within the economics profession.[3] One criticism is that it represents too "thin" a doctrine of human nature, since by focussing on consequentialism it rules out lifetime projects to which a person might be committed. A second criticism is that it is too "individualistic", and ignores the social dimension of human life, including our commitments to others. A third criticism is that it expects too much of human rationality. In practice, a human being is unlikely to be able to identify all the possible actions and outcomes open to her, and even if she could, she might not be able to express rational preferences if the choice were very extensive. The argument that rationality is bounded seems very persuasive. However, others have pointed out that there is a "natural selection" argument which counters it. In a market situation, those who are less efficient at evaluating the options available will lose out to those who are more efficient: by copying the behaviour of the more successful, the less efficient will be able to improve their position. In other words, "more rational" behaviour will become the norm.

Putting aside these criticisms, it is possible to describe the content of a typical model of economic behaviour. It begins by specifying the options available to the economic actor: these are often best described by identifying the constraints on behaviour e.g. the income available to the consumer to spend, the price and availability of the goods he wants to buy. An important feature of this part of the theoretical model is specification of the information set available to the consumer: does he know the prices and quantities available precisely, or is only an estimate available? How does he form estimates, in particular about future prices and quantities? The typical model then proceeds to specify the preferences which are motivating the choice of action, and then identifies which option is the most preferred from the range of options on offer. These models become more interesting (and difficult to specify) where there is more than one economic actor, and where their decisions interact e.g. buyers and sellers in a market, or situations where one actor's behaviour affects the options open to another. A key concept in modelling is that of "equilibrium", which describes a situation where, given the preferences of the agents and the options available to them, they all choose the "best" options for them, and would not wish to change their choices (i.e. their preferences are maximised). In all this, the theorist is looking for general models. Typically, the analysis is conducted using mathematics: the trick is to get theoretical predictions while putting the minimum of mathematical structure on the model in terms of specific functions. Unfortunately, as Samuelson's famous critique demonstrated, this may not be possible: without a more restricted specification of the model, there may be no conclusive predictions. But the question is what restrictions are appropriate: it is natural to look to empirical analyses for guidance.

2.2 Empirical analysis

The canard that economic theories are not susceptible to laboratory-style testing, and that therefore economics cannot be "scientific", is misplaced. The same difficulties arise in meteorology and astronomy, for examples, and no one would doubt their scientific status. Empirical work in economics generally has one of three objectives, which may be listed in order of increasing complexity. The first is to calibrate particular economic models: for example, it is of interest to both the Customs and Excise and the health authorities to know fairly precisely how demand for cigarettes reacts to an increase in tax. A low price elasticity implies that it is a good way to raise extra tax revenue: a high price elasticity would indicate that it is a good way to combat smoking-related diseases. A second objective might be to compare model variants, that is competing hypotheses about economic behaviour that might emerge within a single theoretical framework: the aim is to eliminate theoretical possibilities that are empirically irrelevant, so as to enhance the explanatory power of the models. A third objective is to evaluate a whole class of models for their explanatory or predictive power. The difficulty here is to identify in any rigorous manner what "tests" are appropriate to the rejection of a class of models. The tendency among economists, when a model appears to be empirically inadequate, is to look for "reasons" for the inadequacy, rather than reject the model itself. Such reasons are seldom hard to find: inadequate data, inability to measure some key variables, other complicating factors in the economic environment which are difficult to control for.

The method of empirical analysis is econometrics, the fitting of economic models to economic data applying the principles of statistical inference. The objective is to relate an economic decision variable (e.g. the level of household consumption) to observable variables that theory suggests might determine it (i.e. the variables which describe the set of options open to the household - income, wealth, interest rates, availability of credit, prices). Regression methods are used to minimise the unexplained variability. There is an emphasis on predictive power, especially the ability of the regression equation to predict outside the period for which it was derived or for a completely fresh data set. Low predictive power and/or systematic errors (in times series equations) are usually attributed to poor data, inappropriate specifications or unobservables. Very seldom will poor results lead to abandonment of the model framework, though it may not be easy to get these results published!

2.3 Christian reflections

We have already noted that Christian doctrines are likely to have something to contribute to the formulation of the appropriate model of human beings for economic analysis. It is therefore instructive to look at the REM model in the light of the Christian doctrine of humanity. That doctrine sees a tension between two natures of human beings, one created in the image of God, the other fallen. Some distinctions between these two descriptions can usefully be tabulated as follows:

Image of God	Fallen
Personal, responsible, making choices	Egotistical, choices/actions determined by selfishness
Enters into loving relationships	Relationships characterised by power and fear
Steward of the natural	Exploiter of the natural order

(created) order

Work as gift or vocation   Work as toil

Examining these two descriptions, it is evident that the REM model is not inconsistent with the description of fallen human nature, but that it fails to complement that description with aspects of human nature in the image of God. Thus a Christian would sympathise with those economists who have complained about the "thin" doctrine of man implied in the REM model. It is evident, too, that culture is likely to be significant: a culture which gives a high value to the characteristics listed under "image of God" will differ from a culture that permits "fallenness" to dominate economic life. But whichever emphasis is uppermost, it is apparent that the objective of economic analysis in modelling economic behaviour as purposeful and goal-oriented is appropriate. That also has implications for *empirical analysis*. Economists are right to expect human behaviour which is orderly, even though human beings are fallen: the search for empirical regularities, and for relationships between empirical behaviour and variables that reflect the constraints on that behaviour is well-founded. Moreover, Christian doctrine also stresses the limits of human understanding: which suggests that economists should be urged to give a high priority to empirical analysis, looking both at the basic assumptions about human behaviour, and at the outcomes predicted by theoretical analysis. It is not enough to claim that a particular regression equation is a good prediction.

3. *A case study in methods of economic analysis : consumption and savings in the UK in the 1980s*

3.1 Theory

The basic hypothesis about household consumption and saving behaviour is that households prefer to smooth out their consumption over time.[4] Thus over a lifetime a person would wish to consume more than his (low) income when he starts work, to consume less than income in the middle years when income is high, and to have accumulated assets to maintain consumption in old age. If possible, therefore, a person will borrow against future income when young, repay borrowings and save for old age in the middle years, and then run down assets in retirement. Similarly, theory predicts that households will smooth consumption over "shocks" to income, especially those arising from the labour market e.g. employment/unemployment, overtime/short time working, bonuses/no bonuses, to avoid disruption of the pattern of consumption to which the household aspires (on average). Once again, the method is to save in good times to finance expenditures in bad times. There are, however, some constraints within which this "intertemporal optimization of consumption" has to work. The first is that consumption levels are constrained by expectations about the individual's or household's lifetime income from work, which by definition cannot be precisely calculated. In the absence of complete insurance for loss of earnings due to unemployment or sickness, the future income stream cannot be guaranteed. It can only be imperfectly estimated, and such estimates may be particularly susceptible to change in economic "mood": despite evidence of economic cycles, people seem to expect the current situation, whether good or bad, to continue. A second constraint is uncertainty about the future values of assets and/or the returns on these assets: few, if any, assets have a predetermined pattern of returns and future values.

The third constraint, and perhaps the most important for the discussion of this section, is restrictions on the ability of the household to borrow and/or save. To take the case of an economy without financial markets, an individual will find it difficult to finance consumption in excess of income in bad times, and will have a strictly limited ability to accumulate to provide for old age. In the extreme case, he will have to consume all current income, and rely on relatives to provide for him when he is no longer able to work. In an economy with developed financial markets, like the UK, the scope for consumption smoothing is much greater, though it is likely to remain incomplete for good reasons arising from the functioning of a loans market. A lender needs to be reasonably sure that a loan will be repaid: typically, therefore, only small sums of money will be lent without collateral, and the lender will be much happier where the loan will be used to purchase an asset (e.g. a house) which could, in principle, be sold to repay the debt. Alternatively, where there is no collateral, the rate of interest may be very high including a premium to reflect the risk of default. Quite apart from these market "failures" arising from asymmetric information between borrowers and lenders, there may be constraints arising from regulation of the financial sector by the monetary authorities. Removal of regulation will typically allow lending institutions to expand their business, and give greater scope to individuals to borrow and to save.

3.2 Econometric analysis

The fluctuations in the UK savings ratio in the 1980s, described in section 1, have prompted a number of analyses.[5] For convenience we focus on the analysis of Muellbauer and Murphy (1989). They identified three major factors at work in explaining the swings in the savings ratio since 1977. The first was the elimination of credit rationing due to financial liberalisation from 1981 onwards. Financial institutions which previously were constrained as to both the type and level of lending they could undertake were allowed to compete for business on their own terms. The proportion of consumers who were unable to borrow fell sharply, and many took advantage of their new-found freedom to borrow and spend. Moreover, even those households which had been able to borrow previously, found it much easier to do so. For example, liberalisation permitted "equity withdrawal" on the value of houses: when the value of a house increased, the owner could increase the mortgage, and use the asset value thus released to finance other purchases.

The second major factor was the role of asset value/income ratios in explaining consumption. Muellbauer and Murphy distinguished physical assets and net financial assets ratios. The former includes the value of the housing stock. The implication is that the house price boom of the 1980s raised the ratio, and made owner occupiers feel better off, not least because they expected the boom to continue: this interacted with a concurrent increase in their ability to borrow to finance consumer expenditures. The subsequent fall in house values in the early 1990s had the opposite effect of depressing consumption. The significance of the net financial assets ratio has also emerged in the recent depression. Net financial assets are defined as liquid assets less debts: the debt built up by many consumers in the late 1980s reduced their net financial assets, and eventually constrained their consumption as they struggled to pay it off.

The third factor identified by Muellbauer and Murphy was income uncertainty, particularly the incidence of negative income shocks due to lay-offs, unemployment and short time working. Uncertainty made consumers more cautious, and cut consumption (raised savings) in the period 1978-83; the boom of the mid-1980s made consumers more optimistic, and they were willing to spend more, and save less.

A final factor is an "error correction mechanism". Suppose that a consumer has planned a certain level of consumption in the light of expectations about future income, which turn out to be too optimistic. In "lifetime" terms, he has spent "too much" in that period. Instead of accepting that "byegones are byegones" it appears to be the case that the typical consumer will take action to rectify the "mistake", by rebuilding personal assets by saving over subsequent periods. Evidently this will have most impact when the economy experiences greater than anticipated rises or falls in income.

An empirical equation incorporating these four elements is able ex post, to predict consumption and savings behaviour in aggregate quite accurately. Why then were the swings in behaviour not anticipated? One reason is that financial liberalization brought in a completely new situation, and it was difficult to foresee how consumers would react given the new opportunities. A second reason is the crucial role of expectations: the 1980s boom engendered a confidence to borrow and spend in a way which might not have occurred had people been able to foresee the 89-93 slump with unemployment and falling house prices.

3.3 Details of the financial liberalization

There were four key innovations arising from the liberalization policy. The first was a general fall in the transaction costs of borrowing. Previously most personal borrowing required at least a letter to a bank manager, and probably an interview as well: the spread of credit cards meant that most consumers with a regular income had an automatic credit limit on their cards, often far greater than any borrowing they had undertaken before. Quite simply, it was a lot easier to borrow. Second, specialization in lending by financial institutions was eliminated,[6] so that banks went into the mortgage market, and building societies developed personal lending, in some cases as part of a strategy to make themselves look like banks. A potential borrower who was turned away from one source of funds had plenty of other places in which to look. Third, there was greater willingness to make quite large personal loans on the security of property values, and for this reason much less concern by financial institutions about the possibilities of bad debts. Finally, building societies were permitted to compete for funds in wholesale money markets, making them less dependent on the fluctuating flows of deposits and withdrawals by small savers, which had been their traditional source of funding.

These innovations were accompanied by the rapid growth of new financial institutions and forms of lending.[7] Credit card companies (mainly linked to major banks), and consumer credit companies or finance houses more than doubled their outstanding credits in the period 1982-86. Retailers began to issue store credit cards, usually linked to credit companies or finance houses. Responding to this competition, the clearing banks began to put much greater emphasis on personal lending, at the same time as they reduced their lending to the corporate sector. The net result of these changes was a sharp increase in consumer debt, which increased from 6.4% of personal disposable income in 1975 to 11.9% by 1986. A particular feature was the increased lending to younger and poorer households, which would have had difficulty in borrowing at all before the reforms of the financial sector in the 80s.

3.4 Christian reflections

The analysis above has concentrated mainly on technical issues in economic analysis and interpretation, and it might be thought that a Christian viewpoint has nothing useful to add. However, there is one aspect in which the econometric/technical analysis misses an important feature of what happened in the 1980s - the major change in consumer attitudes to credit and debt, neatly summed up by the slogan, "taking the waiting out of wanting". People were "educated" by advertising campaigns, automatic credit limits on credit cards, and by the sheer variety of institutions offering credit. To buy on credit became "accepted" in a way it never had been before, at least for the vast majority of the population.[8]

4. Evaluation

It is evident that the key to what happened in the 1980s was financial liberalization. The question to be addressed is whether liberalization was a "good" policy. Whether it was a policy shift responding to consumer pressures, or whether it came from the market oriented ideology of the Thatcher government in the early 1980s, is not particularly significant in making this evaluation, unless one is interested in apportioning praise or blame. Rather our interest is in whether it contributed to "human flourishing". Obviously, the criteria may be drawn from standard economic analysis, or from the distinctive viewpoint of Christian social ethics. We look at these in turn.

4.1 Evaluation within the normative framework of economics

We consider first the expectations about the policy gains. It is a standard piece of economic analysis that removing constraints on the behaviour of economic agents will at least do no harm, since after all they can continue as they would have done without lifting of the constraints, and may enable some agents to move to a more preferred position. Specifically, removal of constraints on individual borrowing and lending enabled households to arrange their affairs, intertemporally, more to their liking e.g. by borrowing to consume a consumer durable now, rather than have to wait until they had sufficient resources. If the objective is to raise people's satisfaction, then deregulation of financial markets had a lot to commend it. There is also an "efficiency" aspect. Regulation and its associated rationing involves funds being used by consumers who have privileged access to loans, but whose preference for current goods relative to future goods is quite low compared to excluded consumers. One consequence is that returns to savers may be kept lower than market clearing levels: if loans can only be made to people whose time preference is low, savers will have to accept lower returns. In prospect, therefore, there are good reasons to believe that financial liberalization is a "good thing".

In retrospect, matters are perhaps less clear cut. If attention is focussed solely on microeconomic aspects (and so ignoring the resurgence of inflation in the late 80s and early 90s, and the balance of trade deficit in manufactured goods), it is evident that some serious problems had surfaced by 1989. There was a substantial problem of debt which persisted into the 90s. Surveys showed that in 1989, 2.4 million households had "problem" debts i.e. debts which they had difficulty in repaying. Some 560000 households had three or more problem debts. In 1990, nearly 48000 houses were repossessed; 1.5 million electricity users and 1.0 million gas users were behind with paying their bills. At least 70% of problem debts arose from unexpected events - redundancy, loss of overtime or sickness. Sheer improvidence and stupidity was a factor in only a minority of cases. Citizens Advice Bureaux were flooded with requests for help and advice. Studies by the Policy Studies Institute and the Jubilee Centre revealed a huge amount of heartache and suffering in the families affected by debt.[9]

How might an economic analyst respond to this negative assessment? First, while admitting the problems described, he would point to the 90% of households that did not get into difficulties, and for whom financial liberalization may well have brought considerable benefits, as previously outlined. Second, the major defect of the policy was not liberalization itself, but the thin insurance market for insurable risks like redundancy, loss of overtime, long term illness, which gave rise to the difficulties encountered by some borrowers. Quite why such insurance was not widely available is a moot point. There are difficulties with adverse selection: an insurance company might, for example, find that its policies were taken up by workers particularly at risk of redundancy but not by those with more secure employment, and so not be able to cover costs. The point is that although the insurance company would be alert to this problem, they might have poor information about workers seeking to buy cover. There is also a "moral hazard" problem related to loan protection insurance: a person with high debts might engineer circumstances to trigger the policy conditions in order to walk away from his debts. Despite these problems, it is notable that loan protection insurance is more widely available now, but it has come too late for many debt-ridden households.

A third response by an economist might be to emphasise the nature of a decentralised economic system in giving responsibility to individuals for their own lives. Giving responsibility will in general improve efficiency: by definition, an individual is a better judge of her own welfare than others can hope to be. The downside is that it is inevitable that some people will make mistakes; but it is part of the discipline of the market that they should have to live with the consequences. (This argument would be more acceptable if it were the case that all consumers are equally able to consider the range of possible consequences, but that is obviously not correct). Finally, standard economic analysis of these problems would argue that the appropriate response to problems of poverty is an adequate social security system, not the placing of restraints on the operations of financial markets.

However, these responses cannot fully address the "adding up" or aggregation problem, when it comes to assessing social welfare. Prior to policy implementation, there are expected utility gains for each individual from liberalization even with finite probabilities of redundancy, illness etc., because the gains in good states of the world would outweigh the potential losses in bad states. But ex post, some actual gains and losses have been identified. Economic analysis is generally unwilling to "add up" these gains and losses, as there is no basis on which they can be fairly weighted. For example, someone with a Rawlsian social welfare function, which gives greatest weight to the utility or satisfaction of the least well off might well wish to oppose policy changes that lead to a few people experiencing adverse consequences, even if everyone else was considerably better off. Less radical approaches might be willing to trade-off some gains and losses, but it is hard to argue that any particular set of weights is more apt than another.

4.2 Evaluation within a Christian normative framework[10]

We propose to derive Christian ethical principles for this area of economic life by reference to relevant Biblical materials. This methodology has been developed elsewhere, and no detailed justification can be presented here. However, the basis is a reading of Biblical texts to discern principles, which are not specific to the context and culture in which those texts were composed, looking at a range of materials, and not relying on single texts taken out of context. The principles thus derived are, at best, provisional, open to development and correction in the light of further insights from Scripture. We begin with the Old Testament, and particularly those parts of the Law which deal most directly with economic life. One part is concerned with loans. The primary emphasis is on loans to the poor (Deuteronomy 15:7-9), on which no interest was to be charged, and from which the debtor was to be released in the seventh year of release (Deuteronomy 15:1-3). The borrower was expected to provide collateral for the loan, and had an unqualified obligation to repay, if necessary by debt slavery. It is scarcely surprising therefore that elsewhere (e.g. Proverbs 22:7) the Old Testament notes the weak position of the borrower, implicitly discourages borrowing and encourages financial independence. As already noted, the Law also prohibited the charging of interest on all loans between Israelites. This prohibition appears three times (Exodus 22:25, Leviticus 25:36-37, Deuteronomy 23:19). However an exception is made for loans to strangers and foreigners non-resident in Israel (Deuteronomy 23:20), presumably on the basis that they were not members of the covenant community. That the general prohibition on interest was taken seriously can be deduced from the description of usury in Nehemiah and Ezekiel as serious sins.

Turning to the New Testament materials, we note first that Jesus widened the scope of the Deuteronomic provisions, by urging his followers to lend to anyone who wished to borrow (Matthew 5:42), even their enemies (Luke 6:34-35). There is no explicit discussion of the interest prohibition, but in the parable of the talents (Matthew 25:14-30) and of the ten minas (Luke 19:11-26), interest is described pejoratively as reaping where one has not sown. Given the weight of Biblical teaching, it is scarcely surprising that until the time of Calvin, theologians of the Church were more or less unanimous in their condemnation of usury. Calvin departed from this tradition by making use of the brother/stranger distinction of Deuteronomy 23:19-20. He argued that in a civil society relations are those between strangers, so interest is allowed. He still condemned interest on loans to the needy, and insisted on moderation in charging interest: "Calvin dealt with interest as an apothecary doth with poison".[11] However, from then on, in England at least, the question for Christians became the level of interest rather than whether or not it should be charged at all.

Three principles emerge from the Biblical materials. In what follows, we articulate these in general form, and then discuss their application to the problems of debt in the UK. The first principle is that of justice, which has various practical elements. The obligation on the borrower to repay should be matched by an obligation on the lender to respect the civil rights of the borrower, and only to lend where the ability and willingness of the borrower to repay is clearly established. At the same time the terms of the loan should be adjusted to the needs of the borrower: a poor person is not to be neglected, and no interest is to be charged on such loans. As we have already noted, the Old Testament is acutely aware of the nexus of debt, poverty and powerlessness, which led to oppression of the poor, and is anxious that justice should be done to them. The application of this principle is straightforward. Potential borrowers should be educated as to their obligation to repay, and therefore their need to think carefully before taking out a loan. Equally lenders have an obligation to explore the means of the borrower to repay, which suggests that "instant" credit should not be available, in the interests of both borrowers and lenders. Regulation of financial markets, including self-regulation, should be alert to the imbalance of power between the lender and the borrower, and should therefore lean in the direction of protection of borrowers. If nothing else, this might make lenders more careful in their appraisal of would-be borrowers.

A second principle is that of concern for the needy. Not only was interest not to be charged on loans to the poor, but the Israelites were urged not to refuse a loan to a needy person even if the "year of release" is near and there is every possibility that the loans will not be repaid. The application of this principle requires that there be an adequate social security system (for that is what the provisions for the poor in the Law really amounted to) so that no one needs to borrow for essential needs. It also requires that where people do get into debt, with the consequent emotions of fear, panic and guilt, there is sympathetic help at hand to enable them to sort out their problem debts. Better funding of money advice centres and Citizens Advice Bureaux, possibly by a levy on lenders, would be an obvious way to meet these needs.

A third principle is that of hope. The biblical concept of repentance implies the possibility of making a new start with the past forgiven. The "year of debt release" in the Law is a particular application of this concept. No one need be trapped by their debts for ever: the year of release gives hope, by requiring that outstanding debts be forgiven. In application, this must mean that lenders should accept that debts should be forgiven in cases of great hardship, despite the moral hazard problems. A debtor needs to be given hope by the offer of a fresh start. But that fresh start should also include ensuring that problem debts do not build up again. In general, there is much to be said for discouraging the attitude of "buy now - pay later" especially for luxury goods or holidays. The discipline of saving to make a purchase is one way of encouraging people to look forward in expectation, instead of looking back to debts incurred.

To conclude, the implication is that implementation of the policy of financial liberalization in the 1980s was seriously flawed, despite the undoubted advantages it offered to many people. Financial institutions fostered a change of attitudes towards immediate gratification of wants, rather than the discipline of responsible planning and saving for future purchases. The policy encouraged irresponsibility by lenders and borrowers alike, notably in the failure to require lenders to enquire into the circumstances of the borrower, thus prompting the latter to think about what he was committing himself to. But most seriously of all, with the economic downturn after 1989, it left a substantial proportion of households with debts they could not repay, with associated problems for the health and happiness of the people involved. The policy failed to be sufficiently alert to the impact on the poor, or indeed the possibility that it would generate new problems of poverty, and hence did not pass an essential first concern of Christian social ethics, which is care for the poor and disadvantaged.

5. Conclusions

5.1 How "scientific" is economics?

Our discussion in sections 2.2 and 3 above has suggested that within a modest range of variation in conditions, economic behaviour is quite regular and predictable, at least in aggregate, and that econometric methodology is adequately developed to model that behaviour with some precision. The problems arise when there is a major change in conditions, especially major unanticipated changes in policy. For a start, economies are complex, open systems and impacts can be difficult to trace accurately. Furthermore, changes in policy can generate changes in economic behaviour, not least because of an educative element, as was evident in the example of financial liberalization explored in this paper.[12] The lesson seems to be that economists should be more modest about claims for their discipline, and the general public should be more cautious about accepting dogmatic claims by economic experts.

5.2 Is the basis for economic prescription satisfactory?

The discussion above has shown that economics has a very narrow view of what makes for human flourishing. It appeals to the maximisation of preferences or satisfactions over (mainly) material goods, and is both individualistic and rationalistic in its basis. In so doing, it ignores too many other aspects of human life, in particular the need for relationships within institutions such as marriages, homes, businesses, workplaces and intermediate associations. Where it does acknowledge such relationships, it tends to reduce them to a set of contracts between those involved. Evaluation in economics is necessarily forward looking, but usually it gives inadequate consideration to those for whom a policy change generates, in the event, a net loss. Every economic policy should have, as part of its evaluation, a consideration of the impact on the existing poor, the likelihood of creating new groups of poor or disadvantaged, and the extent to which an adequate safety net is in place for those for whom the policy turns out to have disastrous consequences. Another aspect of policy evaluation should be their educative effect: are they likely to encourage or discourage responsible attitudes and good behaviour. To put it another way, economic efficiency and growth, though important, are by no means the sole objectives for evaluating activity: it is essential, within a Christian social ethic, to consider a wider range of criteria, especially, but not exclusively, the impact on families and on the weakest members of society.

Notes

1. The issues discussed in this section are given a much fuller treatment in D.A. Hay, *Economics Today: A Christian Critique*, Apollos, IVP, 1989, Chapter 3.
2. The founding fathers of the neo-Austrian school were Mises and Hayek. A sympathetic account of their methodological views is given by B. Caldwell, *Beyond Positivism: economic methodology in the twentieth century*, (George Allen and Unwin), 1982, 117-124.
3. A.K. Sen, "Rational fools: a critique of the behavioural foundations of economic theory", *Philosophy and Public Affairs*, 6, 1976-7, 317-344.
4. Expositions of the standard consumption theory are available in standard intermediate macroeconomics textbooks: see, for examples, R. Levacic and A. Rebmann,

Macroeconomics, Macmillan, 1982, Chapter 12, and D. Demery et al, *Macroeconomics*, Longman Surveys in Economics, 1990, Chapter 3.

5. J. Muellbauer, A. Murphy, *Why has UK personal saving collapsed*?, Credit Suisse First Boston Research Report, 1989; J. Banks, R. Blundell, "Household Saving Behaviour in the UK", Institute for Fiscal Studies Working Paper 93/5, 1993; O. Attanasio, G. Weber, "The UK consumption boom of the late 1980s: aggregate implications of microeconomic evidence", Institute for Fiscal Studies Working Paper 92/17, 1992; T. Bayoumi "Financial deregulation and household saving", *Economic Journal*, 109, 1993, 1432-1443.

6. See Bank of England, "Changing boundaries in financial services" *Bank of England Quarterly Bulletin*, 25, 1985, 80-91.

7. A. Hartropp ed. *Families in Debt*, Jubilee Centre Research Paper No. 7, 1988; Jubilee Policy Group, *Escaping the Debt Trap*, Report, 1991. The Jubilee Centre, located in Cambridge, has been active in research, and in alerting policy makers to the problems of debt in Britain.

8. The "acceptability" of consumer debt may arise as much from the fact that it can be kept secret from neighbours and friends, as from any fundamental re-evaluation of whether or not debt is good or bad.

9. See the publications at note 7, and Policy Studies Institute, *Credit and Debt in Britain*, 1991.

10. This section has relied greatly on A. Hartropp ed. op. cit., especially Chapter 2, and on P. Mills, "Interest in Interest: the Old Testament ban on interest and its implications for today", Jubilee Centre Paper, 1989. The latter is an exceptionally interesting exposition of traditional Christian teaching on interest, with a plea that it should be taken more seriously.

11. A Puritan commentary (1620) on Calvin's teaching on usury, cited in P. Mills op. cit. p.23.

12. This is an example of a proposition, known as the "Lucas critique", which is that policy changes will *in general* change behaviour, and thus render policy predictions using econometric models inaccurate: see R.E. Lucas, "Econometric policy evaluation: a critique", in K. Brunner, A. Meltzer eds., *The Phillips Curve and Labour Markets*, Carnegie-Rochester Conferences in Public Policy, 1, 1976, 19-46.

IS THERE A CHRISTIAN CASE FOR A CORPORATIST MIDDLE WAY?

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1. Introduction: What is Corporatism?

Corporatism is a term which, at least in Britain, has in the last twenty years or so, assumed very highly pejorative connotations, in particular associated with its use by gurus of the New Right such as Sir Keith Joseph to describe government through the tutelage of trades unions. Elsewhere in Europe the word was originally associated with forms of Fascist government in the 1920s and 1930s, and so modern European political scientists talk about neo-corporatism or social corporatism. So it is important at the beginning to explain the sense in which I am using the word.

The origins of modern forms of social corporatism go back to end of the last century with separate strands that can be traced back to Catholic social teaching, to the Bismarckian notions of the importance of the state and to the thinking that emerged within the Scandinavian social democratic movement as it broke away from its Marxist beginnings. As far as I aware the word was first used in its modern sense by a Romanian, Manilescu in a book published in 1938 entitled *The Century of Corporatism.* A modern revival of academic interest was sparked in 1974 by the French sociologist Phillippe Schmitter in an article in which he asked whether the twentieth century was "still the century of corporatism".

Since the mid 1980s economists too have become interested in corporatism and have addressed the question of whether countries with a higher degree of corporatism as a result are able to enjoy rather better economic performance and in particular lower rates of

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* I would like to thank Euclid Tsakalotos for helpful comments on an earlier draft. I would also like to thank Jonathan Chaplin for directing me to some of the political science literature on the subject, even if in this version of the paper I have not had time to do his guidance full justice.

unemployment. *The Economics of Worldwide Stagnation* by Michael Bruno and Jeffrey Sachs

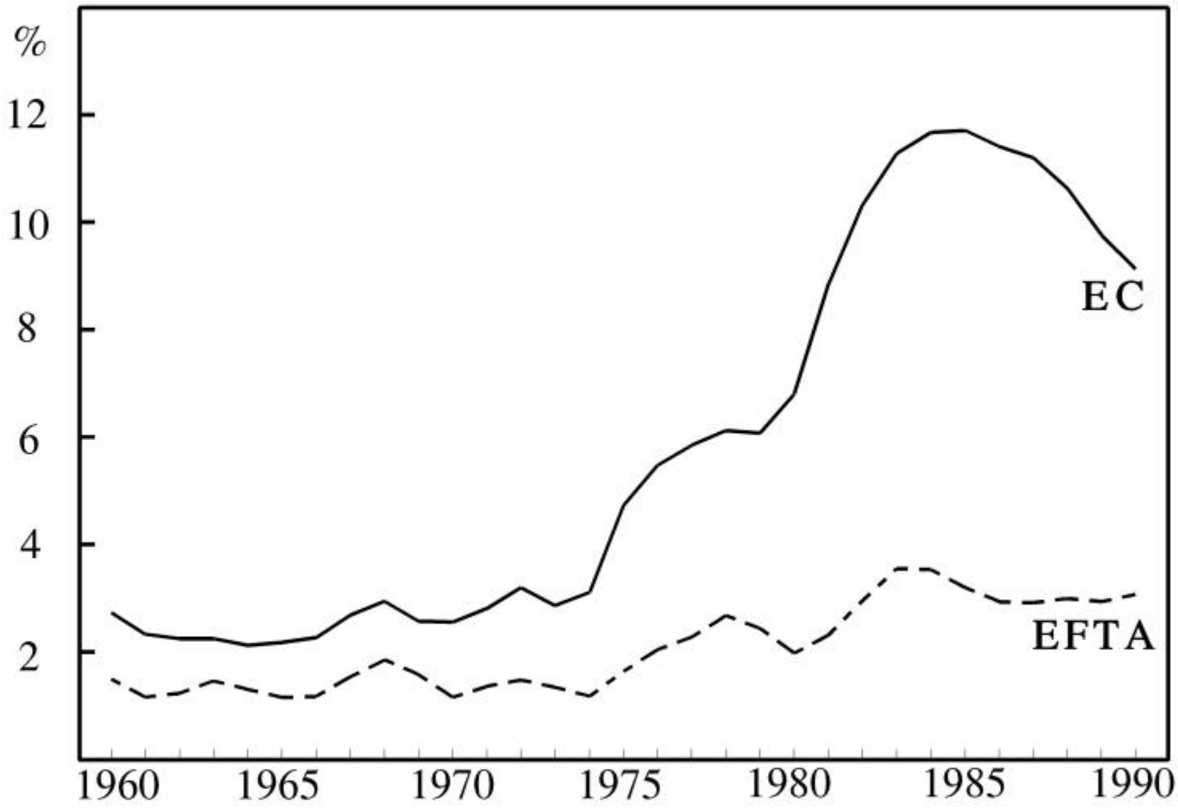

Figure 1: Average unemployment rates in EC and EFTA countries 1960-90

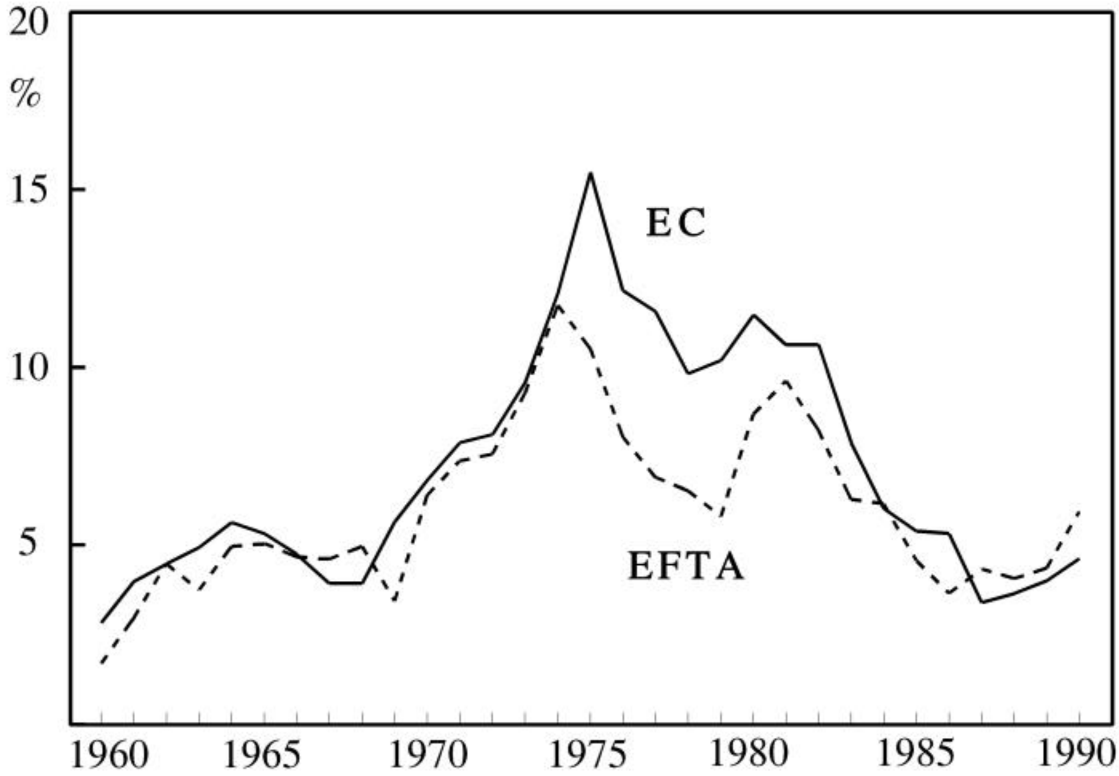

Figure 2: Average inflation rates in EC and EFTA countries 1960-90

(1985) and the article by Lars Calmfors and John Driffill in *Economic Policy* in 1988 have been particularly influential in this respect. Recent discussions of the topic are provided by Pekkarinen *et al*. (1992) and Henley and Tsakalotos (1993).

What are the key elements of corporatism that the different writers highlight? Economists have tended to dismiss the political dimensions to corporatism (perhaps because they cannot quantify them?) and focus on the importance of a high degree of centralisation or coordination in collective bargaining. Therefore countries such as Austria and to a slightly lesser extent Sweden, Finland and Norway, where pay bargains are struck at the national level are seen as highly corporatist. The evidence that these economies have avoided the debilitating levels of unemployment experienced elsewhere in Europe since the first OPEC oil price crisis in 1974 seems quite compelling (Figure 1). In terms of a Phillips curve relationship one might ask if the ability to achieve much lower rates of unemployment has only been achieved at the cost of higher inflation. This seems not to have been the case, since average inflation rates over the last 20 years in Austria and Scandinavia are little different from the average for the rest of Europe (Figure 2). Adding unemployment and inflation together to form what Arthur Okun termed the "misery index" reveals that economic misery does seems to have been much less in these countries.

Quite elaborate theoretical models have been developed to explain why greater bargaining centralisation may result in less of a rise in unemployment in the face of adverse economic shocks (see Carlin and Soskice 1991 for a good summary). They rest on the notion that greater centralisation can help to mimic the textbook model of the competitive labour market because where collective bargaining proceeds at a national level the bargainers will be much more aware of prevailing external economic conditions. There is a very close correspondence often acknowledged here between this role of national-level employers and labour organisations and Mancur Olson's "encompassing organisations" (Olson 1965, 1982). Collective bargaining at intermediate levels between firms with some degree of market power protection and unions with a fair degree of bargaining strength results a form of economic rent-sharing (to coin another phrase of Arthur Okun: an "invisible handshake") which benefits employed workers in "primary" sectors of the labour market and their employers at the expense of much less economically advantaged. So Calmfors and Driffill suggest the existence of a hump-shape relationship between centralization and unemployment with the worst unemployment performance being experienced by countries where trades unions are quite powerful but where bargaining is not well coordinated across the economy and so that power is used quite destructively. Such economies are typically the larger European ones.

Political scientists and sociologists are sceptical that this can offer an entire explanation. They point to the role played by institutions developed to implement a more consensual approach to macroeconomic policy formulation. The German sociologist Gerhard Lehmbruch discusses the importance of "concertation" arrangements through which different interest groups in the economy can be brought together to thrash out more cooperative solutions to economic problems and in particular to the problem of macroeconomic management (Lehmbruch 1984). The success of this process may be indicated by national differences in the level of strike activity. Certainly in Scandinavia and in the smaller more corporatist western

European economies the last twenty years have witnessed rather better levels of industrial peace. Past examples of such arrangements include the German "concerted action" plan of the late 1960s formulated by the Willy Brandt's "grand coalition" government, and Jean Monnet's plan for a French *economie concertée*. Both of these did not prove durable, along with other much less carefully thought out plans such as the 1970s British Social Contract. But in Austria and Scandinavia there has been a much greater durability in consensual policy arrangements. Japan is also an interesting case - Lehmbruch describes it as "concertation without labour" because of the importance to economic performance of the strong durable institutional links between government and industry fostered through the activities of MITI.

Some writers emphasise the role of the state as "honest broker" between different interest groups. Alessandro Pizzorno (1978) talks about the process of "political exchange" between worker, employers and the state. Workers exchange a commitment to post-tax wage restraint in return for a state commitment to full employment, generous levels of welfare spending and social protection. Employers accept higher levels employer's social insurance payments in return for a state commitment to the maintenance of aggregate demand and workers to wage restraint, which in turn guarantees the future profitability of investment activity. Thus successful corporatist arrangements rely on a *quid pro quo*, or in game-theoretic terms a cooperative, but unstable solution to a prisoners' dilemma game in which workers rely on the state to keep its promises of full employment and generous welfare spending and in which employers rely on worker promises of future wage restraint to make current investments profitable in the future. If any side to the bargain reneges then the cooperative, corporatist solution collapses, resulting in industrial conflict, reduced investment and increased unemployment. Political scientists, such as Lange and Garrett (1985) argue that success therefore relies on government which is sympathetic to the aims of trades unions and so identify the long, stable period of social democratic government in countries such as Sweden, Norway and Austria as a necessary condition for success. Equally it might be argued the success of the stable consensual relationship between government and industry in Japan has rested on many decades of liberal government.

The Swedish case is often held up as the most successful and encompassing form of corporatist arrangement. At the heart of it was the Rehn-Meidner plan formulated in the early post-war years, although the cooperative relationship between the union organisation (LO) and the social democratic party (SAP) evolved before the Second World War. The Rehn-Meidner plan had as its centre-piece a "solidaristic" wages policy which aimed to progressively narrow income differentials between the lowest and highest paid. The success that this has achieved over the last forty years in reducing and keeping down the level of income inequality, compared to most other countries is very impressive. The wages policy was also designed to accelerate the process of the industrial restructuring in the economy, since the imposition of a nationally agreed wage level on all firms would deliver a bonus to firms with above average productivity in new sectors and would accelerate the decline of below average productivity ones. Workers displaced from jobs by this accelerated industrial restructuring would be protected through a generous unemployment insurance scheme and more importantly through the use "active labour market policies" to enable retraining and swift re-employment. Society's obligation to protect those who jobs are displaced is matched by the individual's obligation to work. So unemployment benefits are finite (lasting only fourteen months) beyond which time a public sector job placement or training place is guaranteed. Sweden's commitment to active labour market measures is illustrated by the fact that in the late 1980s it spent proportionately much more on them than any other industrialised country. Behind the whole scheme was an ideological stance that unemployment was a social evil because it is inegalitarian. The burden economic adjustment in other countries falls disproportionately on the least economically able.

Corporatism in Austria and Scandinavia has proved to be of a highly durable nature, at least until the late 1980s. In part this may be due to the presence of stable governments of a left-wing nature, but it is also due to the long-term "climate of negotiation" that has been engendered by corporatist arrangements. Corporatist attempts in countries such as Britain and Italy failed because they were perceived as a quick fix to macroeconomic difficulties, directed primarily at making incomes-policies work. In this respect the 1970s British "Social Contract" manifestly failed. In highly developed corporatist economies there is as a motivating force behind the arrangements an ethic of consensus or of cooperation and in the next section I want to investigate the partly Christian origins of this.

2. *Corporatism and Christian Social Democracy*

I have already mentioned that the notion of corporatism is infused with ideas from several ideological traditions, and in this section I want to explore the Christian ones. The principal Christian bases are to be found in liberal (in the political sense) social Catholicism. A good review is to be found in Jonathan Boswell's book *Community and the Economy* (1990). Important writers in the nineteenth century include in France Lamennais and Lacordaire and in Germany von Ketteler who was very influential in the ideas of Bismarck (Cort 1988 provides extensive biographical background). In the early twentieth century Boswell identifies the importance of the work of the French philosopher Jacques Maritain (see Maritain 1940). What is common to the ideas of all these, and many other writers, was a desire for a "reformist, associationalist third way" which would not be founded on the materialist basis of both capitalism and socialism and would reject the individualism of capitalism. Boswell identifies this third way with personalist Christian democracy. To quote him:

> "Personalist Christian democratic thinking started out from a concept of the infinite worth of each and every human person, The belief was that because human beings were capable of moral choice, and because they were spiritual beings destined for eternal life, they were of infinite value. Through their life spans, human persons had the right and responsibility to develop themselves to the fullest extent as a preparation for eternity. The necessity of democracy and person liberty followed critically from this. For considerations of choice, self development and human dignity made it essential that everyone should have certain basic freedoms and an active share in government, All of these values, however, had to be understood in terms of relationships. Personal development and the enhancement of human dignity were unthinkable except along (diversely interpreted) communal routes. Neither freedom nor democracy could be achieved, let alone morally justified, on a basis of `individualism'" (Boswell 1990 pp. 22-23).

For such writers democracy was an ideal, with spiritual and eschatological dimensions, which could never in an imperfect world be totally achieved, but should strive to allow individuals to "love their neighbours" to the fullest possible extent. Democracy would have economic as well as political dimensions so we find these writers discussing forms of worker participation and cooperative management, and in general terms addressing the importance of communal participation. The common good was not seen in strict neoclassical, utilitarian fashion as the mere aggregation of individual "goods" but in more pluralist terms. An individual's moral development would require certain "natural groupings" or stable social institutions such as the family, the local community, voluntary welfare association, trade union etc. The purpose of these was to allow the development of relationships or fellowship between individuals. In a changing world such institutions would require continual development as the balance of power between groups shifted – in particular in a downward direction and in the direction of weaker groups to allow a combination of economic decentralisation with social responsibility. The principle of subsidiarity has its origins here. The role of the state would be one "adapting, arbitrating between and coordinating the various groupings (but emphatically not replacing them)" (Boswell, *op. cit.* p.26).

3. Corporatism and the Papal Encyclicals

This primarily Catholic line of social ethical thinking was given considerable impetus through several papal encyclicals, commencing with Leo XIII's *Rerum Novarum* (The Condition of Labour) of 1891 (see O'Brien and Shannon 1992 for an English translation). The strongest influence here was from Thomas Aquinas, and in particular from his ideas about communal responsibility and his ideas about the rather hierarchical way that this responsibility should be practised in matters of social justice (Pryor 1993). Indeed Thomist ideas are foundational to much of the Catholic writing on social action of the late 19th and first half of the 20th centuries. Leo XIII argues that socialism should be rejected (which at the time did not exist anywhere as a economic system) and that private property has a basis in "natural law" but affirmed the opinion that the State has a legitimate interventionist role to play in the alleviation of poverty and in ensuring that hours of work and rates of pay are just. He also took the view, derived from Eccl. 4:9-10 and Prov. 18:19 that workers had a "natural right" to form associations for their mutual benefit. *Rerum Novarum* is perhaps best seen as a Catholic counter to the untrammelled market-liberal capitalism of the late 19th century and the growing class-based divisions in society associated with its development, though it essentially preaches a harmonious "good society" made possible through virtuous behaviour on the part of both workers and employers.

Corporatist ideas in Catholic social thinking were given much greater impetus in Pius XI's *Quadragesimo Anno* – so entitled because it was published in 1931 on the fortieth anniversary of *Rerum Novarum* (again see O'Brien and Shannon). Pius XI acknowledges the importance of the earlier document in encouraging the growth in Christian (Catholic) trade unionism in Europe but regrets that employer's associations did not form to the same extent. In continuing to encourage "associations" it also attempts to steer a middle way between "individualist" capitalism and collectivism by arguing for the right to private property but pointing out that alongside that right exists the obligation to use it justly.

The sections within the encyclical which provided a spur towards the development of a corporatist middle way (although the word "corporatism" does not itself appear) are section 4 entitled "A Just Wage" and section 5 on the "Reconstruction of the Social Order". Pius XI argues for the employment contract to include some form of worker participation:

> "In the present state of human nature, however, we deem it advisable that the wage contract should, when possible, be modified somewhat by a contract of partnership, as is already being tried in various ways with significant advantage to both wage earners and employers. For thus the workers and executives become sharers in the ownership or management, or else participate in some way in the profits" (in O'Brien and Shannon, 1992, p. 57).

The motivation for this is the establishment and preservation of social harmony between workers and between workers and employers. As far as employers are concerned the same section suggests that they should be encouraged by the state to "join in their plans and efforts to overcome all difficulties and obstacles", presumably through the formation of employers' organisations. The idea that wages should be determined through some process of consensus formation with a macroeconomic concern for the level of unemployment in mind is hinted at towards the end of the section on the just wage:

> "To lower or raise wages unduly, with a view to private profit, and with no consideration for the common good, is contrary to social justice. This latter requires that by combining effort and good will to the extent possible, wages be

> so determined as to offer the greatest number opportunities of employment and of securing for themselves suitable means of livelihood" (*op. cit.* p. 59).

The distribution of property and determination of wages is seen as essential to the reconstruction and "perfection" of "social order". By social order it is clear that Pius means social harmony.

The reform of state institutions is one aspect of this reconstruction process, with the emphasis on the state empowering intermediate and lower level institutions to preserve a balance between on the one hand the "individualism" of excessive laissez-faire and the other state control through large organisations. The state is not to take upon itself functions that could be devolved to intermediate but lower level associations or groups. Pius terms this the principle of "subsidiarity" and it is one that has since become an important aspect of European Christian Democratic political thinking. It is of course currently generating considerable disagreement between European anti-federalists and the European Christian and Social Democratic mainstream. There is a clear presumption in *Quadragesimo Anno* that social harmony can be achieved and conflict eliminated through appropriate institutional design, and in particular the appropriate arrangement of interest groups within the social body in a manner akin to Paul's description of the body of Christ. In this respect the encyclical quotes Eph. 4:16:

> "From the whole body, joined and held together by every supporting ligament, grows and builds itself up in love, as each part does its work" (New International Version).

An outline of a form of corporatist economic organisation is provided in summary in paragraphs 91 to 94. This entails the state granting legal rights of representation to interest groups of workers and employers, who alone are empowered to conclude employment contracts:

> "The corporations are composed of representatives of the unions of workingmen and employers of the same trade or profession, and as genuine and exclusive instruments and institutions of the State they direct and coordinate the activities of the syndicates in all matters of common interest" (*op. cit.* p. 63).

If agreement between parties cannot be reached the state should have authority to intervene, in a manner akin to the controversial Australian system of compulsory wage arbitration. Even more controversially Pius suggests that strikes and lockouts should be forbidden.

The alleged advantages of such a system are in terms of "peaceful collaboration of the classes, repression of socialist organisations and efforts, the moderating authority of a special ministry". Pius recognises that this might entail some limitation of the freedom of individual economic agents and risk the creation of a too bureaucratic form of government but he seems to imply that moral exhortation will be sufficient to ensure that interest group leaders and state authorities behave for the public good. More contentious still is the rather utopian notion that social harmony can be achieved at all. The suggestion that all forms of industrial action should be illegal seems to imply that harmony will be imposed by state (or Church?) fiat, an implicit admission that it is better to achieve "harmony" by suppressing conflict than to run the risk of non-cooperation on the part of the bargaining parties. Cooperative solutions to the repeated wage bargaining game are to be achieved by make non-cooperation illegal rather than by making it unattractive.

From an ideological background that was not explicitly Christian, Emile Durkheim, at the turn of the twentieth century, reached rather similar conclusions about the need for public-minded corporations who would be sanctioned by that state to self-regulate and manage the economy, and provide participatory and "solidarity-enhancing" services for constituent individuals (Boswell 1990). The weak link in this and the *Quadragesimo Anno* scheme for corporatist arrangements was that a sense of public duty and social morality on the part of the leaders of such institutions, and on the part of sanctioning politicians would be sufficient to overcome the temptation to exercise monopolistic power. In the 1930s in several Catholic European states, including Italy, Spain and Portugal, perverted forms of corporatism became important vehicles for state authoritarianism, which in the case of the Iberian countries were to last for over four decades.

On the other hand until the 1950s, as Boswell points out, Christian Democratic parties in countries such as Netherlands and Belgium were attracted to forms of communitarianism, entailing social dialogue, economic partnership and concertation. The desirability of worker participation in enterprise management continued to be advocated for some time by the leadership of the Catholic church, such as John XXIII in his encyclical *Mater et Magistra* (1961) and Paul VI in the apostolic letter *Gaudium et Spes* (1971). However Pryor (1993) notes that despite the volume of recent work on corporatism, corporatist ideas seem to have lost appeal among Roman Catholic social thought.

A very different variant of corporatism emerged in Scandinavia at the same time as *Quadragesimo Anno*, but here the emphasis was on "compromise" and the constructive management or mediation of conflict rather than on the repression of conflict to achieve of social harmony. The Swedish sociologist Goran Therborn distinguishes the liberal corporatism of central Europe from the social corporatism of Scandinavia. In the latter conflict of interest between workers and employers is, he argues, accepted and institutionalised or ritualised in such a way as to ensure that the representatives of each prefer to opt for cooperative strategies (Therborn 1992). So in times of recession workers will prefer to accept a coordinated reduction in real wages to prevent profit squeeze and allow investment to remain stable in anticipation of future recovery (Henley and Tsakalotos 1991, 1993). In practice this seems to have worked evidenced by post-war strike records in Scandinavian economies which are very impressive. This record is despite them possessing the highest levels of union membership in the developed world. If there is an ethic behind this form of corporatism then it appears to be one of enlightened self-interest of a rather less utopian form. At a societal level supporters of Scandinavian corporatism appear to believe very strongly in the normative desirability of egalitarianism, and in particular that state institutions should be so designed to be individually restorative as much as merely income-egalitarian. Specifically the extensive use of active labour market policies, administered in a locally decentralised and participatory fashion, recognises that spells of long-term unemployment are ethically unacceptable because they deny the possibility of economic restoration. In this sense such policies accord well with the jubilary principles of Leviticus 25 (Henley 1991).

During the inter-war period the corporatist thinking emerging within the Catholic church clearly informed the ideas behind prominent Christian Socialists within the Anglican Church such as William Temple. Temple was particularly influenced by the work of Jacques Maritain, already referred to (see Suggate 1976 for a recent appraisal), and also refers in *Christianity and Social Order* (Temple 1942) to the "profound importance" of *Quadragesimo Anno*. Temple alludes to the importance of consensual processes between parties in social matters by contrast to the imposition of decisions by the State. He cities Luke 12:15 in which Jesus refuses to be drawn into taking sides in a dispute about an inheritance but instead identifies the problem behind the dispute as the covetousness of two brothers. Latter in the book, Temple discusses the derivative Christian social principle of "social fellowship" which lies between Enlightenment individualism and collectivism. He refers to the importance of intermediate groupings such as communities, associations and fellowships:

> "...modern democracy, though more in its continental than in its British forms, was cradled in `rationalism' with its concepts of the particular and the universal: it was from Rousseau onwards calamitously insensitive to spiritual and cultural affinities. So it has been impatient of these intermediate groupings, and has moved towards `individualism' or `collectivism', as if there were no third alternative. But it seems scarcely too much to say that neither individualism nor collectivism is compatible with a truly Christian understanding of man of life" (Temple 1942, p. 72).

4. Corporatist ideas and recent Christian approaches to the economy

Recent writers within what John Atherton (1992) terms the "liberal" Christian ethics tradition have expressed interest in the Swedish "middle way" or forms of democratic socialist economies. Prominent among these is Ronald Preston (Preston 1991 pp. 72ff). In the recent literature of which I am aware on Calvinist and Evangelical ideas on social ethics there has been little extensive discussion of corporatist ideas.

By contrast to the Catholic social teaching already discussed, writers such as Brian Griffiths are overtly hostile to notions of corporatism (Griffiths 1982), although careful reading suggests some confusion between Christian Democratic corporatist ideas and the weak "beer and sandwiches at Number Ten" corporatism of 1970s Britain. Griffiths seems to understand corporatism as synonymous with government tutelage by trade unions, inefficient, monopolistic state-owned industry and a highly centralized and impersonal welfare state with its associated "dependency culture". He is right to be critical of all of these, but they do not seem to equate with the theory and practise of "corporatism" elsewhere.

Alan Storkey refers to "national corporatism", which he understands to be concerned with the relationship between state and industry, in the context of large, often multinational corporations. Specifically it is a model in which the state sees itself as a partner in the development and success of industry (Storkey 1992). The most developed example is the Japanese case (Storkey 1986). The motivation for this kind of approach is that economic activity is seen as potentially destructive and therefore that market outcomes need to be modified by state consultation with industry in order to increase efficiency and establish justice. For Storkey the error in this approach, as with other more full-blown forms of state intervention or collectivism, is that the state seeks to replace God's rule in the lives of people with a political reference point. The state becomes viewed as a source of economic salvation which of course it cannot fulfil. In economic terms "national corporatism" leads to protectionism, over-production and inefficiency. Having said this some ambiguity creeps into Storkey's position in that he regards forms of co-partnership in Germany and Japan as preferable to the "institutional degeneration" of Britain where industrial relations is traditionally adversarial and characterised by secrecy and ritual (Storkey 1986, pp. 42-3).

A rather less unsympathetic, and, in my view, more accurate appraisal is made by Donald Hay:

> "The moderate Keynesian solution implies a more corporatist vision of society. It accepts an economy dominated by large corporations, national trade unions, and a powerful central government, which have competing claims. The objective would be to bring them together into joint decision-making so that the long-run behaviour of the economy could be regulated. However, this would require the major institutions to be cohesive and to have control over the constituent parts" Hay (1989, pp. 245-6).

Hay's justification for rather more consideration than summary dismissal is derived from the position that serious unemployment violates the principles that work is a right and obligation through which basic human needs should be met. A corporatist solution may be considered a candidate second best solution in a world of powerful interest groups. It is important to note that this is a quite different motivation for corporatism to that found in the papal teaching of the 1930s, where the implication is that corporatist-type arrangements will facilitate an alleged first-best solution of social harmony and peace.

An explicit case for a Christian-based corporatist approach is made by Sander Griffioen in a report for the Christian Labour Association of Canada in 1981. He clearly identifies a developing corporatist alternative as a middle way between untrammelled market capitalism and totalitarianism. Perhaps the most persuasive case for corporatist-type institutional structures is made by Michael Schluter and David Lee, though at no time do they employ the word "corporatism" (Schluter and Lee 1993). Their vision of a "relational market economy" is one of a market-based economy, in which the importance of private property is recognised and affirmed. However institutions (or in their terminology "structures") ought to be put in place to facilitate and foster durability in the relationships between economic agents and to encourage cooperation between those players. They acknowledge the influence of the communitarian Christian-democratic ideas of Jonathan Boswell (already discussed):

> "Boswell, a political economist writing within the European Christian

> Democratic tradition, develops the thesis that industrial growth is closely linked to co-operative relationships not only within firms, but between firms, and between industry and government. A major indicator of co-operativeness in the economy according to Boswell, is the 'extent to which sectional economic interests participate in public policy processes within a broadly democratic system, through representative institutions endowed with public rights and duties'" (Schluter and Lee, 1993, p. 215).

5. What can we rescue?

The Christian-social-democratic thinking that lay behind the motivation for the corporatist institutions that have emerged to varying degrees in many European economies was one that was extrapolated from foundational Biblical ideas. It represents an application of what Temple calls "derivative Christian social principles" or Preston calls "middle axioms".

However there are a number of serious problems. The first problem is that the corpus of Catholic social teaching revolving around the *Quadragesimo Anno* encyclical is excessively utopian. Christian employers and trade unionists are exhorted to cooperate for the common good to ensure that wage rates are set at just levels because others with a less "high" moral purpose behind them (specifically socialist unions, as far as Pius XI was concerned) will be less concerned about seeking social harmony. In very simple terms there is an implicit assumption here that Christian economic agents will be less prone to sin compared to others, an idea that is at best patronising and at worst quite theologically incorrect.

In more general terms the idea of the feasibility of "social harmony" is open to criticism, just as is the implicit idea of an harmonious "general equilibrium" within neoclassical economics, or is the notion that managers within a centrally planned economy will accurately and truthfully reveal all the information requested of them to the central planner out of a higher moral commitment to Marxist-Leninist dogma. Within Catholic social teaching "social harmony" emerges from the Thomist concept of "natural law", which acknowledges the existence of a natural morality, and therefore natural social order, independent of biblical revelation. So economic cooperation between otherwise competing groups is feasible, regardless of Christian commitment, through the exhortation of individuals to adopt behaviour consistent with that natural morality. More simply put the economy will work properly if people are "good". So, as Suggate (1987) reports, William Temple, although influenced by ideas about natural law, was critical of Thomas Aquinas and Catholic philosophers such as Maritain because of their inadequate appreciation of the power of sin. We might add that to this the power of sin in both Christians and others alike.

Therefore corporatist arrangements, if they are to work, must be motivated as a second-best alternative in an imperfect world. At best then they can be arrangements which manage social conflict, by acting as constraints on certain forms of behaviour. So writers on corporatism argue that coordinated or centralised wage setting is effective in reducing conflict over pay because it prevents different groups of workers from attempting to secure "leap-frogging" pay claims. Corporatism may also stimulate employers into adopting strategies to improve labour productivity such as training and skilling because competition through wage cutting is ruled out by the terms of the centrally agreed pay rate.

A further problem arises because of the association between corporatist arrangements and a high degree of centralisation, particularly in collective bargaining. Most Christian social ethicists and economists rightly extol the virtues of decentralised forms of economic management because in simplified terms they allow the empowerment of individuals, and the diffusion of economic power. For this reason corporatism is more likely to work, and indeed has proved more successful in small countries. In the context of a large economy such as the UK we might, therefore, wish to argue in favour greater coordination in wage setting. The desirability of this has recently been argued by the prominent London School of Economics economist, Richard Layard, and also by certain voices within the UK trade union movement. At the time of the UK entry into the European Exchange Rate Mechanism the Confederation of British Industry also discussed the possible benefits of greater "synchronisation" of collective bargaining. Coordination may be preferable to, and more feasible than the structural amalgamation of unions and employers' groups but it is subject to greater risks of collapse. In Sweden where coordination between unions rather than centralisation into a single trade union was adopted there has been a fragmentation of interests between employers and between unions (particular blue collar versus white collar). Nevertheless there is an uneasy tension between this aspect of corporatism and the presumption in most work on Christian social ethics, both Catholic and Protestant, that decentralised decision-making is preferable.

If there is a distinctively Christian case for a more corporatist "third way" it is one that is extrapolated from ideas about the importance of Temple's "social fellowship" or what Schluter and Lee (1993) term "structures to facilitate relational proximity". For Schluter and Lee relational proximity is multidimensional, entailing not just parity in terms of the economic power of agents but also continuity through time and commonality of purpose. Corporatist structures may succeed in each of these where the laissez-faire market economy does not. For example I have argued elsewhere with a co-author (Henley and Tsakalotos 1993) that the economic success of corporatist arrangements is as much based on the durability of the wage bargaining relationship and the ability to achieve consensus through mechanisms such as national economic forums as it is on structural features such as bargaining coordination or centralisation.

Corporatism as practised is various forms in continental Europe has been important at a microeconomic level as much as at a macroeconomic level, although the link between more microeconomic features and the unemployment records of individual economies is more tenuous. Such features include worker participation in decision-making and management codetermination through worker-elected directors and works councils. These ideas have a long tradition in many European countries, one which is easily traced back to the Catholic social teaching of early twentieth century. Many contemporary Christian economists and social ethicists have expressed support for these. From a biblical perspective it is important to point out that worker involvement in decision-making involves shared responsibilities as well rights of consultation. This is made clear, for example, in John 10:11-13 where the good shepherd will exercise greater care than the hired hand.

In a similar vein the case for a regionally devolved form of corporatism may be established, particularly in larger economies. Corporatism and the practice of Christian democracy in the Netherlands has always entailed a strong element of regional devolution. In Sweden local labour market boards a devolved responsibility for the administration of job placement and the training of unemployed workers. They are managed along corporatist lines by representatives of trade unions and employers. In both aspects the system contrasts sharply with the British social security system. Schluter and Lee's vision of a relational market economy involves a high degree of regional decentralisation.

In the 1990s the bell is tolling for the more centralised features of the corporatist social democratic economies. There are a number of reasons for this. Firstly very high levels of social welfare provision and labour market intervention have become proportionately more and more expensive as a result of faltering global economic growth rates since the early 1970s. Financing of these has required rates of taxation which have become politically unacceptable, and so electorates have demanded change either by turning to rightwards (as in Sweden) or as a price for continued support for social democratic parties (as in Norway and Austria). The durability of corporatist "deals" under which workers exchange wage restraint in return for a commitment to full employment and generous social welfare provision is thus called increasingly into question, since it looks less certain that the state and employers can deliver. Secondly the increasing integration of the world and particularly the European economy has led to bargaining decentralisation as individual firms and sectors have come under differing degree of international competitive pressure. The possible entry of Austria and the Scandinavian countries into the EC will accelerate this. Finally some economists point to a "deflationary bias" within the EC. The consequence of this is that it is increasingly difficult for the small open corporatist economies to maintain stable exchange rates and levels of exports in the context of more expansionary "full employment" economic strategies.

What has been termed the "climate of negotiation" will not disappear overnight in these countries. However the factors outlined here combine to press home the need for continued thought to be given to an alternative economic approach derived from more sound ethical principles than those which have underpinned the individualist and *laissez-faire* strategies of the 1980s.

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