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From the Editor:

This issue of the ACE journal is perhaps the first issue to have a clear theme to it. It contains two papers and three review articles. The first four of these contributions are concerned with the importance to the economy of business and finance ethics. The first paper is by Paul Mizen and was originally given at last July's ACE Study Group meeting. It is on the subject of Christian ethics and financial markets. The second paper is on business ethics and is by Russell Sparkes. The paper takes up some of the issues raised in the paper by Ian Jones and Michael Pollitt in the previous issue of ACE Journal, and draws on Russell's own work in a recently published book entitled "The Ethical Investor" (Harper Collins, 1995). You can read a review his book written in turn by Michael Pollitt in the next contribution. The next review is by Esmond Birnie and is of a recent collection edited by Stephen Frowen and Francis McHugh entitled *Financial Decision Making and Moral Responsibility*. Lastly but by no means least Donald Hay provides a review of *Beyond Poverty and Affluence* by Bob Goudzwaard and Harry de Lange.

I am pleased to be able to announce that the next ACE Study Group meeting will take place on Friday 4th and Saturday 5th July 1996, once again in the pleasant surroundings of Jesus College, Oxford. Please note that the meeting has moved from Monday/Tuesday to Friday/Saturday this year. Spaces are limited so if you would like to attend, please contact Donald Hay at Jesus College, Oxford.

As always I am keen to receive material for the journal: papers, responses to papers and book reviews. Finally please note a change in the editor's address from 1st January 1996 to:

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Contents

ETHICAL AND MORAL ISSUES IN FINANCIAL MARKETS

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The notoriety of financial scandals in recent months has only been surpassed by the scandal of "slease in public life" in the eyes of the general public. In particular, the Leeson affair has attracted a great deal of attention from the world media, who have asked how could this kind of situation develop? In this paper I would like to address the issue of morality in financial markets from a Christian perspective. I shall begin by briefly summarising the structure and conduct of financial markets and then draw conclusions about their performance in terms of reaching Christian ideals and standards. The conclusions will offer some suggestions for financial market organisation and regulation to encourage an ethical and moral basis for trade in financial assets.

1. The Nature of Financial Markets.

The markets which the term financial markets covers is very broad. Not only are there asset markets - for money, bonds and equities - and foreign currency markets, but there are a host of futures markets, options markets, securities markets and markets for interbank loans. The size and role of these markets has changed considerably in the latter part of the 20th century. The financial markets trade billions of dollars of capital through markets for financial instruments daily. The examples below of the extent of dealing in international bank lending, foreign exchange markets, stock markets, and futures and options markets, are taken from Lewis (1995) and sources therein. They all show that financial markets as a generic group have grown significantly in recent years, and that some centres have specialised in the organisation of the market for particular types of asset. We start by identifying two of the main factors that explain why the markets as a whole have grown so quickly.

New Financial Instruments

The range of financial instruments which are available has increased enormously allowing the customer greater choice of asset structure and currency of denomination. In particular the type of financial instrument which has no real world counterpart has been developed and modified in such a way that the trading of these has surpassed the trading of other instruments. Since the Leeson affair the existence of derivatives has come to the public notice, but many operations are conducted in such instruments as well as swaps and other kinds of pure asset. Some locations such as Chicago and Philadelphia have specialised as "pure" markets which trade financial instruments such as futures and financial derivatives, and have little or no trade in the real commodities or tangible assets on which the pure assets are based.

Computer Technology

The development here began with the Big Bang in the London stock market, in 1986, and has been matched in Paris, Brussels, Madrid and in the federation of German trading centres. Computer technology has encouraged the trading of instruments which can be reduced to a computer record and which can be traded from any location at very low cost with no time lag. The effect of this has been to separate portfolio management decisions from the place of trade, and competition in markets for financial instruments like derivatives has become more intense because of the diversity of locations from which they may be traded (see Lewis, 1995). The ability of computers to operate pre-programmed trading rules has allowed trading to take place at an ever increasing rate although since the stock market crash in October 1987 there has been an attempt to prevent buying and selling rules from generating destabilising outcomes.

The general view of this process is that it has increased the volatility of financial markets with adverse consequences for those that conduct their normal trade through them. So when exchange rates are more volatile, it is more difficult for importing and exporting companies to form forecasts of the future rate of exchange for the purposes of negotiating contracts, for example, or for long-term investors to make decisions concerning the rate of return that can be expected on an investment project. Indeed, a recent colloqiuium on risk management in volatile financial markets was convened recently to assess ways of dealing with this environment.

Only Goodhart (1995), who described himself in his paper at the conference as a ‘natural contrarian’, disagreeed with the general conclusion that the markets were more volatile. His basis for disagreement was that the conclusions would be reversed if comparison was made between currenct conditions and the more distant past than the post-war period. However, it may be concluded that whilst the markets are not necessarily more volatile, in as much as the degree of variation is not higher than in historical periods in the past, the speed of response is faster and the volume heavier than at anytime before the present. We now turn from the nature of the markets to the question of whether financial markets can be considered to be moral in their operations.

2. Are Financial Markets Moral?

Financial markets and the rent seeking activities of financial market traders have an association with greed and "immoral" behaviour in the public mind. The question is whether this is justified? One reason for this view is the protestant work ethic - that return should be commensurate with the effort expended to earn it and the notion that work should be productive. Much of the activity of the financial markets is seen as unproductive - it is rent seeking and does not actually produce anything and the rates of return are not seen as proportional to the effort undertaken in the provision of the market for financial assets. The activities of financial markets are therefore perceived by the public as little more than organised betting markets with a strong resemblence to gambling, which benefits the organisers at the expense of the particapants.

It was noted in the work of Frank Knight, seventy-five years ago, that financial markets are predominantly speculative markets. Echoing the work of Walter Bagehot he noted that there should be a speculative fund and a supply of young men eager to exploit the chances for making a fortune. It is the fact that the financial environment is uncertain - allowing diversity of beliefs - and the, perhaps over eagerness of young men who believe that they know "better than the market what the future will bring forth" which generates a speculative market. Knight considered financial markets to be speculative for another reason. Just as the opinions of the punters on a racecourse drive the prices, so in very speculative finacial markets the opinions of the traders drive the prices of financial assets.

However, Friedman (1969) has pointed out that the function of financial markets has also traditionally been seen as one of insurance. The financial market offers financial instruments which can provide a hedge against risk for the producer, whilst providing a pool of investments with risks which are negatively correlated, which enables the financial maket itself to diversify the risk. In particular the market offers instruments like futures, which are ÔpureÕ assets, which are not related to the market for the real commodity e.g. coffee, but which offer a hedge against the risk that the traders in the real market take on when they trade in the real market.

Rather than creating conditions which are favourable to the organisers and unfavourable to the users, Friedman notes that there is often joint production in the financial markets, and the organisers of the real market often operate the pure asset market too. He comments that, moral arguments aside (which of course is our principal interest) the joint production of real and pure assets increases the efficiency of the markets, benfiting the users of financial markets *as well as* the organisers.

In the recent history of financial markets in the last decade and a half, there has been increasing prominence of speculation. This may be due to the fact that, more than ever, dealing is done at the margin. The investor need never actually have the funds required to purchase the financial instrument but may use the funds that he has to buy and simultaneously sell the instrument by only paying the margin, which is a small percentage of the overall price. Thus an investors purchasing power in the market is a multiple of his resources, and speculative positions can be financed with relatively little capital. Friedman and Schwartz (1963) identified the margin-dealing phenonmenon as one of the contributory factors to the great depression in the US because it created a vast gulf between commitments to buy shares and the ability to pay. The phenomenon was prohibited after 1929 in share markets but continues today in futures markets and options markets.

Margin dealing has further encouraged speculation because it does not require the delivery of the asset, currency or commodity in question. This encourages a divorce between the market and the speculator whose sole interest is in the rate of return. The consequences for production, distribution and volatility of prices (which I do not wish to look into in detail here) except to mention that they are distortions created by financial markets, which arise from the ability to trade on margins.

The recent history of financial markets has confirmed this view. Large funds are not invested in long-term investment projects or used to hedge other operations for insurance purposes, as the specialised mechanisms for investors in the financial markets were orignally intended to do. Goodhart (1995) notes that hedge funds are not used to hedge at all but are instruments which are used largely for the prupose of speculation. Rather there are large pools of funds which are invested for purely speculative purposes. Taylor (1995) quotes two sources which confirm that the vast majority of dealing in the foreign exchange market is for speculative purposes. Frankel and Froot (1990) revealed that the huge difference between gross trading and net trading in these markets was due to the fact that 95% of trades are between brokers. Likwise Lyons (1993) suggested that marketmakers alone account for 80% of trades in the FOREX market.

The productive element in financial markets, the specialised provision of a service by which investment projects can be funded and insured against risk, has become a fraction of the overall operation of financial markets as a whole. This raises the question whether the financial markets do actually produce anything useful for the economy. The answer must still be yes they do, but they do so with large negative externalities. There is a role for provision of financial services in a market specially designed for the purpose - precisely to ensure that long-term investments can take place efficiently; but the question is whether it *is* done efficiently, in view of the externalities which arise, let alone equitably.

Moral Hazard and Adverse Selection

One reason for the inefficiency is the incentive structure given to the "young men" Bagehot had in mind. In the present financial structure there is every conceivable market failure as a result of the incentive structure presented to the market trader by his parent company. Companies reward their employees for generating a high rate of return on their portfolio and they do so without adjusting for risk incurred by individual traders, which creates moral hazard and adverse selection.[1] Moral hazard arises because high returns are correlated with high risk investments;

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[1] Of course a great deal of effort is put into ensuring that their overall risk position is

traders buy high risk investments, because, if they payoff, the return on their portfolio will be higher. The problem is that the trader will lose his bonus if the investment turns out to be bad, but the company will bear the full cost of the bad investment. The moral hazard emerges because the trader has an incentive to invest in more risky investments than he would otherwise do if he were trading with his own money. Once a trader extends his position to one where normal rates of return will not cover the loses incurred through the high risk investment, there is an incentive to take even greater risks to acheive a rate of return which would compensate for the losses already accumulated. In the case of Leeson, it appears that the risks taken were so great that the effects of losing out when the markets did not behave as he had expected, merely served to increase the incentive to take greater risks in order to try to retrieve the unretrievable.

Adverse selection appears for similar reasons; because the investor is interested in projects with a high rate of return he will necessarily choose the riskier projects. These projects may not be the most "worthy" investment projects and the "wrong" selection of projects to invest in may result. The very existence of pure assets may well divert resources from real investment projects. Again there are distortionary effects from these investment decisions which emerge due to the trader's utility function being different from that of his employer.

News and Specualtive Bubbles

The dependence of financial markets on opinion and "news" has been well known since the work of Frankel (1986). It has also been a common feature of many financial markets that speculative bubbles have distorted the price of financial instruments from their fundamental value

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watched very carefully, but in terms of setting up incentives for the traders to watch their own risk positions, very little is done.

e.g. the value of the US dollar versus other major traded currencies in the middle 1980s (see Frankel and Rose, 1995). There are at least two reasons why opinions of other traders matter.

Firstly, traders are assesed against the performance of their peers. A bad performance by an individual trader can be excused in a situation where everyone has done badly e.g. stock market crash of October 1987. A bad performance when everyone else has done well, on the other hand, is sure to herald the end of a trader's contract. Hence traders have a strong incentive to listen to the market and not to be caught out of line.

The second reason is that in the short run, especially in currency markets, traders often resort to using chartist techniques. These utilise the analysis of trading patterns, represented on charts or graphs, of the behaviour of the currency in question. Inevitably the chartists will pick up market opinion through the movement in the price of the currency, even if the fundamentals are telling a different story. Recent evidence suggests that fundamentals are not good predictors of exchange rate movements over short horizons, in any case, but are better for predicting long-term movements (Mark, 1995). Hence we are back to the racecourse where the price is driven by public opinion. Much of this kind of story has been recognised in the literature on the micro-structrure of the financial markets, especially the currency markets, see Taylor (1995), Frankel and Rose (1995).

The fact that opinions drive the market is used by some traders in periods of "thin trading" - when there are few participants in the market - to set up a trend by buying heavily in currency or asset. Once the market continues the trend by following what they perceive to be public opinion, the original trader sells his original purchase at the profit.

3. A Christian Perspective on Financial Markets

Stewardship and Responsibility

From a Christian perspective the investment strategy should be in accordance with the principle of responsibility for use of resources which is to be found in the parable of the ten minas, Luke 19:11-27. The same teaching is to be found in Matthew 25:14-30. There the Bible teaches that there must be responsible use of resources at our command and there will be a time when account must be given for our use of them. The master "entrusts property to them", verse 14, with the implication that it was to be put to good use while he was away. When he returns he "settles accounts with them", verse 19, and those that have put their entrusted resources to good use are commended. The servant who fails to put the resource to good use is called "wicked and lazy", verse 26. As economists we should be encouraging traders to make good and productive use of their resources, for which they will be called to account. Economists will differ in their assessment of the use of financial markets - some will agree with Friedman that they enhance productivity and efficiency, whilst others will conclude the opposite.

But the productivity of the resources should not be at the expense of morality and justice. This principle is laid down in a number of places in the Bible such as Isaiah 5:8 "Woe to you who add house to house and field to field" and Micah 2:1-2 where it says "Woe to those who plan iniquity... they covet fields and seize them, and houses, and take them. They defraud a man of his home and a fellow-man of his inheritance". Likewise Amos 8:4-14 says "`In that day', declares the Sovereign Lord, `the songs of the temple will turn to wailing. Many, many bodies flung everywhere. Silence!' Hear this, you who trample the needy and do away with the poor of the land, saying, `when will the New Moon be over that we may sell grain, and the sabbath be ended that we may market wheat?' - skimping the measure, boosting the price and cheating with dishonest scales, buying the poor with silver and the needy for a pair of sandals, selling even the sweepings with the wheat. The Lord has sworn by the Pride of Jacob: `I will never forget anything they have done.'"

There is a question firstly, about whether the resources are channelled to the best investment opportunity. If the adverse selection arguments, which were raised earlier, are true then the high return/high risk opportunities may eliminate lower return/lower risk opportunities which are more worthy. Secondly there is the question of the inefficiency which greater volatility in financial markets creates, which may in turn lead to misallocation of resources.

These issues can be applied at many different levels. There are issues for the trader in the trading room and for the institution for which he works and for the market as a whole, which sets up the environment in which the trader operates. They suggest that the individual, the trading company and the industry should all be subject to scrutiny and regulation.

Motives for Investment

In part the traders are encouraged to optimise return without reference to risk which results in irresponsible investments, but the motivation of the traders is founded on greed for higher earnings through bonus payments. Clearly the love of money and the greed which arises from disatisfaction with what we have is condemmened in the Bible Hebrews 13:5 says "keep your lives free from the love of money and be content with whay you have" and 1 Timothy 6:10 reminds us that "the love of money is the root of all evil". In general the Bible makes reference to lending to someone on the basis of need not the prospective rate of return, Deuteronomy 15:9-10 says

> "Be careful not to harbour this wicked thought: `the seventh year, the year for cancelling debts is near,' so that you do not show ill will towards your needy brother and give him nothing. He may then appeal to the Lord against you and you will be found guilty of sin. Give generously to him and do so without a grudging heart; then because of this the Lord your God will bless you in all your work and everything you put your hand to. There will always be poor people in the land. Therefore I command you to be open-handed towards the poor and needy in the land".

A speculative approach to investment which evaluates investment on the basis of its return without reference to need and responsibility would probably fall into the same category.

Regulation

Given the fall of man, God has instituted governments to restrain evil and guard what is right (Romans 12:1-7). There is a clear injunction for authorities to regulate behaviour in order to prevent outbreaks of injustice and immoral behaviour. Isaiah 10 warns

> "Woe to those who make unjust laws, to those who issue oppressive decrees, to deprive the poor of their rights and withhold justice from the oppressed of my people, making widows their prey and robbing the fatherless. What will you do on the day of reckoning, when disaster comes from afar? To whom will you run for help? Where wil you leave your riches?"

Jeremiah 22 links the kingship of Judah with responsible government and justice. From these passages there appears to be a case for regulation of financial markets to prevent oppression and injustice.

However, attempts to set up ethical codes for regulation of financial markets have been relatively unsuccessful. The International Organisation of Securities Commissions (IOSOC) created a technical committee which reported on "International Conduct of Business Principles" reported in Scott-Quinn (1992). The seven principles they drew up were that investors should act i) honestly and fairly, and ii) diligently, they should iii) employ their resources effectively, and iv) gather adequate information about clients and v) give adequate information about its dealings, and vi) where possible avoid conflicts of interest but treat customers fairly if they are unavoidable, and vii) comply with regulatory requirements to promote the integrity of the market. The problem with these is that the crucial terms such as "best interest" and "adequate information" are not defined, and as Scott-Quinn illustrates the working party redefined the principles to avoid "ethical conduct", since "the concept of ethics involved moral standards which might go beyond [the] pragmatic approach" (Scott-Quinn, p.99). From a Christian point of view a code which is anything but ethical is worthless.

4. Recommendations

1) Deter outright speculation based on short term gains.

Much of the trade in financial instruments occurs for purely speculative reasons, with no interest in the real economy which lies behind the financial markets, and no motive of investment or insurance. These funds create volatility and the externalities which emerge from the financial markets as a result of the size of speculation in relation to the overall market. One option to deter trading for purely speculative purposes is to introduce a 'sand-in-the-wheels' policy, which encourages long term investment but deters speculation in the short term. Known also as the Tobin tax, Tobin (1978), Eichengreen, Tobin and Wyplosz (1995) this policy has its supporters and its opponents, see Taylor and Garber (1995). The main argument for it has already been given, but it does introduce costs for those users of the finaicial markets who wish to insure their position against unforeseen movements in the markets and can easily be avoided by use of offshore centres. One solution may be to introduce the tax in such a way that users who can provide evidence that they are using the market for insurance purposes should be exempted from it.

2) Avoid incentive structures which lead to inefficiency and greed.

By encouraging trading companies to minitor return in relation to risk, the moral hazard and adverse selection problems, would be removed and a source of inefficiency in financial markets eliminated, leading to a better allocation of resources. To set up such a structure would be in the interests of the companies themselves who ultimately bear the costs of the bad investments out of profits. It would encourage responsible investment by market traders. One way would be to investigate traders with high returns to their portfolios, since abnormally high returns are liable to be achieved by taking extraordinary risks. Financial scandals such as the Leeson affair emerged only after a "bad" investment came to light, however, they were no less "bad" than many other investments, since much of Leeson's success was due to the high return associated with many risky projects undertaken in the period before his fall. Given the spectacular losses which emerge in these circumstances, outweighing any returns that may have been made beforehand, the companies ought to have an incentive to investigate highly successful traders like Leeson.

3) Encourage an ethical and moral basis for regulation.

Any regulatory framework which aims to set high standards for financial markets must have an ethical dimension based on sound moral principles. Nothing else will work. The regulations should also be subject to enforcement by firms, the industry and the government, with appropriate legal sactions to back them up. This would be a direct application of the role of government as an enforcer of justice. The argument against this final proposal is that it would require the co-operation of all financial centres to be viable. One reason why capital controls became ineffective in international markets was the ease with which trading could be done "offshore", in markets without any regulation. The co-operation would be necessary to prevent such offshore centres acting in much the same way as flags of convenience operate in the shipping world.

Financial markets are based on trust. Without the moral and ethical foiundations on which trust is based, financial markets will cease to operate efficiently. The additional costs of a market which operates in an environment of distrust are obvious: standards must be enforced and policed, and irregularities must be investigated. Even for the traders and the firms they work for, the costs are all too apparent after the Leeson affair.

However, there are other non-economic costs which are social in nature, which are not accounted for in the normal analysis of the costs of "immoral" behaviour in financial markets. These refer to the accountability and stewardship responsibilities which accompany the use of resources. It is our Christian responsibility to remind the financial markets of these costs too.

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BUSINESS ETHICS - THE EMPEROR'S NEW CLOTHES?

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1. Introduction

In their recent paper "Economics, Ethics and Integrity in Business", published in the June issue of the ACE Journal, Jones and Pollitt[1] raised a number of related questions regarding business ethics, and its curious "lack of intellectual credibilty" . They also described the apparent contradiction between the rapid growth of the subject as an academic discipline in recent years and its lack of any obvious impact on raising the ethical standards of business behaviour. In fact, the number of business scandals has risen in recent years, not to mention increasing public concern about the failure of corporate governance.

Indeed, the debate has now reached the political arena with the publication by the radical think tank Demos of "Business ethics: the new bottom line"[2], an act which would have inconceivable even a couple of years ago. Public interest in the subject can be seen from the fact that Demos hosted a major conference to discuss this report at the end of October 1995 with speakers including Shadow Chancellor Gordon Brown, Sir Iain Vallence, the Chairman of BT, and business guru Charles Handy. Some attribute this interest in the subject to a general decline of moral awareness in society, caused by the aggressive individualism of the Thatcher/Reagan era "*Business schools started to teach 'business ethics' presumably because their students had forgotten the elementary morality their mothers taught them. A growing nastiness spread through British society in the 1980s. The new capitalism did, indeed contribute to moral decline*."[3]

Here I intend to explore three particular issues in greater detail : a) an explanation of this lack of credibility; b) some thoughts on how business ethics might make sense from a purely economic point of view, and c) how this might be integrated into a Christian vision.

2. Business Ethics- An Empty Vessel ?

Over a year ago I noted that : "*If you are an academic looking for a new field to move into, you could do a lot worse than switch into business ethics, one of the few booming areas of academe. In the US over 500 different business ethics courses are now taught, while there over 25 textbooks and three academic journals devoted to the subject. The UK is following close behind*."[4] (The UK now has three professorial chairs of business ethics: at Leeds, Manchester Business School, and London Business School.) "*Yet to what point ? This academic success story does not seem to have had much impact on the moral behaviour of businessmen in practice. Even in the City, with its focus on short-term financial returns, large investment institutions have protested about "corporate governance" and the excessively high salaries many directors have been awarding themselves*."[5]

Criticism was further advanced in a major article published in the Harvard Business Review in May 1993, "What's the Matter with Business Ethics ?" Andrew Stark, an Assistant Professor in Toronto University's Faculty of Management, dared to venture that the Emperor's new clothes were truly non-existent: that business ethics provided little concrete guidance to managers in the moral problems that they repeatedly face; that the subject itself lacked a sense of direction, and was myopically obsessed with its own concerns. Stark noticed the air almost of desperation of many articles published in the field, such as "Business Ethics, Where Are We Going ?", or "Business Ethics, Like Nailing Jello to a Wall". Also that: "*many business ethicists have tied themselves in knots over the notion that a managerial act cannot be ethical unless it in no way serves the manager's self interest..a sterile parsing of human behaviour*".[6] In this writer's opinion this kind of confusion contrasts badly with the positive contributions being made by legal and medical ethicists both to shaping public awareness of complex problems, and of preparing a political agenda to try and tackle them.

Stark felt that: "*Far too many business ethicists have occupied a rarefied moral high ground, removed from the real concerns and real-world problems of the vast majority of managers. They have been too pre-occupied with absolutist notions of what it means to be ethical....with dense and abstract theorising*." [7] Part of the problem is of course the way that demand for business ethics has grown exponentially. The market demanded business ethicists, and the initial response was to farm it out to the philosophy faculty, but "*unfortunately, academic insecurity is causing business ethicists to direct their work away from addressing the real needs of managers to toward satisfying the perceived rigours of academic science in their field*."[8] However, Stark saw rays of hope, quoting another ethicist that: " *the really creative part of business ethics is discovering ways to do what is morally right and socially responsible without ruining your career and company*."[9] In other words, what was required was to demonstrate that business ethics could offer a practical way out of the mess into which modern business seems to have got itself, where the mass of decent business executives feel forced by the "system" to do things that they know may be damaging to the community.

It strikes me that a significant part of the problem is the conceptual vagueness of the term "business ethics". (Jones and Pollitt note the " *reluctance which most writers on the subject have in defining their terms*.") I therefore put forward my own suggestions of four possible categories of activity.

3. Philosophic considerations and a suggested taxonomy.

The first category is "*philosophical*", where professional philosophers examine some of the problems which are unique to the business environment. A second category is "*theoretical*", a nice distinction, but one meaning specifically normative theories of how business ethics should operate. I will discuss this later in detail with the work of Laura Nash, and her "Covenantal Ethic". Thirdly, "*nihilists*" those who deny the objective existence of business ethics, and lastly "*didactic*", where ethicists work to re-establish good practice within companies.

While the philosophical approach can be abstract and sterile, it need not be so. Robert Solomon is Professor of Philosophy at the University of Austin, Texas. While rooted in

Aristotelian ethics, his "Ethics and Excellence-Co-operation and Integrity in Business" states its programme thus : "*What a business ethicist can do is to enter into the business world and improve its perspectives and conceptions of its own activities.......Business ethics is not just solving problems or moralising about the company code; it is first of all an essential exercise in self-understanding.....I believe that old Aristotle, even though he didn't like business, could not but approve*."[10]

What a philosopher can do is to bring his professional expertise in conceptual analysis to areas of confusion or misunderstanding, as Solomon points out: "*business activity is misconceived in an amoral way, subsumed (or hidden) under the all-purpose imagery of 'competitiveness'. But 'competition' is but one of a large number of relationships that companies have with one another and with other members of the community, and an overemphasis on competition can be disastrous for the sense of community, and for the underlying co-operation that is necessary for any business activity*."[11] It may be objected that from the point of view of an economist business is *a priori* a profit maximiser within a competitive framework; but this merely illustrates the limits of economic analysis. It cannot, as we shall see next in discussion of Milton Friedman, rule out any discussion of business from an ethical or social standpoint.

The most famous counterblast against business ethics was Milton Friedman's 1970 article in The New York Times, "The Social Responsibility of Business is to Increase its Profits". He starts off by declaiming that anyone advocating social responsibility for business is "*preaching pure and unadulterated socialism*", and that they "*are notable for their analytical looseness and lack of rigour*."[12] In fact, it is Friedman whose thoughts seem superficial and casual. He has essentially one philosophical and one economic argument, but the philosophical argument, that "*only people can have responsibilities.....business as a whole cannot be said to have responsibilities*"[13], is briefly stated and never justified. Thus businessmen are seen only as agents of the shareholders who ultimately employ them, and in Friedman's view in their capacity as businessmen their only duty is to them. The economic argument is that any action by a businessman that does not aim to maximise profits amounts to a tax on that business, which should be left to government alone. He concludes by stating that "*the doctrine of social responsibility..is fundamentally subversive......there is one and only one social responsibility of business- to use* *its resources and engage in activities designed to increase its profits so long as it ..engages in open and free competition without deception and fraud*."[14]

Of course, Friedman cannot answer the question which is at the heart of business ethics: what if there are activities which benefit shareholders to the detriment of society at large ?. Solomon clearly regards this article in terms which from a distinguished philosopher amount to contempt: "*its nonsensically one-sided assumption of responsibility to his pathetic understanding of stockholder personality as 'homo economicus'...such talk about the primacy of profits and the obligation to provide them is not only vacuous and misleading, it eclipses the larger picture and all the other purposes that business is designed and managers are hired to serve*." [15] Clergymen who talk about economics are often criticised for their lack of basic understanding of the subject; the above suggests that economists who venture to discuss ethics risk the same fate.

Friedman's article nevertheless expresses the basic nihilist position; that business ethics is a contradiction in terms, since *ex hypothesi* business cannot be ethical, and that therefore its only function is to make profits. Friedman acolytes in Britain include Samuel Brittan of the Financial Times: "*Corporate responsibility lacks the legitimacy of either the market or the political system*"[16], and Elaine Sternberg: "*the defining purpose of business is to maximise owner value over the longer term by selling goods or services*".[17] Sternberg, like Friedman, has the habit of mistaking rhetoric for argument and then falling into circular reasoning. Taking her definition of business for example, she then concludes that: "*using business resources for non-business purposes is theft - an unjustified appropriation of the owners' property*."[18] But this is a truism given the initial definition. At least Friedman's article covered only a few pages, whereas Sternberg's book is 300 pages long. As Simon Kuper recently wrote about a similar tome, "Business Ethics at Work" by Elizabeth Vallence, "*the problem is that writing a book urging businesses to make profits hardly seems worth the effort*."[19]

4. Business ethics in practice

In an 1988 article called *Morality in Management,* the British company director George Bull tried to find a way out of the insistence on expediency in modern management practice, that the end justifies the means. He concluded that the greatest influence on modern boardroom practice was Machiavelli's old book, *The Prince*, quoting: *"In the actions of all men, and especially of princes, where there is no court of appeal, one judges by the result."*[20]

Jones and Pollitt stress the concept of "integrity" as a counterweight to such ruthlessness. They also noted how the National Westminster bank set up a code of ethics to restore the damage done to it by the Blue Arrow scandal. It therefore seems apt to mention the work of John Drummond as one of the UK's leading teachers of business ethics, since he runs his own ethics consultancy called *Integrity Works*, which helped National Westminster devise its code of ethics. The latter being a ten page guide, called "*It's Good Business*", which was circulated to all the bank's 90,000 staff worldwide.

In 1993 along with Andrew Wilson of Ashridge Management College, Drummond published the first systematic and detailed survey of business ethics in British industry, called "*The Importance of Being Ethical - Business Ethics and the Non-Executive Director*."[21] In December 1992 the report of the Cadbury Committee had sent shock-waves through the boardrooms of the UK, with its explicit criticisms of the way some companies were being run. It advocated a code of good practice to improve corporate governance, stressing the need for non-executive directors to ensure this, including business ethics: " *Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources- including key appointments-* ***and standards of conduct****.*" (my emphasis).

Shortly after Cadbury, Drummond and Wilson sent survey questions to non-executive directors of Britain's largest 500 companies, of which 118 gave useable replies. All of them felt that business ethics was a very important issue, and 56% of the companies had discussed business ethics at board level in the previous six months. The main conclusions of the report were that for most companies it was the chief executive who determined what the business ethics of the company should be, if any. Although 43% had ethics codes, only 8% carried out an ethics audit, while 61% put their faith in old fashioned disciplinary measures.

In a refreshing contrast to abstract theorising, Drummond brings the practical experience of having taught business ethics to companies like British Airways and National Westminster with their thousands of employees: "*The thing is, most people* ***do want to be ethical****, but they are unsure to what extent they can do this in the corporate field. A code of practice is just a start..... the directors have to seen to lead by example, and you then have to make sure that these 'integrity values' are communicated across the whole organisation. A company's code of business ethics needs to be thought through carefully, with consultation with its employees, and not just worked out by the chief executive on the back of an envelope*."[22]

In 1994 John Drummond published a new book with Bill Bain called *Managing Business Ethics*. In an introductory chapter Drummond stated that business ethics was in the same position as quality control ten years before, something that most companies used to do on an ad-hoc basis, with some kind of check at the end of the production line the main enforcement technique. Now companies realised that in a globally competitive market-place, that approach was totally inadequate, and they used "*total quality management*" with quality built-in at all stages of the product from design to delivery, as an integral management tool. If Drummond is right, business integrity will become a vital and integral part of modern corporate life, just as quality control has done. As he points out, "re-engineering" by most large companies means individual managers have far more power than before, but: "to decentralise and devolve company operations without a set of clearly understood and enforced corporate values is to court disaster. In a rapidly changing business environment it is suggested that effective performance and maximum profitability can best be secured by empowering individuals ...while at the same time insisting that the company's ethics are not negotiable."[23]

5. The Economic Benefits of Ethical Behaviour

One of the most interesting sections of Jones and Pollitt was entitled "the economics of corporate integrity". They asserted two arguments as to why business integrity could be a successful strategy in purely economic terms. The first was the theory of reputation, that in any business which aims for long term success, its reputation for quality is a significant competitive asset "goodwill", which can be significantly damaged by exposure of unethical behaviour. In other words, the short term benefits of cheating are outweighed by the long term costs. John Drummond agrees: *If you take the view, as I do, that a company's reputation is its most valuable asset, (I call it a 'meta brand') , then companies need to be aware where they could be vulnerable to problems in such areas , before the problems and associated bad publicity emerge. But note that the aim is not the negative one of punishing poor performers, but the positive one of building corporate values based on integrity and reliability.*" [24]

Given the information age we live in, poor ethics will be noticed, and sales will suffer. "*As never before, the media and others are now sensitive to ethical breaches. It is increasingly unlikely that ethical transgressions will go unnoticed. Remember the nostrum: 'News is what someone somewhere doesn't want to see in print, anything else is advertising'.*"[25]

The second argument is a broader economic argument of transaction costs, that the ethical firm can, according to Jones and Pollitt : "*undertake many economic transactions at much lower cost than an equivalent transaction organised via the price mechanism because of the bounded rationality of individuals and the problems of monitoring and avoiding opportunism in contracts with those outside the firm.*"[26] The City of London provides a good example of how this might work from a macro-economic viewpoint. For many years it was organised on the informal basis of "my word is my bond", and voluntary self-regulation was the rule. In the 1980s, as Jones and Pollitt note, a number of financial scandals destroyed the credibility of this system. The result was the imposition by the Financial Services Act of a cumbersome and bureaucratic "compliance" procedure which was not necessary before.

There are other arguments that ethical behaviour is economically rational. Carmichael in the Demos publication points out that the modern corporation is a hierachy, not a partnership of equals. Rather like Popper's critique of Marxism, she argues that this hierarchical structure can make an organisation close its eyes to problems which threaten it. "*The core argument is that openness is now the most important ethical value....unless staff feel free to raise concerns without fear of reprisal, there is a high probability that warnings from front-line staff about potential disaster will not reach those in a position to act....it is invariably the case that before a major disaster, be it Space Shuttle Challenger, BCCI, or Barings there are people within the organisation who are warning of the problem.*"[27]

Another argument is that of the cost, or even availability, of capital. In my book "The Ethical Investor" I examined the rapid growth of ethical and green funds in both the US and UK over the last ten years. Increasingly, companies accused of unethical behaviour will find themselves at a comparative disadvantage in raising capital. When writing the book I was struck by the opposition of many free market economists to the whole concept of ethical investment. After all, if consumers express a preference for their money to be managed ethically, isn't this how the free market is meant to work? Such forces may even work on a geopolitical level; "The Ethical Investor" provides substantial evidence that it was such fund-raising constraints which persuaded most US corporations to depart from South Africa in the late 1980s, and hence contribute to the downfall of the apartheid regime.[28]

Empirical evidence seems to support the argument that ethical behaviour does contribute to long term business success. In his book, *The Nice Company*[29] , Tom Lloyd posits that companies perceived to be "nice " attract and keep better staff, and that this also helps them retain customers, a far more profitable enterprise than winning new ones. Analysing evidence for the top 500 companies in the FT All Share Index, he found that 43 independently identified as good employers showed earnings per share growth of 109% over the four years to the end of 1988, compared to 68% for the index as a whole. A similar study of American business carried out by Johnson and Johnson in 1993 came to similar conclusions.[30]

6. A Christian Contribution to Business Ethics

After many years of apparent neglect, church leaders are increasingly looking at the role of business. The 1991 encyclical *Centesimus Annus* was a reappraisal of Catholic social teaching in the light of modern economic conditions: "*The Church acknowledges the legitimate* ***role of profit*** *as an indication that a business is functioning well...but profitability is not the only indicator of a firm's condition.....the purpose of a business firm is not simply to make a profit, but to be found in its very existence as a* ***community of persons*** *who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society*." [31]

The current Archbishop of Canterbury's viewpoint seems identical: " *From a Christian viewpoint the mission of business cannot be detached from the wider community in which it is set, and which it must either directly or indirectly serve....businesses are essentially social beings. They are about working with other people for other people. A business which is not run on decent ethical lines will in the long run forfeit the trust and respect of the society in which it operates and is built on sand*."[32] It is surely up to Christian economists and ethicists to show how these aims promulgated by the Pope and Archbishop may be achieved. Jones and Pollitt use integrity as their core concept for the amalgamation of Christian values into business ethics, but I want to introduce the work of a theoretical business ethicist who bases her work on the concept of the "Covenant".

This is Laura Nash, an associate professor at Boston University Graduate School of Management, whose 1993 book *Good Intentions Aside* was clearly based on extensive personal experience . The title gave the clue to the book. " *My subject is the ...behaviour of the inherently decent, average manager...after consulting with thousands of such managers at all levels of the corporation, I have concluded that they have the normal range of ethical instincts and a desire to see that these instincts are not compromised at work. At the same time, their good intentions do not necessarily provide automatic immunity from wrong-doing*."[33] In other words, the typical Anglo-Saxon approach that corporate ethics is a matter best left to the individual had become outmoded.

Nash's stated aim was to find out why the normal moral values of private life no longer seemed to function once the manager entered his office. Managers were torn between: " *the fear that living up to ethical obligations will impose an immediate cost on the bottom line* (profits), *and the fear that employees who adopt unethical standards will pose a financial liability down the road*."[34] Corporations were not Friedman's imaginary parliament of equals, but organisations in which most managers felt cogs in a giant machine: "*Every manager regularly faces decisions that are problematic from a moral standpoint, and over which he or she does not have total control : decisions where people will inevitably get hurt ; .... where the commitments of the organisation and a manager's performance goals are at odds with the individual needs of certain employees or customers*." [35]

Her solution to these dilemmas was to look at case studies where such huge corporations as Johnson and Johnson or Nynex had successfully re-orientated individual self-interest to longer term goals of value creation, and service to others. She suggested a "*Covenantal Ethic*", resonant to American ears of the Pilgrim Fathers, or of course the long wandering in the desert of the People of Israel. Of course a covenant is something much deeper and more permanent that a contract, a binding permanent commitment of the whole person to a cause. We might argue that just as Jones and Pollitt use "integrity" whose other meaning is completeness or wholeness, so a covenantal ethic builds on this to establish deep, relationships in accordance with our divinely-created nature. Love can grow in a covenantal relationship; it cannot in the short term intimacy of the car boot sale.

Under the Covenantal ethic the role of business is defined as the creation of value to a democratically controlled market place. It is a system where business gets a fair return for fair value, with profit becoming the *result* of business rather than its *aim*, and where business relationships are seen more in terms of relationships than tangible products. This has political consequences; many countries in Eastern Europe and the Third World are experimenting with capitalism for the first time. Historically, such a transition process has been associated with exploitation and corruption not conducive to liberal democracy, and Nash therefore argued that if capitalism is to be seen as a voluntary social contract between the public and business, there must be some mutual covenant between them. "*Democratic capitalism, resting on a system of* *voluntary exchange and political commitments to individual freedom and discretion, is at heart a system dependent on the creation of trust.*" [36]

Nash showed how large companies, such as the healthcare company Johnson and Johnson with its "*Credo*" programme, re-established a positive commitment or "*covenant*" to a common vision. While a number of large companies have achieved this, it is not easy to carry out. Workers at all levels can see through a superficial boardroom commitment if the directors speak of common values but do not explicitly lead by example. Directors can set the agenda, but they almost have to eat, live and breathe it. Nash found that her "covenantal ethics" only worked to become an integral part of a company's culture if it got a total commitment from a person, rather than merely being an intellectual cost-benefit exercise. We come back to the concept of wholeness, of integrity. While the concept of the Cartesian ego is a useful starting point for economic analysis, it is only a starting point. Once we engage in the world of morals, we need to have a broader, integral concept of the person.

Archbishop William Temple over fifty years ago found it necessary to replace the modern (Enlightenment) idea of the individual, defined *in separation from* other people, with the old Scholastic concept of the "person", defined *in relation to* other people: "*the fundamental individualism (*of the Reformers*) which brought a fuller sense of personal responsibilities to God, also at the same time undermined the appreciation of wealth as essentially social and therefore subject at all points to control in the interest of society as a whole*."[37]

(Note: the above is partly an expanded exposition of some ideas first sketched out in my book, *The Ethical Investor*, Harper Collins 1995.)

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REVIEW: The Ethical Investor by Russell Sparkes, Harper Collins, London, 1995

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This is an extremely interesting book on the key aspects of ethical investment written by the Director of the UK Social Investment Forum who is also a practising Christian. The book contains information both on how to go about being an ethical investor and explains the nature, extent and history of ethical investment in the UK. Sparkes suggests that ethical investors are set to become an increasingly important influence on the economy as concern among consumers and investors grows for the environmental and social impacts of business activity. For the Christian economist it is exciting attempt to suggest how ethics and investment are being reconciled in practice.

The book is in 13 chapters. The first 4 chapters are a manual for potential ethical investors. Chapter 1 discusses the nature and scale of ethical investment. By the end of 1993 the total funds under ethical management in the UK were £801m from a starting base of zero in 1984. In addition £4bn of church funds were being managed under ethical guidelines. Meanwhile 40% of consumers are reported to be concerned with the ethics of the products that they buy. Chapter 2 discusses how ethical investors might go about doing their own ethical assessment of companies that they might invest in. The chapter discusses the various sources of information available and interprets the evidence on the ethical credentials of the Body Shop.

Chapter 3 looks at ethical unit trusts. The first ethical unit trust was launched in the UK in 1984. The biggest ethical funds are managed by Friends Provident and NPI, two institutions with Quaker foundations. The chapter stresses that the ethical credentials of the fund managers and their advisory committees of ethical unit trusts are the crucial determinants of their ethical soundness. In chapter 4 the focus moves to financial advisors specialising in ethical funds and how to choose a good one; once again investors must assess the 'ethical integrity' of the fund managers. The chapter ends with a checklist of social issue criteria which could form the basis on which fund managers select the best ethical funds for their clients: South Africa, armaments, gambling etc.

Chapter 5 looks at green investments. The global context for increasing concern for the environment is described: the Earth Summit in Rio and the impact of environmental damage on sustainable development. There is a graph of Herman Daly's Index of Sustainable Development showing environmentally adjusted living standards falling in the UK since 1975. It is in this context that the Coalition for Environmentally Responsible Economies (CERES) principles offer a set of guidelines to companies which they can sign committing them to: protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, environmental risk reduction, safe products and services, environmental restoration, public information, managerial commitment and regular environmental audits and reports. The environment also presents a business opportunity: with rising EC environmental directives, environmental expenditure is set to rise in the EC at 5.5%p.a. until 2000. The UK has been relatively slow to implement new legislation but in Germany the tough 1990 Environmental Liability Act has contributed to creating an environmental technology industry with a 20% world market share and 550,000 jobs. The environmental services sector - industry concerned with waste management and treatment, prevention of air pollution, energy conservation, environmental monitoring and derelict land restoration - seems set to grow. If the environment is an opportunity for industry it is also a risk which ought to be taken seriously. The US 1980 Superfund legislation making parties jointly and severally liable for the 4000 most hazardous industrial sites leaves companies and insurers facing a potential clean-up bill of $260bn while Exxon alone faced total costs of $11.7bn following the Exxon Valdez oil-spill off Alaska in 1989.

Chapter 6 looks at the financial returns to ethical investment. The arguments concerning the likely financial returns to ethical investment revolve around the inability of ethical funds to fully diversify across all sectors, the likely bias away from conglomerates to smaller companies, the anticipation effect of ethical investment shadowing the popularity of ethical products, the effect of the superior company information required by ethical fund managers and the positive selection criteria used by ethical fund managers. The evidence suggests that only the first of these arguments implies inferior long run performance for ethical funds. The evidence confirms that the average ethical unit trust did outperform the average UK growth trust by 3.8% over the 3 years from the beginning of 1991. Both the Central Finance Board of the Methodist Church Fund and the large

Friends Provident Stewardship Trust outperformed the relevant market indices over the 5 years to the end of 1993.

The history of ethical investment is reviewed in chapter 7. Modern interest in ethical investment began in the late 1960s with concern in the US about churches and universities profiting from the involvement of big business in the Vietnam War. This led to the formation of the first ethical mutual fund - the Pax World Fund - in 1971. A parallel development was the development of pressure groups promoting ethical pressure groups following the foundation of the Interfaith Center on Corporate Responsibility (ICCR) in 1973 which advises 250 church groups with control of $40bn in investments. In the UK some ethical screening of investments began with the formation of the Church Commissioners in 1948. Progress however lagged that in the US due to the refusal of the DTI to sanction an ethical 'stewardship' fund in 1973 because of perceived 'conflict between capitalism and conscience'. This resulted in the first ethical unit trust not appearing in the UK until 1984.

Chapter 8 examines the role of ethical investment decision making in ending apartheid in South Africa. The author charts the fascinating course of economic pressure on South Africa which began with the formulation of the Sullivan Principles in 1977 specifying the social criteria by which potential South African investments should be judged. In the early 1980s several US state pension funds accepted these screening principles. However following the 1985 state of emergency large US multinationals came under increasing pressure to reduce their activities in South Africa, most significantly Citibank which resulted in South Africa finding it very difficult to refinance its relatively modest international debt. In the UK student protests caused Barclays to reduce its activities in South Africa and a consumer boycott led to Ratners stopping buying South African gold. The conclusion, supported by quotes from ANC leaders, is that financial sanctions were critical in determining the timing of the end of apartheid.

The theme of ethical banking continues in chapter 9. The chapter discusses some of the leading ethical financial institutions in the UK including the Cooperative Bank and its highly successful ethical banking policies with respect to loans. Two ethical building societies are highlighted: the Catholic Building Society which gives loans to poorer home buyers and the

Ecology Building Society. There is an analysis of credit unions - which have not really taken off in the UK - but which do seek to provide cheap loans to members with a particular common bond (such as London taxi drivers).

Chapter 10 examines institutional investors taking a more ethical approach: these include the Church Commissioners whose current selection criteria exclude c.12% of the stock market (particularly newspapers, gambling, defence and tobacco) while total charitable funds in the UK amount to around £40bn. The detailed investment criteria of the Joseph Rowntree Trust (£800m) are reported. Conventional institutional investors, such as Postel (£25bn) and the Californian State Pension Fund ($100bn), who act positively to monitor the companies they invest in are discussed to suggest that active institutional investors can have a positive impact on the ethics and the performance of their companies.

Chapter 11 examines the attitude of the law towards ethical investment. The aim of this chapter is to suggest that the UK trust law does not prevent funds investing ethically on the grounds that trustees are legally required to seek the best returns for their trustees. Sparkes examines the 1984 Scargill vs Miners Pension Fund and 1991 Bishop of Oxford vs Church Commissioners cases in which attempts to force trusts to invest ethically failed on the grounds that it did not appear to be in the best interests of the trustees. Sparkes argues that detailed examination of these cases and of trust law shows that trusts can act ethically in a wide range of circumstances. He suggests that the real reason why more charitable funds are not invested ethically is because most fund managers do not advise it.

Chapter 12 asks whether a new model of the company is arising. It seems to be the case that the trend towards ever larger corporations is being reversed and that stakeholders other than shareholders are having an increasing influence on the behaviour of firms. Sparkes reports on the evidence which suggests that firms which are ethical have a higher level of corporate identification, better staff, retain more of their customers and are more profitable. In line with a 1994 Royal Society of Arts inquiry which argued that the nature of competition is changing as interdependence between companies and the community increases and thence winning companies need to support a sense of shared destiny with customers, suppliers and investors.

The final chapter argues for a continuance of the trend towards a social economy where economic organisation is not centred around money but on a sense of shared values. The author discusses several important case studies which suggest the way forward in such a social economy. The most important example is that of the Mondragon Cooperative in the Basque country in Spain which was started by a priest in 1943 and now employs 25,000 employees in 102 separate cooperatives producing machine tools, automotive components and electrical appliances. This cooperative involves mutual support for the constituent businesses and a strong sense of local identity. The UK retailer John Lewis and the US Herman Miller Co. provide examples of successful employee run and owned companies. The success of Shared Interest (a bank with a Christian foundation) and conscience foods (such as Cafedirect) is examined. Social auditing of businesses to assess the impact and behaviour of companies in relation to its aims and stakeholders is advocated. Local exchange trading systems (LETS) which involve the earning of tradable points for work (such as gardening) within the local community is discussed. Finally, Sparkes suggests that a charity is the ultimate social company.

In response to the book I raise three points which merit further discussion. Firstly, although it was clearly not the book's purpose to suggest why particular investment criteria might be chosen this seems to be an important area for debate. For instance, Sparkes' appears to accept as self-evident that the defence sector should be excluded from all ethical funds. This is an area which could benefit from more discussion. One is left with the impression that a lot of ethical investment criteria are lot less ethical when the logical consequences of the criteria are thought through. Not investing in a company which makes military uniforms suggests that we believe that armies are unnecessary or that soldiers should not have uniforms - what if soldiers thus have inferior uniforms or are unavailable for peacekeeping roles in Bosnia? I find the positive ethical principles towards active shareholding or the treatment of employees in South Africa much more ethically satisfactory than blanket bans on investment in particular sectors. Secondly, ethical investment itself can yield logical inconsistencies - if a financial services company were to offer an ethical unit trust and a defence sector unit trust could the ethical fund justify investing in the financial services company or should any ethical investor contemplate buying ethical investment units from such a company? Finally, the question of whether there are superior returns to ethical funds is a fascinating one -

Sparkes argues that returns are at least as good on ethical funds as on comparable non-screened funds. However this is an unsurprising result if the ethical sector is small, as risk adjusted returns are expected to be equal on all stocks at the margin anyway. It is only as the ethical sector gets larger can any firm argument be made about the relative *financial* returns of ethical and non-screened funds.

Russell Sparkes' book is fascinating in that it brings together a wealth of issues related to ethical investment and provides a lot of evidence on the significance and scope of ethical investment. An economist reading reading the book is challenged by the picture it paints of a different sort of investment not based on simple maximisation of returns and optimal portfolio choice but on informed ethical judgement. If trends towards greater ethical screening of investments and greater involvement of all stakeholders in firms' decision making process then economics will have to come up with a new theory of the firm and of economics in general. These trends would seem to lend weight to recent academic interest in the role of corporate governance structures and in industrial districts. The book leaves the Christian with both a challenge to think about the ethical consequences of their own investment policies and also the hope that ethical investment can and does make a difference to wider society - the chapter on South Africa was particularly heartening in this respect.

REVIEW: Financial Decision-Making and Moral Responsibility, edited by S.F. Frowen and F.P. McHugh, St. Martin's Press, Basingstoke, 1995 ISBN 0-312-12125-3, 256 pp.

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This book arrived for review in the same week that a certain Mr Nick Leeson absented himself from Barings Bank in Singapore. A consideration of the ethics of the financial sector therefore seemed opportune. The book contains a series of essays (in some cases with replies and counter-replies) which were based on the papers given at a conference of leading central, commercial and investment bankers, dealers as well as academic economists and theologians in the Von Hügel Institute, St. Edmund's College, University of Cambridge in July 1992. The editors of this volume state a concern to overcome the rudimentary state of financial ethics (p. xxii). This is a noble and worthwhile aim. The question is how far does this book contribute to that end.

The first chapter is by P. Kent (Bank of England), "Financial decision-making and moral responsibility". He states that there are in fact two moral goals, efficiency and compassion (p. 2), and it would be a mistake to pursue the one without concern for the other. He wonders whether moral responsibility is limited simply to the moment of transaction or is it more far reaching (i.e. if I lend money should I worry about the use to which my debtor may ultimately put the money? (p. 3). He further poses the question as to how long the financial community should wait should wait before "forgiving" those who have previously acted wrongly so as to allow them to return to commercial activity (p. 4). Kent argues (p. 10) that the creation of more competitive and open banking markets is a key factor making greater formal regulation more necessary. He makes the interesting point that some of the concern about financial moral responsibility is really a reflection of other problems: a concern that the present degree of income inequality at the global level cannot be justified, disquiet as to the risk inherent in starting new businesses and compassion for the innocent victim of fraud (pp. 13-14).

O. Issing of the Bundesbank provides the second chapter, "The role of the central bank and its responsibility". He describes the relative merits of various monetary systems (Gold Standard, Bretton Woods, post- 1971 discretionary and Friedman's money supply growth rules; pp. 16- 20) and then states the case for central bank independence (pp. 20-21). At this point he raises two ethical questions. How are the right persons to be selected to be put in charge of the central bank and, secondly, what guarantee is there, if any, that the most moral individuals will also be the most competent? (p. 24). R. Raymond of the European Monetary Institute replies to Issing by outlining the difficulties of operating monetary rules in an environment of uncertainty (pp. 27-30).

"The functions of money and financial credit" by S. Frowen (von Hügel Institute) provides the third chapter. Frowen argues that attempts to apply ethics to financial activities have a very long history (p. 31). Ethical considerations can be related to both the goals and instruments of economic policy (pp. 32-34) - Keynesian and monetarist economists would take different views as to what is best. In Frowen's view classical monetarist policy prescriptions have now lost credibility (e.g. because of Goodhard's Law, p. 36). Notwithstanding this, Frowen still emphasises the moral desirability of price stability (he quotes Keynes as well as Pope John Paul II's *Centesimus Annus*, 1991; p. 37). According to Frowen effective banking supervision must now occur at the international level, e.g. through the Basle Committee (p. 42). He also notes previous problems in the derivatives (1994) and swaps markets (1990) (p. 41). Given that the growth of such financial markets has been very much more rapid than the "real"economy Frowen wonders whether we are witnessing a waste of resources (p. 44). Once again, he refers to *Centesimus Annus*, "... the spread of improper sources of growing rich and of easy profits deriving from illegal or purely speculative activities, constitutes one of the chief obstacles to development and to the economic order".

In his Comments on Frowen, A. Cramp (Cambridge) supports the contention that financial markets may be *over*developed (p. 47). Cramp argues that the conventional approach to economic policy evaluation (i.e. assume matters of efficiency are simply positive and can be safely left to competitive markets with value judgments being imposed at a later stage) is flawed. Instead, moral presuppositions should be stated and applied at the beginning of analysis (pp. 48-49). A morally sensitive evaluation would, he argues, attribute many of the ethical and other problems of modern banking to the scale and depersonalised nature of most financial operations (pp. 48-49). Therefore, much more than most of the contributors in this volume Cramp is profoundly pessimistic as to the possibility of obtaining a managed or regulated solution within the context of the *existing* world financial system (p. 51). Schumacher's "small is beautiful", or "Mondragon" regional co-operative finance or Islamic profit-sharing banking are all commended as alternative perspectives (p. 50). Catholic social teaching, neo-Calvinist social theory and William Temple are mentioned as relevant Christian sources (p. 50).

J.G. Ellis (Bank of England) replies to Frowen and Cramp (pp. 52-56). He wonders whether the increased complexity of the financial system is inevitable to the extent that it is driven by technological change. In any case, if the UK did choose to unilaterally restrict the development of any activities or instruments the associated jobs and business might switch overseas. Ellis also thinks that Frowen statement "maintaining human dignity through adequate employment should always be the first priority of any government"is too strong. He also stresses that policy decisions must often be based on difficult choices between various unattractive options. Ellis wonders why banks should be subjected to more intervention and regulation that other sectors of the economy and he also states that consumers who borrow through mortgages can reasonably expect to have to accept the consequences. Ellis does not think it was helpful for Frowen to bracket Third World debt problems along with the BCCI scandal nor does he believe it is self-evident that the growth of certain financial instruments is excessive.

I. Morison (Loughborough) considers "Moral conflicts in commercial banking". He points out that a teleological approach to ethics (i.e. to judge the rightness of an action according to its consequences) rather than a deontological (i.e. the duty to follow certain moral principles) is probably much more easily applied to companies (companies have no souls or consciences) (p. 58). He continues by arguing that "To say that the three great faiths of Judaism, Christianity and Islam have ambivalent attitudes towards the lending of money would be a mild understatement" (p. 61). Thus, lending *per se* has sometimes attracted moral opprobrium. He also wonders how far the creditor is morally responsible for the use to which the loan is put by the debtor (p. 63). Morison argues that even in the modern world banks are sufficiently sensitive to the public antipathy to "usurious" interest rates that in practice market rates are often kept below the "equilibrium rate". The moral dilemma posed by such credit rationing is that it may be the poor who are then forced to greater use of more expensive non-bank sources (p. 64).

A further ethical issue is posed by the reliance on credit scoring procedures (p. 65) because a more detailed case by case evaluation would probably weed out those loan applicants who are likely to become over-extended (the cost of such more personalised banking would probably be lower profits). Banks may have the advantage of economic power relative to small firms though this is not necessarily true relative to some larger companies (p. 66). Morison notes that one consequence of the movement to a more competitive banking market has been the weakening of the basis of mutual probity and trust on which durable banker-customer relationships were traditionally founded (p. 67). He also thinks that the sovereigh debt crisis was a crisis of banking morality (p. 68). None of the banks felt adequate responsibility for the consequences of their actions. In considering the general ethical deficit in banking he considers that codes of practice might do some good (p. 71) though perhaps a movement back to relationship-banking and a “nearer-to-personal” approach would also be desirable (pp. 71-72).

L.Schuster (University of Eichstätt in Ingolstadt) comments on Morison. He argues that bank employees’ moral standards have to a great extent been replaced as determinants of conduct by a combination of external laws and prescriptions internal to the banks (p. 77).

G. Keating (CS First Boston) considers ”Ethical issues in investment banking”. First of all he provides a definition of investment banking; investment banks use proprietary information to add value to financial intermediation (p. 78). In order to gain such information from clients the banks need to have a reputation for confidentiality. The problem can be (p. 79) that is profitable in the short run to breach such confidentiality and banks are insufficiently ethical and/or inadequately aware of the long run profits which could be obtained through relationships of trust. Keating then considers the ethics of “external” effects, e.g. subordinated loans (in effect, banks were providing loans to each other during the 1980s--- subsequently the Bank for International Settlements closed this market) and junk bonds (p. 80). Regulators tend to be reactive and as such are in danger of always lagging behind financial innovators (p. 81). Keating raises some ethical dilemmas relating to bank research (e.g. what investment bank ever published a “sell” recommendation on a company that it was just about to launch a new issue for? p. 81).

L. Anderson (Deutsche Bank) replies to Keating. Practioners are, he argues, aware that ethics are of fundamental importance (p. 84). Very candidly he admits "It is no exaggeration to say that moral co-ordinates can easily be shifted by working in such an environment, where millions are decided upon perhaps in a few minutes while billions require deliberation only marginally longer" (p. 85).

B. Scott-Quinn outlines "Ethics and regulation in securities market-making". He points out there is little regulatory standardisation across the EU. There is price discrimination against small investors; he wonders whether this can be ethically justified or not (p. 94). Scott-Quinn continues his discussion by reviewing the the International Organisation of Securities Commission (IOSCO) "International Conduct of of Business Principles" (1990) code. This eschewed formal ethical statements but sought to promoted the "best interest of customers" through the application of seven principles (pp. 98-100). Scott-Quinn finally asks whether ethical behaviour is absolute or does it depend on who your counterparty is (e.g. how well informed are they? p. 101)? G. Pepper (City University) provides a Comment on Scott-Quinn. He sees no ethical objection to dealers price discriminating in favour of the client with the larger order (p. 104).

The next chapter, "The 'Efficient Market Hypothesis': An incomplete theory", is by Pepper himself. He makes the striking claim that the intellectual basis for much of current stock market regulation, the Efficient Market Hypothesis, is flawed (p. 106). Markets can in fact act erratically and there is therefore a case for action to preserve orderly markets (p. 110). An inefficient outcome in the stock market is possible because information concerning the state of a company is not necessarily identical to the informatino affecting the price of the shares of that company (this section includes a series of interesting diagrams illustrating types of speculative behaviour; pp. 113-119). Pepper makes the noteworthy assertion "....that the case against insider-trading is a moral rather than economic one, providing such trading is not taken to excess" (p. 120). This is because he accepts Stigler's assertion that insider trading tends to push the market towards the efficient prices. (Incidently, his distinction between morality and efficiency is highly significant.)

The reply to Pepper is provided by D.P. McCann (De Paul University, Chicago) and this reviewer found this one of the most stimulating parts of the book. Mc Cann states that there are convergences between the economists' theory of the Efficient Market and the theory of commutative justice developed by Aquinas (p. 122). He argues that in any sort of public policy evaluation moral bias is inevitable and therefore "The task of the moral philosopher or theologian is to make these biases or hidden premises explicit" (p. 124). Thus he seems to chide economists for their pretensions to value neutrality. In particular, he identifies in Pepper's approach a preference for the investment bankers over the speculators (p. 125) though he also argues Pepper is too cavalier in apparently mimising the significance of insider-trading scandals (p. 125). He then outlines the meaning of commutative justice (i.e. fairness in *exchange* as opposed to the fairness in distribution which economists have tended to focus more upon) (p. 127). For there to be commutative justice there should be freedom as to whether to enter into exchange and also symmetry or reciprocity of information. This concept can then be used to support the prompt and full disclosure of information in the market (this would also be conducive to the obtaining of an Efficient Market). Insider trading can be shown to violate the conditions necessary for commutative justice. It does not represent a real trade since the exchange is essentially risk-free on one side. In short, and notwithstanding the complacency of Stigler and others, insider trading represents an illegal and unjustifiable private tax (p. 130).

With "International monetary relations: The arrogance of power" by G. Zis (Manchester Metropolitan University) the book turns towards wider, international considerations. Zis traces the background to the IMF; Keynes' ambitious plans for a post-war international clearing union (p. 137) and the much more cautious White Plan (p. 138) which was applied. Zis sees US arrogance in the way Bretton Woods actually operated. There came to be a reliance on US balance of payments deficits as the principal means through which international liquidity might be increased (p. 142). The lack of discipline on the US then meant that the whole system became destabilised. Zis quotes the view of Giscard d'Estaing (1969) that there was unfair treatment of non-reserve currency deficit countries since the US was in effect taxing the rest of the world (p. 146). C. Elliott (Cambridge) Comments on Zis. He feels the condemnation of the US/Bretton Woods/IMF may be over absolute (p. 152). After all, the international economy was kept going despite some very real financial and monetary problems during 1945-65. He finishes by posing two questions: where does moral responsibility lies in a world of willing lenders and willing borrowers within a monetary system that is not sustainable in the long run and, second, can institutions be created to adjudicate economic justice at the international level? (p. 155).

"Exporting the principles of market economy to eastern Europe: The ethics of international capital transfer" is considered by H.H. Lechner (Technische Universität Berlin). Lechner seems to regard the ethical issue as essentially one of how best to replicate in eastern Europe something approaching what the social market theorists outlined for west Germany during the 1940s and 1950s (p. 156). This Ordo-Liberalism is held responsible for the so-called German economic miracle of that period (p. 158) and Lechner argues that such policies are fully consistent with Catholic social teaching (p. 159). Turning to developmental policies, Lechner argues that the reliance on imported capital need not lead to exploitation. It is in fact necessary for growth out of mass poverty (p. 163). Unfortunately the balance of payments position of many of the western economies makes it unlikely that they will be unable to supply much capital to eastern Europe (pp. 164-65). Lechner finishes by warning that the speed of transition in east Germany should not be taken as a model for the rest of eastern Europe (pp. 170-171).

C.T.T. Saunders (Sussex) provides Comments on Lechner. He notes that the eastern European economies did previously get substantially capital from the west (during the 1970s) and this was wasted (p. 173). Intriguingly, Saunders concludes "... realists and moralists may well combine in proposing the biblical forgiveness of debts in a Year of Jubilee" (p. 175).

P. Arestis and P.O. Demetriades (University of East London and Keele) consider "The ethics of interest rate liberalisation in developing economies". They start by noting that development economies previously accepted the Keynesian pessimism as to the ability of an unregulated capital market to produce a socially optimal quantity of investment (p. 176). In time, however, McKinnon and Shaw (p. 177) produced claims that greater financial liberalisation would be desirable given that ceilings on Third World interest rates were held to be reducing savings and the quality of investment (p. 179). Arestis and Demetriades respond by outlining a neo-structuralist view. If interest rates are allowed to rise this could curtail the informal "curb markets" with detrimental effects (especially for the poorest; p. 178). Furthermore, they argue that liberalisation could allow the earning of monopoly profits in the banking sector (pp. 183-5). They conclude by outlining some of the redistributive implications (pp. 188-89).

N. Kloten (Land Central Bank, Baden-Württembourg) provides a chapter on "European Monetary Union: Sovereignty and hegemony". Whereas "sovereignty" is a legal category, "hegemony" is the *de facto* ability by one state amongst a group of states to impose its will (pp. 197-98). He notes the EMS in practice, and without intention, has given Germany hegemony with respect to European monetary policy (p. 201). Thus he poses the question whether the Germans would give up the Deutsche Mark in favour of some European single currency (pp. 201-2). Subsidiarity is seen as a good principle to help federalism work well (p. 202) but the implication of Kloten's comments seems to be that it would need to be much more firmly entrenched in any post-Maastricht European constitution. He concludes by noting that the eventual form of European economic and policy co-operation will not be the same as the US. The spiritual, moral and cultural heritage of Europe is much too unique for that (p. 205).

W. Kösters (Ruhr University of Bochum) comments on Kloten. He does this by outlining the preconditions necessary for successful EMU: widespread acceptability of the new arrangements (p. 207), credible expectation of a low inflation outcome (p. 209) and political union should already be in place to control it (p. 208). One threat to the process is the probability that eventual membership of the EMU "club" will be decided as much by politics as economies, i.e. the Maastricht convergence criteria will be relaxed, p. 208).

In his second chapter Kloten considers "The economic and political environment of EMU". He argues that EMU is irreversible (p. 214) and, on balance, desirable. Given the characteristics of Europe he argues that it is most feasible to aim for an "interim solution" as opposed to an immediate and fully worked out European constitution (p. 219).

The last chapter in the volume is a "Proposal for an ethic of financial decision-making" by F.P. McHugh (Cambridge). This will be another section of especial interest to those concerned with the links between Christianity and the theory and practice of market economics. McHugh first distinguishes between questions of individual agency and wider structures (p. 226). He thinks that financial practioners are most likely to act morally if the ethical agenda taps into their "community of memory", e.g. "My word is my bond" (p. 228). For its part the Church has not yet developed a well-reflected ethic which challenges the complexities of the whole financial sector as it has developed at a national and global level during the last two centuries (p. 229). Nevertheless, there is a tradition of Catholic social teaching (most recently represented by John Paul's *Sollicitudo Rei Socialis* and *Centsimus Annus*) which McHugh presents as being positive towards wealth creation and private property provided both are qualified by the practice of personalism, solidarity and subsidiarity (pp. 229-31). He then provides a very penetrating critique of traditional economic method. The latter has tended to consider morality as outside its scope or maybe as something which is in any case implied by the outcome of perfectly competitive markets. McHugh thinks it important that any articulation of financial ethics moves beyond a list of prohibitions (p. 234). As already noted, there can be a Christian approval for the acts of the wealth creators. He points to Aquinas' and Pius XI commendation of "magnificience" on the part of the rich (p. 235). Turning to practicalities, McHugh argues for much stronger regulation of pensions (p. 238). Codes of ethics need to be seen to be taken seriously at the top level of companies (p. 238). In his conclusions he lists mechanisms (p. 240) and personal responses (p. 240) which are likely to facilitate moral responsibility within the financial sector.

E.Karakitsos (Imperial College London) comments on McHugh. He argues that it is often difficult to establish *ex ante* when an ethical intervention in the market would be justifiable. For example, McHugh implies that the banks may have acted improperly in the 1980s credit boom. Karakitsos (p. 243) is reluctant to agree that the government in the 1980s had sufficiently superior information at that time to have enabled any helpful intervention. Most interestingly, Karakitsos recommends our ethical yardstick should be the perfectly competitive equilibrium because "... a well known result in welfare economics in that social welfare is maximised if prices in output and input markets are determined in perfectly competitive markets" (p. 244). (This reviewer wondered this was a necessarily correct interpretation of the fundamental theorems of welfare economics; there are in fact a range of perfectly competitive Pareto-efficient equilibria each of which are associated with an initial distribution of endowments and a final distribution of outcomes--- As Sen argues an equilibrium can be Pareto efficient and yet morally disgusting.)

How then would I summarise this book? A diverse and international and distinguished range of commentators have been assembled. Did this produce a fruitful interchange between the practitioners and the ethicists/theologians? Are there indications that the former have become more ethically aware and the latter more realistic?

To some extent the conference does seem to have had these outcomes. However, some of the essays consider the ethics of financial decision making less than they focus on either efficiency of the economists traditional concern for the four macroeconomic goals: low unemployment, low inflation, high growth and a balance of payments equilibrium (see the chapters by Issing, Pepper, Zis and Lechner). The interest in the paired esays of Pepper-McCann and McHugh-Karakitsos lies precisely in the differences between the approach of the theologians (moral principles stated at the outset) and the economist (implicit value judgments disguised behind allocative efficiency).

Most of the contributors to this book seem to have taken it for that granted that recognition of some form of moral responsibility in financial decision-making is socially desirable. This position seems eminently reasonable in the light of the growing cost of external regulatory frameworks and the increased frequency of scandal. Nevertheless, perhaps there should have been more effort to prove this was the case given the continued popularity in some quarters of the Panglossian belief that competitive markets necessarily produce the best outcome or of the assumption that legal regulations can readily substitute for ethical behaviour.

Given that we allegedly live in a post-modern world where all moral values are perceived as relative it is not surprising that this book represents a wide range of possible bases for financial morality. The macroeconomic goals of low unemployment and low inflation (pp. 33-4) are sometimes quoted. The qualified acceptance of the market economy in recent Catholic social teaching is referred to on several occasions (p. 37, 44, 159, pp. 228-31). Islamic and Jewish views are briefly mentioned (p. 50 and 61). Aquinas (pp. 234-5), Keynes (p. 31 and 236) and Hegel (pp. 198-9) are cited.

There appears to be only one occasion on which a moral principle for finance is explicitly argued from the Bible (the desirability of debt relief--- Leviticus 25, p. 175) though McHugh quotes one banker who is inclined to take “It is easier for a camel....” quite literally (p. 229). In his short Comment Cramp (pp. 47-51) clearly points to the need for explicity Christian values to shape and control our economic analysis (this sort of argument is likely to be familiar to many members of ACE).

If Cramp’s approach is taken alongside the several attempts within this book to apply Catholic social teaching then not the least attraction of the book is that it will help to demonstrate how there is a body of fairly robust and heat resistant Christian thought which could help to address the moral dilemmas within the financial sector. Much still needs to be done in this field but this book is a valuable start.

REVIEW: Beyond Poverty and Affluence: Towards An Economy of Care by Bob Goudzwaard and Harry de Lange, Eerdmans, Grand Rapids, MI, and World Council of Churches, Geneva, WCC, 1995, ISBN 0-87552-301-3, x + 165pp.

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It would be difficult not to like this book. It is written with prophetic passion, yet never descends to polemic. It stimulates and provokes, yet never irritates. It argues a case, but remains aware of the weaknesses of that case. It provides sufficient illustration and examples, without ever being tedious to read. It is no surprise therefore that it has been through three Dutch editions since 1986, and a German edition; though it is strange that an English translation has only now been provided, given the high regard in which Goudzwaard's previous books are held.

The thesis of the book merits extended exposition. It begins with three economic problems that have confronted policy makers with increasing urgency in the 1980s. The first is the persistence of poverty. The heady optimism of the 1950s that programmes of aid and development could solve the problems of poverty in the Third World foundered in the 1980s, when many Third World economies found themselves going backwards. Within the developed economies, poverty, far from being eradicated, has become more widespread, with a higher proportion of the population suffering at least relative deprivation. The second is the emergence of frightening environmental problems - global warming, depletion of the ozone layer, toxic waste, acid rain, deteriorating human health - with an emphasis on their global nature, and an increasing fear that we are on a path to total destruction of the environment. The third is the crisis of work. Unemployment has risen sharply in the developed world, and is stubbornly resistant to policy changes; little impact has been made on the underemployment problems of Third World countries; and the nature of work has changed, so that job satisfaction is falling. The sense of urgency is matched by an increasing sense that the standard solution offered by economists is not working: economic growth appears to do little to reduce unemployment, if anything it exacerbates poverty, and it creates more environmental damage.

The diagnosis is that these problems are rooted in an economic culture which promotes increasing personal consumption as the route to human satisfaction, and sees economic individualism and markets as the sole effective mechanism for achieving the objective of growth. This set of Enlightenment values is vigorously promoted by modern economic analysis, to the exclusion of wider social and cultural considerations. Thus the priority of "wants" is never questioned, the environment is taken as a resource to be exploited to satisfy these wants, and work is viewed as purely instrumental, valued only for what it produces for the market place (so unpaid work is given no recognition).

By contrast the authors urge a Christian economic perspective, with a starting point in the "caring administration of what has been entrusted to us". Such a perspective is characterised by the concept of "enough" in place of unlimited wants, by an objective to maintain and preserve the created order for its own sake, by a desire to see the basic needs of the poor given priority over the consumption of the rich, by an imperative to provide fully for future generations, and by a concern that human work should be valued in and of itself and not merely as an instrument of production. On the last point, the authors make an interesting distinction between work which is productive, in the traditional market economy sense, and "transductive" labour which provides services and care for others, often in a non-market context. They are particularly concerned that the latter, which contributes much to human well being, should be valued and recognised. Above all economic agents have to change their mode of thinking from "exclusive" (the pursuit of self interest) to "inclusive" (the advancement of the interests of others).

What makes this book different from others that pursue a similar critique of current economic thinking, from a Christian perspective, is that the authors are prepared to address the issue of *how* we might make the transition from one to the other. First, they cast doubt on whether the current economic model of growth in an individualistic free market economy does attract the overwhelming support that its proponents claim. For example, they claim that, *if given the option*, many people in the advanced economies would be willing to accept a restriction on growth in living standards so that resources could be directed to creation of employment, to services for the poor and disadvantaged, to care for the environment, and to improvement of working conditions. Moreover, they claim that there is increasing disenchantment with free market economics. As people get richer, "scarcity" seems to increase as they need more and more material things just to stand still in relative terms. Far from being more leisured, they find they have less and less time. Services, whether supplied by the public or private sector, get progressively more expensive relative to goods: yet as incomes rise, it is services rather than more goods that people actually want. Disenchantment, the authors hope, will stimulate the search for alternatives.

Second, they give *examples* of where alternative models have been tried, with considerable success, such as enterprises that have adopted objectives other than profit alone, and groups of workers who have accepted wage restraint in exchange for more employment or better conditions of work. At the macro scale they point to the success of the Rio Earth Summit in persuading different countries to tackle some of the key environmental issues. At the very least, these examples are signs of hope, hope that things could change.

Third, they are prepared to list twelve steps that might constitute the beginnings of a programme for economic recovery, ranging from reform of the international monetary and trading systems to social security financing and the basis for company law. This list is, to be sure, something of a hotch-potch, in no obvious order, and not constituting a coherent programme. But none is obviously a non-starter, and the authors are properly modest about their claims. This is no more than a list of starting points.

Finally, they are able in Chapter Seven to anticipate a number of objections that might be put to their arguments, and to deal with these constructively.

Having affirmed the general content of the book, it may seem ungenerous to point to weaknesses; but weaknesses there are, and they may prevent the arguments of the book from being taken as seriously as they ought. The first is that the Christian ethical basis of the arguments is not fully spelt out. Sometimes, the book appears to be addressed to no more than the sympathetic non-Christian reader: at other times there is a fairly explicit appeal to theological or Biblical support for a position. At the very least, some fuller footnoting and references are needed to orient the serious reader. Second, the authors dismiss, in Chapter Seven, the view that human nature is selfish and materialistic as an "anthropological constant". They present no evidence for their view that this is a question of nurture rather than nature. They ask whether we should seek actively to reward and stimulate an aspect of human nature that is ethically damaging. But that misses the Smithian point that market outcomes can be beneficial to all parties, despite unattractive motivations. Third, it is unclear who is to take action to bring about the changes in culture that their programme requires. Their twelve point programme in Chapter Eight would depend largely on initiatives by government, but it is hard to believe that any government in the West would give consent for such a programme without a major change of heart in the population at large. How is that going to happen? Fourth, despite the instances they cite, it is far from evident that their programme would work. They cite a Netherlands study which suggests that it might, if there was a radical change in attitudes by the Dutch people. But that is scarcely a solid basis for a major experiment in social engineering. Finally, as an economist, I found myself troubled by some of the economic analysis. Thus on page 14, 5% of national income required to service debt is added to a 3% population growth rate to give a startling requirement of an 8% growth rate in national income, if a fall in per capita income in Africa is to be avoided! That cannot be right.