

# JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 23, August 1997

## ***From the Editor:***

This issue contains Rodney Wilson's paper concerning comparative religious thought on economics which was presented at the 1996 ACE Study Group meeting, and a paper by the editor on the current state of labour economics. In addition I am pleased to include two reviews of recent publications from "The Amsterdam School": firstly an extensive and wide ranging review article on Bob Goudwaard and Harry de Lange's *Beyond Poverty and Affluence* (1995) and secondly a review of Alan Storkey's *Foundational Epistemologies in Consumption Theory* (1993) (which is the author's doctoral thesis submitted to the Free University in Amsterdam) by David Hawdon.

For those who wish to keep up-to-date with the activities of our colleagues in the North American Association of Christian Economists, I can report that their Spring 1997 issue of the ACE Bulletin contains articles by Gary North ("Modern Economics as a Form of Magic") and Charles H. Anderton and David K.W. Chu ("Personal Finance and Economics in the Writings of Larry Burkett") as well as a number of book reviews. ACE North America and Wheaton College will be sponsoring a gathering to coincide with the ASSA meetings in Chicago on January 3-5, 1998. Bruce Howard at Wheaton College, Illinois (phone 001 630 752 5313, email Bruce.Howard@Wheaton.edu) can provide further details. Further information about ACE North America can be obtained from Professor John Mason, Gordon College, Wenham, MA 01984 USA, email: mason@faith.gordonc.edu

As always I am keen to receive material for the journal: papers, responses to papers and book reviews. In expectation, as we say in Wales, diolch yn fawr!

Andrew Henley,  
Department of Economics,  
University of Wales Aberystwyth,  
Penglais,  
Aberystwyth,  
Ceredigion, SY23 3DB,  
Wales, UK.

Tel. +44 (0)1970 622504  
Fax. +44 (0)1970 622740  
Email: arh@aber.ac.uk

ISSN 0956-3067

JOURNAL OF THE ASSOCIATION  
OF CHRISTIAN ECONOMISTS

No. 23, August 1997

*Contents*

Rodney Wilson: Comparative Religious Thought on Economic Behaviour and Financial Transactions	1
Andrew Henley: Current Issues in the Economics of Work: A Christian Perspective	11
Bruce Wearne: Bob Goudzwaard's Reforming Economics : Close Engagement and Vision for Accountable Stewardship	26
David Hawdon: Book Review: <i>Foundational Epistemologies in Consumption Theory</i> by Alan Storkey	33

# COMPARATIVE RELIGIOUS THOUGHT ON ECONOMIC BEHAVIOUR AND FINANCIAL TRANSACTIONS

Rodney Wilson, Department of Economics, University of Durham

Although there is a substantial volume of modern writing on Jewish, Christian and Muslim views on economic behaviour and financial transactions, there have been few studies comparing the positions of these three major monotheistic religions. Christian economists and social theologians working at the interfaces of their respective disciplines are aware of the debates within their faith, but are perhaps less aware of current discourse within the other faiths. The aim of this paper is to examine some of the concerns of Jewish and Muslim writers on moral issues in economics, and to compare these with the position of Christian writers.<sup>1</sup>

## *1. Contemporary Jewish and Muslim writers*

Members of the Association of Christian Economists will be well aware of the major contributions of their peers, notably those of economists such as Brian Griffiths<sup>2</sup> and Donald Hay,<sup>3</sup> and also the writings of Christian social theologians such as John Atherton,<sup>4</sup> Ulrich Duchrow,<sup>5</sup> Douglas Meeks<sup>6</sup> and Ronald Preston.<sup>7</sup> Fewer may be aware of the work of their Jewish and Muslim counterparts whose writings are referred to here.

Major contributors to economic writing on Judaism during the last thirty years include Epharim Kleiman,<sup>8</sup> Jacob Neusner,<sup>9</sup> Roman Ohrenstein<sup>10</sup> and Meir Tamari.<sup>11</sup> Kleiman and

---

<sup>1</sup> A much fuller account is provided in my book on *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought*, Macmillan, London, 1997. This paper, however, includes references to new work which have been published, or brought to my attention, since the book was written.

<sup>2</sup> Brian Griffiths, *The Creation of Wealth*, Hodder and Stoughton, London, 1984.

<sup>3</sup> Donald Hay, *Economics Today: A Christian Critique*, Apollis Inter-Varsity Press, Leicester, 1989.

<sup>4</sup> John Atherton, *Christianity and the Market: Christian Social Thought for our Times*, SPCK, London, 1992.

<sup>5</sup> Ulrich Duchrow, *Global Economy: A Confessional Issue for the Churches*, World Council of Churches, Geneva, 1987.

<sup>6</sup> Douglas M. Meeks, *God the Economist: The Doctrine of God and Political Economy*, Fortress Press, Minneapolis, 1989.

<sup>7</sup> Ronald Preston, *Religion and the Ambiguities of Capitalism*, SCM Press, London, 1991.

<sup>8</sup> Ephraim Kleiman, "'Just price' in Talmudic literature," *History of Political Economy*, vol. 19, no. 1, 1987, pp. 23-45 and "Opportunity cost, human capital and some related concepts in Talmudic literature," *History of Political Economy*, vol. 19, no. 3, 1987, pp. 261-287.

<sup>9</sup> Jacob Neusner, *The Economics of the Mishnah*, University of Chicago Press, 1990.

<sup>10</sup> Roman Ohrenstein, "Economic thought in Talmudic literature in the light of modern economics," *American Journal of Economics and Sociology*, vol. 27, no. 2, 1968, pp. 185-196

Ohrenstein are both American economists with an interest in the history of economic thought, Tamari is an Israeli economist working in a business school environment and Neusner is an American historian of religion. All are interested in the in the written *Torah*, the Pentateuch, especially the books of Leviticus and Deuteronomy which have much to say on economic matters. However the emphasis of Jewish writers is as much on the oral *Torah*, which was written down as the *Mishnah* (Hebrew for repetition or learning) and the *Talmud*, the Babylonian and Jerusalem commentaries on the *Mishnah*.

The number of Muslim economic writers is substantial, a reflection of the increasing influence of Islam in the political sphere, and an awareness amongst Muslim economists that the *Koran* and the *Sunna*, the tradition and customs of the Prophet, as recorded in the *hadith*, and codified in the *Shariah* Islamic law, has much to say on economic matters. Leading contemporary writers include Umer Chapra,<sup>12</sup> Masudul Choudhury,<sup>13</sup> Timur Kuran,<sup>14</sup> Syed Naqvi,<sup>15</sup> and Muhammad Nejatullah Siddiqi,<sup>16</sup> all of whom are economists of Pakistani or Bangladeshi origin. There is a separate group of Iranian writers, influenced by Shi'i theologian Mohammad Baqir Al Sadr,<sup>17</sup> the most notable being Ali Rahnema, a Paris based economist.<sup>18</sup>

## 2. Jewish and Muslim views on Wealth and Property

These Jewish and Muslim writers wish to see religious law respected in economic life, notably when conducting transactions or when being involved in the finance of transactions. They believe economic agents should be concerned with the morality of their actions, religious laws being the appropriate source for guidance in economic behaviour. The emphasis is on economic justice so that all parties are protected and the social equilibrium amongst the faithful

---

and "Economic self interest and social progress in *Talmudic* literature: a further study of ancient economic thought and its modern significance," *American Journal of Economics and Sociology*, vol. 29, no. 1, 1970, pp. 59-70.

<sup>11</sup> Meir Tamari, *With All Your Possessions: Jewish Economics and Economic Life*, The Free Press, Macmillan, New York, 1987; *The Challenge of Wealth: A Jewish Perspective on Earning and Spending Money*, Jason Aronson, New Jersey and London, 1985.

<sup>12</sup> M. Umer Chapra, *Islam and the Economic Challenge*, Islamic Foundation, Leicester, 1992.

<sup>13</sup> Masudul Alam Choudhury, *The Principles of Islamic Political Economy*, Macmillan, London, 1992.

<sup>14</sup> Timur Kuran, "The economic system in contemporary Islamic thought: interpretation and assessment," *International Journal of Middle Eastern Studies*, vol. 18, no. 2, 1986, pp. 135-164.

<sup>15</sup> Syed Nawab Haider Naqvi, *Islam, Economics and Society*, Kegan Paul International, London, 1994.

<sup>16</sup> Muhammad Nejatullah Siddiqi, *Role of the State in the Economy: An Islamic Perspective*, Islamic Foundation, Leicester, 1996.

<sup>17</sup> Mohammad Baqir Al Sadr, *Iqtisādunā: Our Economics*, World Organisation for Islamic Services, Tehran, 1982. A more precise partial translation of the *Iqtisādunā* has been undertaken by Ian Howard of Edinburgh University which was published in successive issues of *Alserāt* Quarterly magazine over the period from 1981 to 1985.

<sup>18</sup> Farhad Nomani and Ali Rahnema, *Islamic Economic Systems*, Zed Books, London, 1994.

is maintained. The aim is not to provide an alternative to the market as the mechanism for resource allocation, but rather to ensure that those involved in market processes do not abuse the system through immoral dealings. There is disagreement over what the role of government should be, some Muslim writers believing it should enforce religious law in the economic sphere, but Jewish writers stressing that the observance of religious law is a matter of individual moral conscience.

Contemporary Jewish and Muslim economic writing is less concerned with questions of income distribution, at least within countries, or the plight of workers, than are Christian economists who have been influenced by the writings of R.H. Tawney and the Christian social movement. There is a strand of Muslim writing which aims to provide an Islamic alternative to Marxism, especially that associated with Abdulhasan Bani Sadr, the Sorbonne economics graduate who was to become the first President of the Islamic Republic of Iran.<sup>19</sup> This, however, is the exception, as although many Muslim writers may support the idea of a morally strong Islamic state which enforces the *Shariah* law, this is not necessarily a state which is directly involved in economic activity itself through the ownership of industry, or a government which is concerned to redistribute income or wealth through progressive taxation.

There are a number of passages in the Koran where wealth is discussed,<sup>20</sup> the emphasis being to ensure that the faithful should have enough to meet their obligations to Allah and their fellow men. Modern Islamic economists stress the provision of basic needs,<sup>21</sup> but not equality, as human abilities and potential differ. Wealth should be accepted as part of the bounty of Allah, but the wealthy have moral responsibility for how it is used. Indeed Allah is testing the wealthy, and abuse will be punished, although forgiveness for mistakes is possible. Progressive taxation is not seen as a way of absolving the wealthy from their moral responsibilities, indeed the specifically Islamic tax of *Zakat* is levied at a flat rate of one fortieth of disposable wealth.

The Jewish economist Meir Tamari, like Christian writers, sees all wealth as ultimately belonging to God, with man as the custodian, the principle of stewardship qualifying the ownership of resources.<sup>22</sup> Although Tamari does not see Judaism as concerned with the distribution of income,<sup>23</sup> there is an obligation to help the poor. There is no virtue in poverty however, indeed the poor are to be pitied, and if possible helped escape from their plight.<sup>24</sup> Such assistance is not only to be provided by individual charity, as religious rulings, *bet din*, can be applied to ensure there are sufficient charitable funds collected to meet the needs of the poor. Tithing of income, *ma'aser kesafim*, is regarded as not merely an act of individual goodness, but rather an obligation under Jewish law, and an essential part of the tax system.<sup>25</sup>

---

<sup>19</sup> Abdulhasan Bani Sadr, *Work and the Worker in Islam*, Hamdami Foundation, Tehran, 1980.

<sup>20</sup> *Sûra* 6:165, 16:71, 24:38 and 43:32.

<sup>21</sup> Siddiqi, op. cit., pp. 5-42.

<sup>22</sup> Meir Tamari, *With All Your Possessions*, op. cit., pp. 36-38.

<sup>23</sup> *Ibid.*, p. 220 and p. 248.

<sup>24</sup> *Ibid.*, p. 30, p. 32 and p. 245. A point also stressed by the Chief Rabbi. See Jonathan Sacks, *Faith in the Future*, Darton, Longman and Todd, London, 1995, p. 200.

<sup>25</sup> *Ibid.*, pp. 225-227.

Tamari acknowledges that greed is a major motivation in human economic activity, and it is this that leads to social injustice. Trying to eliminate greed is folly he believes, and he criticises Christian attempts to correct greed through grace or avoid it through divine guidance. Rather he believes that greed should be controlled through observance of religious law. It is not the possession of material goods which is wrong, but how they are obtained.<sup>26</sup> As an economist rather than a theologian Tamari cannot be expected to discuss the relationship between divine guidance and religious law. Arguably, however, as an economist concerned with moral issues Tamari should discuss the relationship between greed and self interest. Are they the same, or is greed the latter taken to an extreme, and can economists with a religious faith have anything useful to say on this?

Property rights, including private ownership, are recognised as legitimate by both Jewish and Muslim writers, but there are moral constraints on the exercise of these rights. Farhad Nomani and Ali Rahnema believe the main purpose of the *Shariah* law is to protect the five necessities, *Zaruriyat-e Khamese*: life, religion, reason, progeny and property.<sup>27</sup> These Muslim writers distinguish between the three social categories with responsibilities for property: the Imam, as guardian of the people and head of an Islamic government, the public and the individual. They then discuss the disagreements between Islamic jurists and social scientists over what constitutes the composition and constraints of each ownership category.<sup>28</sup> Mohammad Baqir Al Sadr believed that it is through work private property rights are acquired.<sup>29</sup> He has a labour theory of ownership, which is quite different to the Marxian labour theory of value, as value for Al Sadr is determined through exchange. He stresses the principle of multi-faceted ownership, a mixed economy with private, public and state ownership, public ownership applying to natural resources and state ownership to utilities. Al Sadr's theory of production and distribution deserves serious attention from western political economists, as it is well thought out, extremely plausible, and certainly from a moral perspective preferable to Marxist theory.

### ***3. The Just Price and Fair Transactions***

Although economists usually deal with market and administrated prices, which may or may not be fair, the notion of morality being embedded in prices has a long history in economics.<sup>30</sup> The scholastics, in particular, St Thomas Aquinas were well aware of the "water-diamond" paradox, and questioned the moral justification for essentials having a low price, and unnecessary commodities a high price. Explaining this away by introducing the notion of scarcity may be satisfactory on the simple economic level, but it ignores the existence of other

---

<sup>26</sup> Meir Tamari, *The Challenge of Wealth*, op. cit., pp. 5-10.

<sup>27</sup> Farhad Nomani and Ali Rahnema, op. cit., pp. 59-60.

<sup>28</sup> Ibid., p. 66 ff. Nomani and Rahnema have been much influenced by Mohammad Baqir Al Sadr.

<sup>29</sup> Mohammad Baqir Al Sadr *Iqtisādunā: Our Economics*, op. cit., vol. 1, part 2, p. 117 and pp. 124-129.

<sup>30</sup> Raymond de Roover, "The concept of the just price," *Journal of Economic History*, vol. 18, no. 4., 1958, pp. 418-434; John T. Noonan, *The Scholastic Analysis of Usury*, Harvard University Press, 1957, pp. 82-99; Stephen T. Worland, *Scholasticism and Welfare Economics*, University of Notre Dame Press, 1967, pp. 16-19 and 250-263; and George O'Brien, op. cit., pp. 102-120.

scales of value, including intrinsic value and moral value, which in themselves may be quite different. From a monotheistic perspective the notion of intrinsic value may be dubious, perhaps suggesting idolatry. Moral value, an implication being the differentiation of goods and bads in consumption, is regarded by many economists as beyond their professional remit, but this is certainly a core issue for theology.

Ephraim Kleiman's treatment of 'just price' is perhaps an appropriate starting point in the Jewish literature. Kleiman, like Tamari, sees the *Talmudic* concept of the just price as coming from the teaching in Leviticus regarding fraudulent dealings, although he has also read the Christian Scholastic literature on this topic. Kleiman explores the circumstances in which it is legitimate to revoke a deal which is considered as unjust, and sees this as being defined functionally in terms of market information search.<sup>31</sup> A day was seen as too long a period to be permitted to revoke a deal. The buyer or seller could be allowed a period of hours to ascertain that a just price was paid for a good, after which the deal was binding. The *Talmudic* literature is concerned with the rights of sellers, and underpayment by buyers, as deception can take place on both sides.<sup>32</sup> There are divergent opinions in the *Talmudic* literature on the merits of government intervention through price controls, but it is recognised that official prices are "sticky" and that price cutting can "ease the market."<sup>33</sup> Indeed Roman Ohrenstein points out how price competition could be used to expand the market, although non price competition through product differentiation was also justified in the *Talmud*.<sup>34</sup>

There are rules to prevent fraud (*ona'ah*) in market transactions in the *Talmud*.<sup>35</sup> There is no attempt to question the pricing system itself however, or explore its consequences for income distribution. The *Mishnah* has a pragmatic approach to prices, noting how actual prices are determined in the market, which in turn reflected the value of goods or their underlying utility to the purchaser and the seller's willingness to engage in exchange. In this sense exchange is a matter of barter, but specie or commodity money could be, and usually was used. In practice the price offered for a particular good reflected what has been paid for that good in the past. If a seller raised a price to exploit a shortage, this would be regarded as socially unjust, as the notion of equivalence would be violated. This assumes value or utility is unchanging, and does not respond to economic circumstances. Price fluctuations or longer run inflation are seen as undesirable threats to the social order, and in the ideal static economy of the *Mishnah* such distorting tendencies should not arise. There is the notion that "price tells all, but proves nothing",<sup>36</sup> which can be interpreted to mean that prices are indicative of economic conditions, but do not necessarily reflect the social value of the goods in question. In times of shortage there may be individuals with the resources to get what they want, and sellers willing to charge a high price. This does not make the transaction socially just, even if it is the economic reality.

---

<sup>31</sup> Ephraim Kleiman, "'Just price' in *Talmudic* literature," op.cit., p. 26.

<sup>32</sup> *Ibid.*, pp. 28-29.

<sup>33</sup> *Ibid.*, p. 35.

<sup>34</sup> Roman A Ohrenstein, "Economic thought in *Talmudic* literature in the light of modern economics," *American Journal of Economics and Sociology*, vol. 27, no. 2, 1968, pp. 190-192.

<sup>35</sup> *Ibid.*, p. 39.

<sup>36</sup> *Ibid.*, p. 77.

Islamic economists accept the principle of market determined prices. While the link between prices and income distribution is acknowledged, government intervention through price controls is not regarded as a solution, as there is no reason to believe that such intervention, even in an Islamic state, will result in a morally superior outcome. Rather what is important is the behaviour and motivation of buyers and sellers, in particular the ethical standards they adhere to. Islamic economists accept that Muslim economic man is not necessarily any inherently better than any other economic man, which is why observance of the *Shariah* law is important.

Islam prohibits price fixing by buyers or sellers who have cornered the market, which can be interpreted as a case against monopoly, monoposony or cartel arrangements.<sup>37</sup> Any attempt to artificially inflate prices is also regarded as unacceptable, hoarding being explicitly condemned in the Koran.<sup>38</sup> Fraudulent practices, such as using false weights or measures, or supplying goods of a different quality to that specified are also condemned.<sup>39</sup> Price controls to prevent fluctuations are regarded as an unnatural interference in the market, and in the *Sunna* there are two instances where the Prophet himself refused to fix prices in spite of lobbying by traders.<sup>40</sup>

#### **4. Observance of Religious Principles in Financial Dealings**

The moral issue arising from lending and borrowing have always been a matter of concern for Christians, Jews and Muslims. St Thomas Aquinas was well aware of the passages in the Old Testament dealing with money lending,<sup>41</sup> as was the Jewish twelfth century scholar, Rabbi Moshe ben Maimon, (Maimonides), who wrote an influential commentary on the *Mishnah* that was to have a profound influence on Jewish law.<sup>42</sup> The position of St Aquinas has been discussed by a number of distinguished historians of economic thought, notably John Noonan,<sup>43</sup> George O'Brien<sup>44</sup> and Jacob Viner.<sup>45</sup> Modern economists accept interest as a reward for deferring consumption (time preference), sacrificing liquidity (liquidity preference) and default risk. Contemporary Christian theologians, while well aware of the Scholastic position and Old Testament teaching generally accept the position of economists,<sup>46</sup> although some radical theologians such as Ulrich Duchrow see the Third World debt problems as a vindication of Old Testament teaching.<sup>47</sup>

---

<sup>37</sup> Farhad Nomani and Ali Rahnema, op. cit., p. 56.

<sup>38</sup> *Sûra* 83:1-4.

<sup>39</sup> *Sûra* 17:35 and 83:1-4.

<sup>40</sup> Farhad Nomani and Ali Rahnema, op. cit., p. 58.

<sup>41</sup> Notably Exodus 22:5, Leviticus 25:35-38 and Deuteronomy 19:19-20 and 24:6.

<sup>42</sup> Raymond L. Weiss, *Ethical Writings of Maimonides*, Dover Publications, New York, 1975.

<sup>43</sup> John Noonan, *The Scholastic Analysis of Usury*, Harvard University Press, 1957.

<sup>44</sup> George O'Brien, *An Essay on Medieval Economic Teaching*, Augustus M. Kelly, New York, 1967.

<sup>45</sup> Jacob Viner, *Religious Thought and Economic Society*, Duke University Press, Durham, North Carolina, 1978.

<sup>46</sup> John Atherton, op. cit., p. 55 and 60-61.

<sup>47</sup> Ulrich Duchrow, "Political and economic well being and justice: a global view," *Studies in Christian Ethics*, vol. 3, no. 1, 1990, pp. 61-92.

Contemporary Jewish theologians still stress the Biblical position on usury which is dealt with in detail in the *Mishnah*. Scholars such as Jacob Neusner equate not only interest with usury, but also profit, indeed any transaction which leaves one party better off even if the other is no worse off.<sup>48</sup> Modern Israel is no different to western economies, however, as interest is widely used in financial transactions and the profit motive is important for business.<sup>49</sup> Israeli economists such as Meir Tamari point out that the prohibition of interest does not become a constraint on economic activity if the concept of *Heter Iska* is applied, as is the case with all banks and financial institutions in Israel. This makes the depositor in a bank an investor, who is entitled to a share in any profit which accrues as a result of the finance he or she has made available. For Tamari profits are a legitimate reward, and as companies in most countries raise more loan capital than equity funding, the position of the lender is not so different to that of the shareholder as the returns will depend on the performance of the company.<sup>50</sup>

Financial economists may find Tamari's treatment of interest and profits rather unsatisfactory, and his treatment of Scripture and the *Mishnah* may also be seen as controversial. One interesting point is the distinction between financial dealings between Jews, where interest is not permissible, and between Jews and Gentiles where it is, the justification for this being in Deuteronomy.<sup>51</sup> Maimonides interpreted the Hebrew word *tashikh*, you may charge a foreigner interest, as you shall charge a gentile interest.<sup>52</sup> It was this that justified Jews becoming involved in moneylending throughout medieval Europe and instrumental in the development of modern banking practice.<sup>53</sup> While relations between Jews and Christians were kept on a business footing, those within the Jewish communities were based on exchanging favours and mutual trust in the absence of interest based transactions. This discriminatory treatment of Jews and Gentiles may be criticised by non-Jews, but it served to strengthen bonds within Judaism and the feeling of a common identity.

Perhaps the best known *Koranic* injunction concerning financial matters is the prohibition of *riba* or interest.<sup>54</sup> Contemporary Muslim economists have debated the issue of whether the prohibition applies to only usury or all interest, simple interest or compound interest, real or nominal interest, or personal borrowing but not business loans. This debate has been largely inconclusive, but more progress has been made both in rationalising the reasons for the prohibition and in applying Islamically acceptable alternative methods of financing to modern commercial banking. There is widespread agreement that abolishing interest does not simply mean reducing it to zero, but rather replacing the whole interest based system with an alternative which conforms with the *Shariah* law.<sup>55</sup>

---

<sup>48</sup> Jacob Neusner, op. cit., p. 101.

<sup>49</sup> Yair Aharoni, *The Israeli Economy: Dreams and Realities*, Routledge, London, 1991, p. 5 ff.

<sup>50</sup> Meir Tamari, *The Challenge of Wealth*, op. cit., p. 185-190.

<sup>51</sup> Deuteronomy 23:20.

<sup>52</sup> Meir Tamari, *With All Your Possessions*, op. cit., p. 180.

<sup>53</sup> Léon Poliakov, *Jewish Bankers and the Holy See: From the Thirteenth to the Seventeenth Century*, Routledge and Kegan Paul, London, 1977, p. 16.

<sup>54</sup> *Sûra* 2:275

<sup>55</sup> M. Fahim Khan, *Essays in Islamic Economics*, Islamic Foundation, Leicester, 1995, pp. 77-78. See also See also Syed Naqvi, op. cit., pp. 111-113.

There has been debate between different schools of Islamic jurists over whether *riba* is wrong simply because God prohibited it, or whether the prohibition itself can be based on reason.<sup>56</sup> Amongst contemporary Islamic economists the reasoned approach appears to prevail. The notion of interest as a reward for delaying consumption is rejected, for example, on the grounds that people can only be rewarded for their efforts, not for mere waiting.<sup>57</sup> Decisions about savings are not about time preferences, and the need to compensate those who postpone consumption. Rather saving is part of the exercise of stewardship (*amanat*) over resources, of acknowledging future responsibilities to family and the wider community, and of making appropriate provision. Savers do not need monetary reward in the form of interest to behave responsibly, rather it is a matter of moral duty. The classification of behaviour is binary, people are either moral or immoral in exercising their responsibilities. Compensating people on a sliding scale of interest is to suggest that the moral responsibilities of savers are relative.

Interest as a compensation for sacrificing liquidity is also rejected. The management of liquid assets is about judging transaction and precautionary needs, not about holding speculative balances. Speculation is prohibited in Islam,<sup>58</sup> as is hoarding,<sup>59</sup> as already indicated, and even spendthrift behaviour.<sup>60</sup> Rather than holding unproductive balances, which brings money out of circulation and potentially destabilises economic activity, funding should be used productively for investment purposes. Islam makes provision for this through *mudarabah* (profit sharing finance),<sup>61</sup> *musharakah*, (joint venture finance)<sup>62</sup> *ijara* (leasing) and *murabahah* (mark-up trade finance).<sup>63</sup>

All these methods of financing are based on greater degrees of risk than conventional loans, as even with *murabahah* the bank buys the goods on behalf of the client and resells them at a mark-up, but in the period up to the resale the bank has title to the goods, and hence a legal responsibility. It is therefore taking risk from the client, this justifying the reward. With *mudarabah* and *musharakah* there is uncertainty for financier over the returns, as rather than

---

<sup>56</sup> Farhad Nomani and Ali Rahnema, op. cit., p. 36.

<sup>57</sup> M. Umer Chapra, *Towards a Just Monetary System*, Islamic Foundation, Leicester, 1985, p. 57. This prohibition refers to *riba al-Nsai'ah*, the root *nasa'a* referring to waiting or deferring.

<sup>58</sup> Masudul Choudhury, op. cit., p. 196 and M. A. Mannan, *Islamic Economics: Theory and Practice*, Hodder and Stoughton, London, 1986, pp. 289-290.

<sup>59</sup> *Sûra* 9:34

<sup>60</sup> *Sûra* 35:67

<sup>61</sup> For a detailed discussion of this instrument see Muhammad Nejatullah Siddiqi *Partnership and Profit Sharing in Islamic Law*, Islamic Foundation, Leicester, 1985, pp. 9-18.

<sup>62</sup> With *musharakah* the financier has a role in the management of the project being undertaken. See M. Fahim Khan, op. cit., pp. 90-91.

<sup>63</sup> Originally revived by Dr Sami Hamoud in the 1970s and used extensively by both Islamic commercial banks and the Islamic Development Bank. See M. Umer Chapra, *Towards a Just Monetary System*, op. cit., p. 170. This type of financing is criticised by a number of Islamic economists, notably Siddiqi. See Mohamed Aslam Haneef, *Contemporary Islamic Economic Thought*, Ikrad, Kuala Lumpur 1995, p. 37. The Islamic Development Bank is now concentrating more on leasing than *murabahah*.

receiving a fixed rate of interest, the return will depend on the profit from the project.<sup>64</sup> Variable interest returns are of course uncertain, but as these are determined at the macroeconomic rather than the microeconomic level the financial arrangements between the parties may be unjustly changed, with borrowers penalised for interest rate rises and lenders enjoying windfall gains. With Islamic finance the stress is on getting the financier personally involved, on risk sharing rather than risk seeking and ultimately on loss sharing if the project proves not financially worthwhile.<sup>65</sup>

### 5. Some Conclusions

There is much that Christian economists can learn from the contemporary debates amongst economists adhering to the other two major monotheistic religions. Christian economists and social theologians have produced useful critiques of the capitalist system, and some have agonised over trying to reconcile the workings of market economies with their Christian beliefs. Less attention has perhaps been given to moral values governing transactions behaviour, although there is an encouraging interest in financial and business ethics as a recent issue of the ACE Journal showed,<sup>66</sup> and there have been specifically Christian<sup>67</sup> (as well as Muslim)<sup>68</sup> contributions to the business ethics literature.

Few Christians today regard usury as a significant moral issue, and although there is concern about 'unfair' prices, the notion of the 'just' price receives scant attention. Yet this is to ignore Old Testament teaching, and abandon tools of ethical analysis which Jewish and Muslim writers find useful. Some Christians may regard their Jewish and Muslim contemporaries as still being at the stage of the Scholastics, and assert that their analysis have been overtaken by subsequent economic developments. Yet when analysing human economic behaviour, it is not clear that it has changed over the centuries, or that men have somehow become more moral. Material circumstances may have changed, but human frailties remain, and increased prosperity may mean greater temptation to behave badly.

Leaving economic policy to secularist governments may be regarded as preferable in multi-faith societies to drawing up legal codes to satisfy particular religious groups. Yet there is the danger that ignoring religious teaching, and seeking the lowest common moral denominator, results in policies that do justice to none. It is the author's contention that there is sufficient common ground between the monotheistic religions to extend the moral agenda in the economic sphere. Issues of usury and the just price deserve to be revisited by Christian economists. It is necessary, but not sufficient, to rely on competition to curtail abuse of market

---

<sup>64</sup> A useful discussion of the implications of these Islamic financing techniques is provided by M. Fahim Khan, *op. cit.*, pp. 89-115.

<sup>65</sup> For an account of how Islamic banks operate in Egypt, Iran, Jordan, Kuwait, Pakistan, Sudan and Turkey see Rodney Wilson, (ed.), *Islamic Financial Markets*, Routledge, London, 1990.

<sup>66</sup> Paul Mizen, "Ethical and Moral Issues in Financial Markets," *Association of Christian Economists Journal*, no. 20, 1995, pp. 1-13, and Russell Sparkes, "Business Ethics: The Emperor's New Clothes," *ACE Journal*, no. 20, 1995, pp. 14-26.

<sup>67</sup> Oliver F. Williams and John W. Houth, *Full Value: Cases in Christian Business Ethics*, Harper and Row, San Francisco, 1978.

<sup>68</sup> Trevor Gambling and Rifaat Karim, *Business and Accounting Ethics in Islam*, Mansell, London, 1991.

power and transparency to prevent in fraud transactions. However, attention also needs to be paid to the moral behaviour of economic agents, with good and bad, virtue and vice, clearly defined. This perhaps is an appropriate way forward, with moral values providing a benchmark against which the worth of economic transactions can be judged.

# CURRENT ISSUES IN THE ECONOMICS OF WORK: A CHRISTIAN PERSPECTIVE

Andrew Henley, Department of Economics, University of Wales Aberystwyth\*

## *1. Introduction*

Work, along with sleeping, occupies most of us for largest part of our waking hours. Participation in the labour market is an activity that occupies well over 70% of UK citizens between the age of 15 and 64. Not surprisingly economists expend considerable effort in analysing and investigating the labour market - you will find typically that more papers accepted for presentation at the annual conference of the British Royal Economic Society concern issues in labour economics than any other sub-area of the discipline. In this lecture I want to appraise the current state of economists' thinking about and understanding of the labour market from the biblical, Christian viewpoint. In particular I want to address the issues of whether labour economists start from a right perspective on matters to do with work, and whether the questions they ask about labour market behaviour are the important ones or not.

I want to begin with the Christian point of view, offering a setting of the Christian view of work within a biblical understanding of the context of the economic, social and spiritual relationships that exist between God, humankind and the rest of creation. I then want to identify and discuss what I think are the key themes to be found in current, secular analysis of work and the labour market. Finally I want appraise those avenues of investigation from the biblical viewpoint and reach some conclusions about what are important issues, from the Christian perspective, for current work in labour economics.

## *2. Biblical Foundations*

Most Christian economists agree that within the Old Testament, and in the account of the relationship between God, his chosen people and the promised land we find a model or paradigm for the economic and social relationships that God intends should exist between himself, humankind and the earthly resources he provides for us. In particularly within the Torah or Mosaic Law contained within the first five books of the Old Testament we find regulations governing much of the economic inter-relationships that he intends should exist amongst his chosen Israelite nation. The challenge for the economist who is also a Christian, and perhaps even more so for those biblical scholars and theologians (of which I am not one) who are prepared to learn the language of engagement with the economics profession, is to overcome the hermeneutical problem. By this I refer to the considerable problem of extracting biblical principles and policies for the complex, industrialised, modern global economy from a set of precepts designed for a simple, tribal, agrarian society in existence some 4000 years ago. As Paul Williams in a recent contribution to the ACE Journal explains<sup>1</sup>, in one sense the hermeneutical issues for economists are no different from those faced by any other scriptural interpreter, but in another they are more acute because much of economics is so highly ideologically charged.

---

\* This paper was written for a lecture to the Business Studies Group of the Institute for Contemporary Christianity, Hopcrofts Holt Hotel, Oxfordshire, March 8<sup>th</sup> 1997.

<sup>1</sup> Paul Williams, "Hermeneutics for Economists: issues in interpretation", ACE Journal, No. 22, 1996, pp. 13-37.

The establishment of a covenantal relationship between God and the Israelite people, firstly with Noah, then with Abraham and subsequently with Moses at Mount Sinai, is foundational. The (partial) fulfilment of the covenant comes about with the arrival of the children of Israel in the Promised Land. The socio-economic model for their relationships with God and with that Land are laid out in the Torah, especially in Exodus Ch 20:22-Ch 23:19, in Leviticus, especially Ch 25 with the rules concerning the Jubilee, and throughout Deuteronomy, but especially Ch's 15, 19 and 26. Even prior to the Fall, in Genesis 2:15 it is clear that Man has a labouring function to perform in caring for the created order. This is implicitly re-emphasised within the Mosaic regulations, although in a corrupted post-Fall world this function will be hard and burdensome.

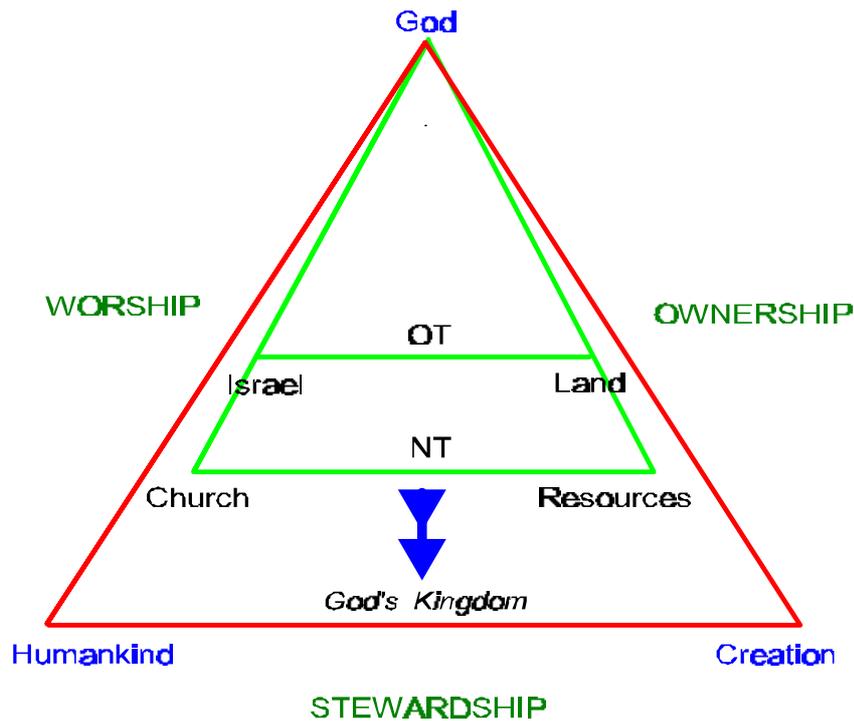
The theologian Christopher Wright in his book *Living as the People of God*<sup>2</sup> describes the paradigmatic nature of the God-chosen people-promised land nexus in terms of the triangle shown in Figure 1. As with any model this attempts to limit and distil, but nevertheless it provides a useful basis for thinking about the economic dimension in a biblical context. The diagram describes how the economic dimension (our relationship with God's creation) can only be understood within the context of God's sovereignty over creation and our spiritual relationship with him as creatures in his own image. The pattern of the children of Israel and God's provision for them can be seen as a model for the relationships that exist under the New Covenant between his Church and the wider resources of his blessing, and in turn as a holistic model for the Christian commission to seek to advance God's Kingdom to humankind as a whole.

Moving to the New Testament, there are various instances in the Gospels which record Jesus' concern not just with the spiritual, but with the social and economic. This is perhaps most succinctly illustrated by reference to the Nazareth manifesto in Luke 4. Jesus declares "good news for the poor", and "release for the oppressed" (v. 18). On one level these can be interpreted at a purely spiritual level, but the reference to the "year of the Lord's favour" - a direct reference to Levitical Jubiliary provisions - makes clear that he is referring to economic and social fulfilment as well as spiritual. It is important also to note that in Romans 8:22 Paul makes clear that redemption anticipated for the whole of creation and not just for created humankind. A further reservation might be that these references are solely concerned with the eschatological - in that we are being given a taste of the perfect economic and social relationships which will exist in the future, redeemed world after the return of Jesus. But to see the advance of the Kingdom of God in present pre-redemption times as a purely spiritual phenomenon seems, to me, to spring from a highly lop-sided picture of Jesus' teaching and ministry. This is a ministry which time and again, through dealings with individual people, challenges the established social and economic order of the day.

---

<sup>2</sup> IVP 1983.

<sup>3</sup> This model is also used in the theological material produced by World Vision (see John Steward, *Biblical Holism: Where God, People and Deeds Connect*, World Vision Australia, 1994).



**Figure 1**

Some Christian economists place emphasis on the implications for economic relationships contained within the parables, drawing, for example, conclusions about wealth creation and distribution from the parable of the talents (Matt 25:14-30, Luke 19:11-27). There are considerable hermeneutical problems here, q.v. the rich fool in Luke 12:13-21, or the teaching in the Sermon on the Mount about the dangers of money, Matt 6:19-24).

By contrast other Christian economists and social ethicists prefer take a less direct approach. So Anglican theologian Ronald Preston<sup>4</sup> argues in favour of the derivation of general moral principles (or “middle axioms”) from the basic theological framework provided by Scripture. Others such as the economists Donald Hay<sup>5</sup> or Brian Griffiths<sup>6</sup> go further and identify “derivative social principles” (DSP’s) from biblical ethical material. Beyond this position we find some economists and social thinkers argue for an even more direct application of Old Testament material to the modern world - what is known as the theonomic approach.<sup>7</sup> Turning the specific questions to do with labour economics, there is probably a broad measure of agreement about the theological context of work. Where there is disagreement is over how that theological context ought to be applied in terms of specific analyses and policies.

<sup>4</sup> Ronald H. Preston, *Church and Society in the Late Twentieth Century: the Economic and Political Task*, SCM, 1983.

<sup>5</sup> Donald Hay, *Economics Today: A Christian Critique*, Apollos (IVP), 1989.

<sup>6</sup> Brian Griffiths, *Morality and the Marketplace: Christian alternatives to capitalism and socialism*, Hodder and Stoughton, 1982.

<sup>7</sup> See Greg L. Bahnsen, *Theonomy in Christian Ethics*, Presbyterian and Reformed Publishing Company, 1984 or for a series of critical essays, W.S. Barker and W.R. Godfrey (eds.) *Theonomy: A Reformed Critique*, Zondervan, 1990.

### 3. *A Theological Basis to an Economic Understanding of Work*

As we have seen our role as stewards of creation is fundamental to our theological relationship with God. Employment therefore has a central theological dimension as a stewardship function, perhaps only equalled by the importance we attach to our husbandry of the earth's all too finite resources. Contrast this with Classical Greco-Roman ideas that work was a sordid activity (the Latin word meaning literally "un-leisure"), from which the higher classes should refrain in favour of artistic and intellectual pursuit. Sadly this is a view of work which seems to have been preserved for rather longer amongst the English landed aristocracy and is only now disappearing after two whole Christian millennia. At the opposite extreme there is a tendency to deify work. Calvin saw work as "calling", an attitude which seemed to solidify in the 17<sup>th</sup> century Puritanist deification of work.<sup>8</sup> Modern so-called "neo-classical" economics is, of course, largely a product of the enlightenment thinking of the 18<sup>th</sup> century. Adam Smith himself was a member of a deist sect who held the theological perspective of God as a kind of cosmic clock-maker, who sets the Earth going according to a set of physical and economic laws and then retreats to let men and women get on with it. Work and employment relationships would thus largely be governed by the laissez-faire principles of the self-regulating economy.<sup>9</sup> We shall see in a moment how this translates into practice in economic analysis.

Returning to the biblical context, painted with a rather broad brush in the previous section, we can highlight the importance of work to the theological integrity of human existence, the stewardship function involved in work, and the need to place work within the social context of our relationships with others. Donald Hay (1989), in his eightfold taxonomy of derivative social principles, give three statements concerning the economics of work which summarise these ideas well.<sup>10</sup>

#### *1. Man has a right and an obligation to work.*

Work is necessary to retain the relational balance between God, humankind and creation. Work is a creation provision, predating the Fall, and is a part of men and women's natural rhythm (Psalm 104:23) and self-fulfilment.<sup>11</sup>

#### *2. Work is the means of exercising stewardship.*

In their work men and women should have access to resources and control over them. So, despite the Fall, work remains essential to human dignity.

---

<sup>8</sup> See Paul Marshall, "Vocation, Work and Jobs", in Paul Marshall, Edward Vanderkloet, Peter Nijkamp, Sander Griffioen and Harry Antonides (eds.), *Labour of Love: Essays on Work*, Wedge Publishing Foundation, Toronto, 1980.

<sup>9</sup> Adam Smith does exalt "ease", "cleanliness" and "honourableness" as desirable characteristics of employment, but thought that the non-pecuniary advantages of jobs with these characteristics would attract workers towards them in a free market, thus encouraging employers to provide such jobs through self-interest rather than for reasons of moral sentiment (Adam Smith, *The Wealth of Nations*, 1776).

<sup>10</sup> Hay (1989), pp. 73-75.

<sup>11</sup> See also John Stott, *Issues facing Christians Today*, Marshall Morgan and Scott, 1984, especially Ch. 9.

3. *Work is a social activity in which people co-operate as individual stewards of individual talents and as joint stewards of resources.*

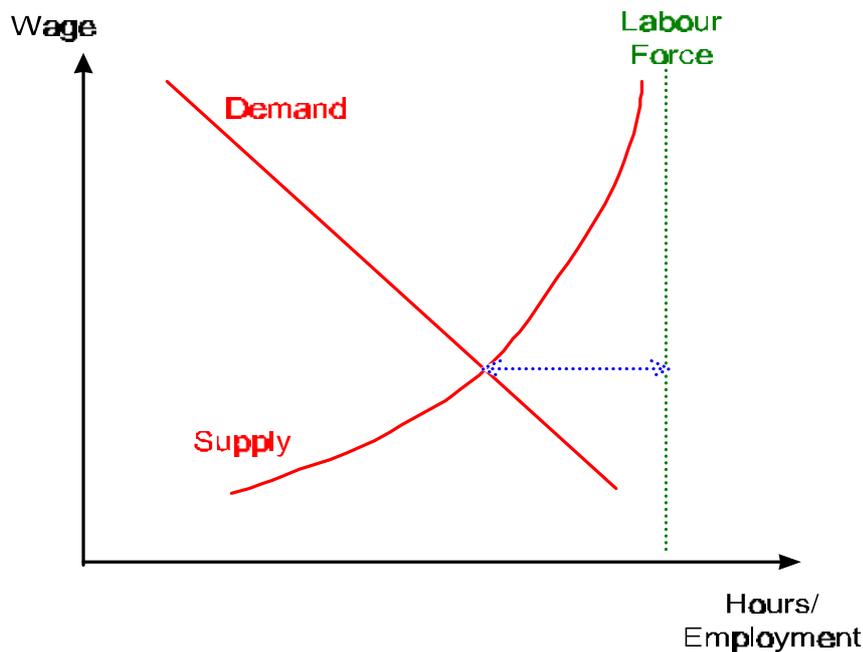
Employment should take the form of cooperation in a common enterprise.

In a nutshell work is not an end in itself, or even solely as a means of production, but ought to be seen as a means to support and sustain life and to support and sustain others.

#### 4. *Modern Economic Analysis of Work and Employment*

The modern textbook model of the determination of employment and wage levels is heavily rooted, as is much of textbook economics, in Enlightenment thought and the intellectual heritage of Adam Smith. In social science more generally a much richer focus is apparent and occasionally some cross-fertilisation occurs. This said the neoclassical model remains the dominant paradigm in the Kuhnian sense.<sup>12</sup>

All standard undergraduate labour economics texts<sup>13</sup> attempt to define something called the “market for labour” with a supply relationship (derived from individual worker-consumers) and a demand relationship (employers, usually firms). This market operates, as least so undergraduates are told in the few half dozen chapters, just like the markets for tomatoes, bricks or, for that matter, ordinary shares in Marks and Spencer. A Marshallian /Walrasian price mechanism regulates the market to establish equilibrium (Figure 2).



**Figure 2**

<sup>12</sup> T.S. Kuhn, *The Structure of Scientific Revolutions*, Chicago University Press, 1970.

<sup>13</sup> For recent, well-written examples see Robert F. Elliott, *Labor Economics*, McGraw-Hill, 1991 or Derek Bosworth, Peter Dawkins and Thorsten Stromback, *The Economics of the Labour Market*, Longman, 1996.

At a low enough wage rate enough workers will be discouraged from working such that the supply is equated with demand. In equilibrium unemployment is “voluntary”, in the sense that those without jobs are so because they choose not to work (in the words of one Nobel Prize-winning Chicago economist, unemployment occurs because Caribbean holidays are (relatively) too cheap!). If unemployment is “involuntary” it is because of market inflexibility or failure. Behind the labour supply relationship is an essentially static<sup>14</sup>, individualistic, utilitarian-materialist model of behaviour with a rather classical view of work as “not leisure”, but one in which work is a necessary “evil” to generate the wherewithal to purchase goods and services. “Happiness” or greater utility comes from having more leisure and more goods. The worker is constrained by income resources, derived from unearned sources and from the rate of pay of any prevailing job offer (see Figure 3).

Behind the labour demand relationship is a “black-box” profit-maximising (or cost-minimising) firm. Labour demand is thus a “derived” demand, derived from consumer demand for whatever it is that the firm produces and dependent of the nature of that demand. In effect the firm demands a “flow” of labour services from a “stock” of employees. In the simplest model that stock is infinitely divisible and costlessly and instantaneously alterable. Capital equipment and labour are also typically assumed to be costlessly and divisibly substitutable one for the other, although the representation of technology usual incorporates diminishing marginal gain from adding additional workers to a *given* stock of capital equipment. If the wage rate falls the firm can afford more labour, *given* capital, for the same cost budget and can produce more (Figure 4).

It is perhaps appropriate at this point to address the chestnut that new technology leads to less labour intensive methods of production and weakens the demand for labour. Certainly new technology can have serious effects on the skills balance in the demand for labour. Unskilled workers in Britain face a “double-whammy” - skill-biased technological change raises the productivity of computer programmers relative to road sweepers and international trade and growing international comparative advantage in manufacturing (predominantly from the Far Eastern “tigers”) reduces demand for low skilled British workers. But labour and capital are not always substitutable, particularly where skilled labour is concerned. Furthermore labour-saving innovation can, given macro-economic stability, lead to higher exports and lower imports, generating growth in the domestic economy. Indeed new so-called “endogenous” growth theories point to the existence of a virtuous circle between “human-capital”, research and development and economic growth. As the difference between productivities and therefore rates of pay of the highly skilled and the low skilled this increases the rate of return to education and training, and encourages human-capital investment. The problem arises because of the lags in the system - it can take some time to train a computer-programmer to write good hyper-text mark-up language so he can advertise his company’s wares in the Internet!

But workers (and firms?) are not necessarily individualistic, or atomistic in their activities in the labour market. In Britain about 40% of the labour force are still members of a trade union (in some other EU countries this figure is much higher, although in the US it is now well below 20%) and perhaps two-thirds of workers are still covered by collective pay

---

<sup>14</sup> By this I mean concerned with a single “snapshot” in time.

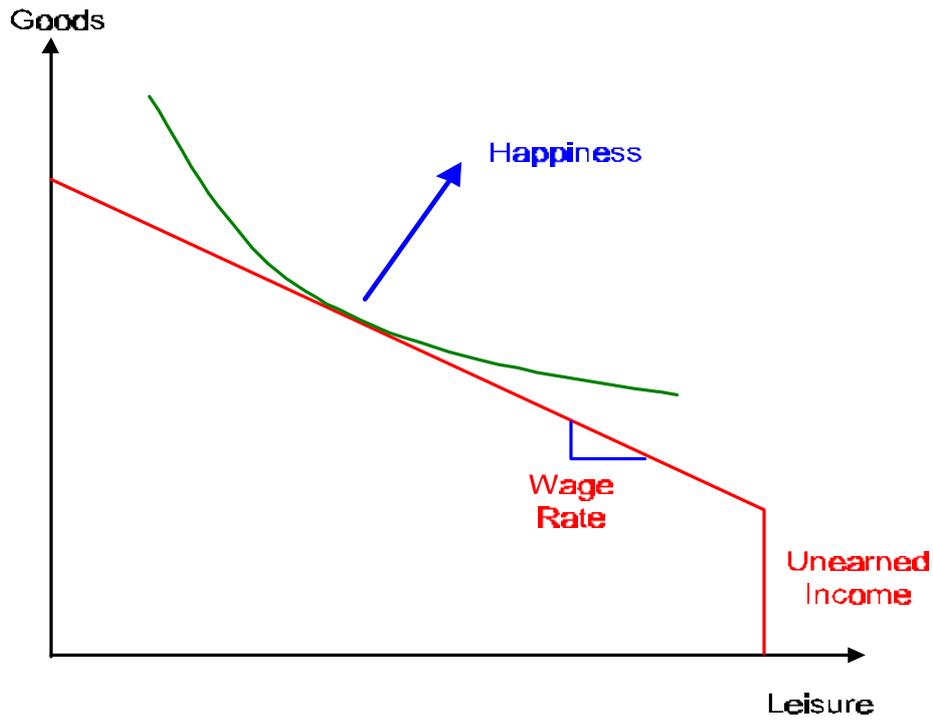


Figure 3

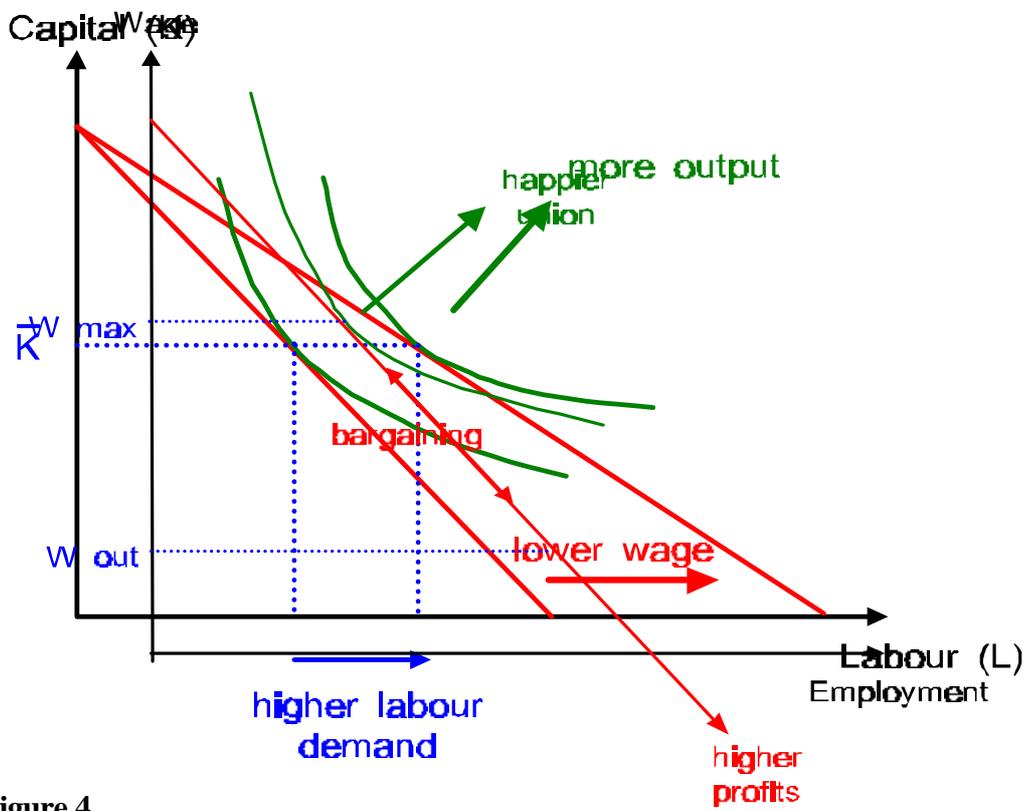


Figure 4

Figure 5

negotiations. It will perhaps not surprise that economists, in response to this, substitute the utilitarian, materialist individual for a model of a utilitarian, materialist trade union in which higher wages are traded against fewer members. The notion of a relationship between labour supply and the wage now disappears as the union determines labour supply on a take-it-or-leave-it basis, and the extent to which the union succeeds in its goals depends on its bargaining strength (see Figure 5).<sup>15</sup>

Not surprisingly the neoclassical analysis of the trade union is pessimistic - unions drive wages up and displace workers into other jobs for which they may be over qualified, or at worst into unemployment. Economists such as Patrick Minford of Liverpool University attribute the rise in unemployment during the 1970s and early 1980s almost exclusively to trade union power.<sup>16</sup> However there is no sense in which the trade union is approached as a social, relational organisation with power to exercise a beneficial, representative function in the workplace<sup>17</sup> as well as the power to disrupt. In Britain we may have seen rather more of the latter than former role, but that does not preclude a modelling approach which encompasses only the latter.

In order to address the kind of questions in which labour economists are interested much of complexity of real world employment relationships has been abstracted away. For the Christian economist, two important questions flow from this. Firstly, has the richness of the Christian perspective on work been assumed away? Secondly, are the questions in which the secular labour economist is interested, and for which he or she has produced an abstracted model of reality, the appropriate ones to ask?

### ***5. Themes in Modern Labour Economics***

The previous section has presented a deliberately stylised thumb-nail sketch of the undergraduate textbook treatment of the labour market. Labour economists actively researching the subject are concerned with rather more detailed and complex issues. In this section I want to outline some of the themes emerging from this modern work.

#### *Incentives and Motivation*

As we have seen the text-book model assumes self-interest. As with all theories of economic behaviour, this presents the Christian economist with a tension between a description of economic behaviour which may for the most part be fairly accurate in a fallen world, and a desire to encompass how agents ought to behave. Recent concerns of secular labour economists have been rather less fundamental. One issue is whether workers alter their behaviour if they are paid more and what might be the consequences of this. A second issue

---

<sup>15</sup> For an excellent and comprehensive treatment see Alison L. Booth, *The Economics of Trade Unions*, Cambridge University Press, 1995.

<sup>16</sup> Patrick Minford, *Unemployment, Cause and Cure*, Basil Blackwell (2<sup>nd</sup> ed.) 1985.

<sup>17</sup> The possibility of such a role was recognised in Roman Catholic social teaching over a century ago (see Pius XI's encyclical, *Rerum Novarum*, reprinted in David J. O'Brien and Thomas A. Shannon, *Catholic Social Thought: The Documentary Heritage*, Orbis Books, 1992).

concerns whether workers are motivated by concerns beyond simply higher current earnings, and if they are, what might be the consequences.

Efficiency wage theory<sup>18</sup> proposes a positive relationship between effort and wages. There are a number of explanations for this. One particularly pessimistic model is that of Carl Shapiro and Joseph Stiglitz who suggest that higher wages reduce to extent to which workers “shirk” on the job because they have more to lose if they are caught and get fired. In aggregate this model produces a prediction that is remarkably similar to the Marxian explanation of why capitalist economies need a “reserve army” of the unemployed - a certain level of unemployment is necessary to discipline the employed into not shirking.<sup>19</sup> A rather more attractive explanation for the same phenomenon is to be found in George Akerlof’s “gift-exchange” model - workers gift higher effort on the job above what is strictly necessary to keep them employed because their employer is prepared to pay higher wages. One of the main reasons why labour economists are interested in such ideas is because of the search for explanations as to why employers do not seem to cut wages in response to an excess supply of labour - but I shall return to this below.

Undoubtedly workers, if they have the luxury of a choice, will be attracted by the whole remuneration and conditions package that a job offers, and not just current earnings. The growth of performance- and profit-related pay schemes has led economists to ask if such incentive payment systems enhance productivity, because they might bring about a congruency of interest between employee and employer. Theoretical results establish that “incentive-compatible” employment contracts, with an appropriate mix of flat-rate and performance-related pay elements will overcome the “principal-agent” problem, which arises because employers cannot continually and perfectly monitor employee effort (the “asymmetric information” problem). Others such as Martin Weitzman of Harvard University go further and suggest that the “share economy” would enjoy improved levels of inflation and unemployment compared to one based solely of flat-rate wage payments.<sup>20</sup> The evidence for such beneficial effects is far from compelling, suggesting either that workers are not motivated at all by bonus payments, or that such bonus payments are too small and attenuated through overall group performance to make any difference, or that such schemes become all too rapidly “institutionalised”.

One further area of considerable interest within the theme of incentives concerns the degree of motivation that the unemployed have to search for jobs. Are the unemployed solely motivated by a comparison of the pecuniary rewards of remaining unemployed relative to finding work, or are other non-pecuniary concerns important? Once again one would like to think that the unemployed would prefer to work whatever the relative rewards from staying on the dole, but fallen human nature points to the existence of “disincentive” effects. (Some “disincentive” effects arise because of tax-induced poverty traps and point to failures in tax systems.) How big are such effects? The consensus answer is that they are significant through perhaps not too large. British estimates suggest that a 10 per cent increase in the generosity of unemployment benefits might lead to a 5 per cent reduction in the escape probability from

---

<sup>18</sup> George Akerlof and Janet Yellen, *Efficiency Wage Models of Labour Markets*, Cambridge University Press, 1986.

<sup>19</sup> Carl Shapiro and Joseph Stiglitz, “Equilibrium unemployment as a worker discipline device”, *American Economic Review*, June 1984, 74:433-444.

<sup>20</sup> Martin Weitzman, *The Share Economy: Conquering Stagflation*, Cambridge University Press, 1986.

unemployment.<sup>21</sup> A further issue concerns whether workers become de-motivated in their search for a job as their unemployment duration rises and so are less likely to escape unemployment as time passes (“duration dependence”). If overgenerous unemployment benefits reduce the initial escape probability, then as time passes they could become a source of long-term unemployment. Evidence suggests that this is unlikely to be the case implying that long-term unemployment is more likely to be result of skills erosion.<sup>22</sup>

### *Flexibility*

Why does the price of labour appear to only imperfectly adjust to an excess supply of labour, unlike, for example, the market for tomatoes might? It was Keynes who first focused on the impossibility of wage flexibility operating to cure unemployment. However he failed to provide a convincing explanation for why firms do not cut wages enough in recessions. There has been a lot of effort directed towards this question in the last 15 years (the so-called New-Keynesian approach). The efficiency wage idea, already discussed, is one candidate since it suggests that firms fear damaging effects on productivity if they cut wages. Other economists have pointed to the existence of “implicit contracts” which lock workers and employers into contracts of employment that may be inappropriate if unexpectedly adverse economic outcomes occur. A further explanation is to be found in the behaviour of trades unions, who may be reluctant to bargain pay concessions to preserve jobs. This is because, at the average, their memberships may care little about job losses since the newest recruits are usually the ones to be fired first. They may care even less about the unemployed outside the workplace altogether. Such models are known as insider-outsider models.<sup>23</sup> They can generate the alarming prediction that, once an adverse economic shock has generated a rise in the jobless total, unemployment will have no tendency to return to its old “equilibrium” level - path dependency. Such an effect is known by the term “hysteresis”, borrowed from physics.<sup>24</sup>

One of the conclusions to emerge from such ideas is that the costs of the labour market actions of one group may be borne by others, and that a greater sense of cohesion between labour market participants may reap benefits for all, and go some way to responding to principle 3 above. Investigation of the rather superior performance of some the smaller, particularly Scandinavian economies, during the 1970s and 1980s suggests that they managed largely to avoid the hysteresis and long-term unemployment problem. It is often suggested that this was through a greater degree of cohesion in pay setting and consensus-forming activity about what “the economy could afford to pay”.<sup>25</sup> Questions about economic performance in

---

<sup>21</sup> Tony Atkinson and John Micklewright, “Unemployment compensation and labour market transitions: a critical review”, *Journal of Economic Literature*, December 1991, 29:1679-1727.

<sup>22</sup> Wiji Narendranathan and Mark Stewart, “How does the benefit effect vary as unemployment spells lengthen?”, *Journal of Applied Econometrics*, 1993, 8:361-381.

<sup>23</sup> Assar Lindbeck and Dennis Snower, *The Insider-Outsider Theory of Employment and Unemployment*, MIT Press, 1989.

<sup>24</sup> The seminal paper on this is Olivier Blanchard and Lawrence Summers, “Hysteresis and the European unemployment problem”, *National Bureau of Economic Research Macroeconomics Annual*, 1986, 16-78.

<sup>25</sup> See Andrew Henley and Euclid Tsakalotos, *Corporatism and Economic Performance*, Edward Elgar Publishing, 1993.

Scandinavia since 1990 and the fiscal costs of such a system raise enormous doubts about the international transferability of the Swedish model.

Even the most cursory reading of the relevant literature would lead the observer to think that labour “flexibility” was unambiguously “a good thing”. I am far from sure that economists should be so sanguine, and should take a wider view of personal and social costs of flexibility.

### *Earnings structure, Discrimination and Inequality*

In the neoclassical economic paradigm wages are a return to the productivity of labour. Where productivity is high and wages high labour supply will respond. One of the core predictions of the model is that wage rates across different groups of workers, such as between industries, occupations or regions, ought by market forces to be equalised *net of any non-pecuniary advantages*. Much evidence suggests that this is not the case. For example, the UK New Earnings Survey reveals that the ratio of female to male basic earnings only moved from 0.58 to 0.65 between 1975 and 1993.<sup>26</sup> There are various explanations for this, most of which hinge on some market failure which prevents different groups of workers from competing with other, and some of which abandon the competitive model entirely in favour of more institutionalist approaches.<sup>27</sup> One source of such pay differences is of course discrimination. Nobel Laureate Gary Becker’s well-known neoclassical treatment<sup>28</sup> rests on employers possessing a “taste” for discrimination which results in them being prepared to sacrifice profit in order not to have workers with a given characteristic in their employ, despite those workers being potentially better at the job. However such discrimination ought to be competed away by more profitable employers who chose not to discriminate. An alternative explanation highlights the difficulties and costs that employers face in identify the true productivity of individual workers. “Statistical” discrimination occurs when employers discriminate on the basis on some characteristic because *on average* workers with that characteristic are less productive.

One consequence of discrimination is that workers can become segmented - for example female or black workers become grouped in poorer paying, poorer quality jobs. Indeed one consequence of insider union bargaining power in the skilled, white male sector may be the creation of excess supply in outsider segments of the labour market. In the USA, where there is greater wage flexibility and less generous unemployment insurance, this has perhaps contributed to the growth of poor quality, low paid, part-time employment. In Europe, where greater government regulation and more generous unemployment insurance apply, the consequence is more likely to have been stubbornly high rates of unemployment.

Labour economists who abandon the neoclassical model in favour of radical explanations focus on the creation of “internal” labour markets within firms and organisations as devices for maintaining employee loyalty to the company whilst creating competition between workers for promotion internally.

---

<sup>26</sup> Peter Elias and Mary Gregory, *The Changing Structure of Occupations and Earnings in Great Britain 1975-1990*, Department of Employment Research Series No. 27, reported in Bosworth *et al.*, *op. cit.*

<sup>27</sup> See, for example, P. Doeringer and M. Piore, *Internal Labour Markets and Manpower Analysis*, D.C. Heath, 1971.

<sup>28</sup> Gary Becker, *The Economics of Discrimination*, University of Chicago Press, 1957.

Before tax wage inequality has been rising in countries such as the UK and USA since the late 1970s.<sup>29</sup> In part for the reasons sketched above, in part it may have been because individual returns to skills and education may have risen, leaving the untrained and uneducated unable to keep up.

### *Regulation and Government Intervention in the Labour Market*

This is a particularly controversial area, and yet one which is the highly topical, given the debate within Britain about European Union imposed labour market regulation. The key question is what, if any, is the appropriate role for government? As Dennis Snower correctly points out in the context of policies to alleviate unemployment<sup>30</sup>, the kind of role that an economist will propose for government policy will depend on the particular theory of the labour market to which he or she subscribes. We can go a stage further than this and say that the kind of theory about the operation of the labour market to which a economist might subscribe will depend on the ideological baggage and value judgements which he or she brings to bear on his or her theorising. A labour economist from a *laissez-faire* position will probably have a very different perspective on the world, both as it is and as it ought to be, compared to radical interventionist.

The end of the post-war Keynesian consensus has led in labour economics to a move away from viewing labour market problems as solely problems of labour demand, towards greater consideration of supply-side policies or a “both blades of the scissors” approach. This has also had the effect of focusing policy in terms of the micro-economic rather than the macro-economic. So you are now more likely to hear economists talking in terms, for example, of tackling market failures in the provision of re-training for the unemployed rather than aggregate demand management to boost national demand for labour. Furthermore there is now something of a consensus emerging that the function of government is facilitate the provision of “employment-replacement” or “employment-enhancement” strategies rather than merely providing “income-replacement” for the unemployed. There are some differences of nuance - where some will talk about the importance of “active labour market policies” and appeal to the success of Swedish or German labour market policies, others will talk of “work-for-welfare” schemes and cite the need to overcome unemployment benefit disincentive effects and increase competition between the employed and unemployed.

In terms of government regulation of labour markets there is rather less consensus. The effects of minimum wage legislation and EU-imposed minimum employment standards within the simple neoclassical model of the labour market is plain to see. They potentially prevent the market from clearing and thus lead to an excess supply of labour. The counter-argument is rather more complex but is usually framed in terms of the need to correct some other market failure, such as the adverse selection problem through which employers with poor standards of employment are able to compete “unfairly” on final product price and drive “responsible” employers out of business.

---

<sup>29</sup> For the American context see Frank Levy, *Dollars and Dreams: the changing American income distribution*, Norton, 1988, and for the UK Paul Gregg and Stephen Machin, “Is the UK rise in inequality different?”, in Ray Barrell (ed.) *The UK Labour Market*, Cambridge University Press, 1994.

<sup>30</sup> Dennis Snower, “Evaluating unemployment policies: what do the underlying theories tell us?”, *Oxford Review of Economic Policy*, 1995, 11(1): 110-135.

## 6. Conclusion: Christian Responses

As with any branch of economics, labour economists, who are also Christians, face a tension between a secular economics which treats economic agents as self-seeking and biblical ideals of behaviour. The former may be a pretty accurate description of human behaviour in a fallen world; the latter represents the ideals to which Christians aspire. The tension becomes particularly acute when economists move from the descriptive to the prescriptive, because of the ideological tension between the tradition that secular economics is a positive (i.e. value-free) scientific pursuit, and the reality that economists who are Christians will want to make normative statements about economic activity on the basis of biblical principles.

So when labour economists examine how workers are motivated and what incentive structures may improve the operation of the labour market, they are working from models of worker and employer behaviour which are rooted in a pessimistic, materialist description of human nature. If the world of work and employment relationships is to be motivated by the biblical concern of stewardship, then very explicitly there enters ideas about self-less behaviour. That self-less behaviour, as we have seen, is referential to God, a feature that cannot easily be enveloped within secular theory and models. The question, therefore, is just how pessimistic should economists be about human nature in the workplace? Of course, sin is pervasive and within that context individuals will inevitably be materialistically motivated. On the other hand, within every person (regenerate Christian or not) there is something of the image of God.

Suppose we start to reject the neoclassical tradition that enlightened self-interest will lead to the greater good as starting from the wrong description of human nature and seek to incorporate something of how we think economic agents *ought* to behave. An important issue that arises for labour economists is whether the employment relationship can be made to work in such a way as to enhance the image of God in both employers and employees. To give one example, Donald Hay's principle that work is social activity in which people *co-operate* as stewards points to the desirability of employee involvement and consultation in decision-making.

Perhaps even more fundamentally, if we fail to address the importance of nurturing God's image in others, will we inadvertently undermine God's image if we continue to work with models that explicitly incorporate the feature that agents respond to the materialistic? In a nutshell this is the question of whether people are greedy in the economic sphere because that is human nature, or because economists tell them it is a good thing if they are.

The idea of labour market flexibility is troublesome for the Christian economist (at least for this one). This is because flexibility imposes costs as well as benefits, and those costs can undermine biblical ideas that work is a relational activity. They can also include the non-economic impact on family and social life. Yes, economics does recognise that labour is a "quasi-fixed" factor of production involving non-trivial recruitment, training and firing costs. But a cursory reading of much that has recently been written recently on labour market flexibility gives the impression that the implicit solution to the problem of inefficient matching of workers to jobs is to adopt policies that whittle away at those costs.

We are perhaps members of the first generation in which it is not uncommon for families to move several times during adult working life for employment related reasons, particularly

among professional and managerial occupations. Certainly in the past there have been significant episodes of employment-related migration, for example movements of workers to the West Midlands before and after the Second World War in search of jobs in the car industry. But these tended to be once-in-a-lifetime events, and often friends and families from the same locality would migrate together to adjacent houses in the new locality. In the 1990s up to 20% of house moves are job-related and average tenure in the same house is only seven years. The non-economic costs of labour flexibility are derived, in the short run, from long travel-to-work times and traffic congestion and in the longer term, from children who grow up away from their extended families and communities and workplaces in which relationships are transient and undeveloped. Furthermore “internal labour markets” within organisations, which seek to motivate workers by offering career progression, can create an excessive level of inter-personal competition within organisations. This seems contrary to the ideal of work as a relational activity based on mutual co-operation in a shared stewarding endeavour.

Of course within the parables of the talents (Lk 19:11-27) and of the workers in the vineyard (Mt 20:1-16) we seem to have a justification for managerial prerogative on pay and employment matters within an organisation. The model of pay structure here is very odd indeed and I think it is highly problematic of not misleading to think that Jesus intended these parables to be applied beyond stories about the sovereignty of God in his kingdom and the responsibility he places on his stewards within that kingdom. Pay structures raise questions not only of motivation and incentive but also of justice. Employers ought to be seen to treat workers justly. This is balanced by a duty on the part of employees to behave responsibly towards others in the organisation. What this means in practice in a modern industrial organisation may be complicated to unravel, but it would certainly preclude forms of pay discrimination, or discrimination of some workers by others.

However the issue of discrimination raises very important wider issues about economic justice, which are rarely dealt with within the narrow confines of textbook theory. Workers who are discriminated against have a much reduced incentive to engage in education and training and so they appear to receive less pay largely because they are less qualified. Providing the means to allow individual workers (or unemployed workers) to escape from such a trap would seem to be an important principle that Christians might support. It accords with my understanding of the economic principle behind the Jubilee concept in Leviticus 25 - namely that economic and social structures should provide the opportunity for economic restoration or redemption. Human capital is key economic resource, perhaps the only modern equivalent to the land of the Old Testament and thus it is an important principle that it can be restored or renewed. Employers need to have a firm commitment to training - as I have already suggested the future for the unskilled in west European labour markets is particularly bleak. It also means that there is a strong case for government intervention in the form of “active labour market policy” - retraining and (if necessary compulsory) re-employment rather than indefinite payment of unemployment benefit. The emerging consensus on this amongst economists is encouraging.

However the challenge of unemployment in Western Europe is very severe. Unemployment rates in some European economies (though less so in the UK) are stubbornly high (for example Spain 22%, Italy 12%, France 12% Germany 9.5% and rising<sup>31</sup>). The outlook for German workers is, I believe, particularly bleak. The challenge, in policy terms, is to find appropriate methods of government intervention that correct market failures in labour markets, but do so in a way that does not undermine social cohesion. Perhaps this means that efforts need

---

<sup>31</sup> Eurostat news release 13 February 1997.

to be redoubled in terms of encouraging geographical mobility of capital rather than of labour. In these terms the South Wales success story is a good example, although it is one that has cost a great deal of money in terms of incentives offered to foreign direct investors. It also means that economic policies need to be tailoring to the regional and community context, something that will be very difficult to achieve against a deflationary, centralised European macro-economic framework.

But satisfying the principle that everyone should have the opportunity to work is half of the challenge. The other half is the challenge to make those employment opportunities rewarding and satisfying. Genesis 3:17-19 tells us that, in a fallen world, we should not expect work to be easy - but easy work is not necessarily rewarding work and *vice versa*. Economists might begin here by modelling employment a rather more imaginative way than as “not leisure”.

## REVIEW ARTICLE

### BOB GOUDZWAARD'S REFORMING ECONOMICS : CLOSE ENGAGEMENT AND VISION FOR ACCOUNTABLE STEWARDSHIP

Bruce C. Wearne, Department of Anthropology and Sociology, Monash University

#### *1. A theoretical challenge to the discipline of economics.*

Bob Goudzwaard is a former member of the Dutch Parliament, and well known outside of the Netherlands as a creative thinker prodding reflection on Christian economics. He is also well known within Dutch society. He helped formulate the Basis and Principles of the Manifesto of the Dutch Christian Democratic Appeal Party and has also been involved in the Dutch Council of Churches in policy development and welfare related issues. He is known for previous books such as *Capitalism and Progress* (1979) and *Idols of our Time* (1984) in which he sought to contribute in the style of argument reminiscent of Max Weber and E F Schumacher. His latest book with Harry de Lange (*Beyond Poverty and Affluence*, 1995) is a further explanation and elaboration of his Christian economic perspective, and with his co-author, he develops an argument which is profound though not too hard. It yet demonstrates a grasp for the intricacies of economics and econometrics.

This latest book brings many of the themes Goudzwaard has tried to develop over his career to cogent expression. It is serious, addressed to the responsible citizen and lay person, as well as being formulated from within the economics discipline itself.

This book is a theoretical challenge to the discipline of economics. In this review I will try to confine myself to a discussion of the book's historical contribution. It is written with a distinct view of the task of economic theory. Economics should help us all in our cultural and historical work. In that sense the book is reflexive. The academic discipline of economics is part of the cultural and historical context which the concepts and theories of economics are designed to help us understand.

#### *2. Economics and Everyday Life*

Our practical decision-making in the everyday life, our economic management at all levels, public and private, as well as national and international structures of resource distribution need renewal and renovation. Our theoretical reflection about these aspects of our stewardship also needs renewal at a foundational level. Clearly, the writers have chosen a technique of economic debate which rejects economic ir-rationalism as any alternative to the pervasive economic rationalism. Close engagement is called for.

In this way *Beyond Poverty and Affluence* takes seriously the crisis economists face within their discipline. Goudzwaard and de Lange reckon with the fact that we can no longer afford the abstractions of economic theory, with the dominant Enlightenment worship of human reason and ingenuity. The Enlightenment world-view, with all of its laissez-faire and socialist denominations, might have run aground upon its own post-modern dilemmas, but this does not mean that economic science as such should be dispensed with. Goudzwaard and de Lange are not about to ditch their callings as economists. And though the argument is confessedly Christian

their method is not one in which they try to "throw in a bit of theology" to ameliorate, sanitise or neutralise the excesses of the idea that rationality is autonomous and self-sufficient.

### **3. Ongoing critical engagement**

Instead they develop a theoretical approach to the study of economics which respects the fact that all schools of economics are seeking to account for the ultimate structure of human accountability in some way or other. Though they adopt the conventional Christian view that economics is a normative science, a study of the God-order structure for buying and selling, in all social dimensions, they also ground their view in terms of a normative framework which makes sense as the **study** of the economic aspect of creation. Anything less would be to adopt the scientific equivalent in the academy of an ana-baptist approach to the reform of the church. Hence the theoretical reform which they propose is to engage in the closest possible theoretical dialogue with all the major currents of economic theory.

To adequately grasp the reforming approach to economic theory that is implied in this book we have to reckon with the writers' diagnosis of the failures of 20th century economic theory. To put it briefly: the diagnoses of economic theory have been part of the disease for which economics has been trying to find a cure. Economic behaviourism (whether in socialist, Keynesian or free market varieties) has so shaped the mentality of the formers of Welfare State policy, and those who seek policy to dismantle it, that it has become well nigh impossible, let alone politically acceptable, to speak about human responsibility without shifting the blame onto victims. Any attempt to discuss responsibility and accountability appears like a theoretical attempt to provide conceptual ammunition to the new right.

For this reason Goudzwaard and de Lange sense that any attempt to renew Christian social-economic-political thinking needs to be developed in close dialogue with the misleading ideologies it rejects lest it forget the fallacies of idealism and materialism and build in moralisms and blind spots of its own. [For a more recent contribution see Bob Goudzwaard 1996].

### **4. Norms for a Normative Science of Economics**

The book is an appeal to "get practical" in our decision-making, but its foundational critique of what "practical" means puts decision-making into an historical context.. As reformers of the discipline of economics, Goudzwaard and de Lange re-define the discipline in terms of normative criteria which are large as life itself - care, nurture, frugality, stewardship. These are not terms which have an exclusive usage within Christian economic reflection. As I have intimated above, the clue is to reckon with the fact that all schools of economic theory refer to such terms in their own way. The trick is to delve beneath these terms to appreciate how they are being used in economic theory and policy and to see how they are shaped by ideas which are not themselves economic in character but are derived from a world-view which the economics theorist argues with him/herself.

This raises a problem. If our entire social life *Coram Deo* is indeed stewardship, Does this mean that sacred theology, ethics and law now will all become subsidiary parts of the new Christian economic theory? Not exactly. Whilst it is true that the various special sciences should not be nurtured and cultivated as if they are somehow in separate and different paddocks, yet each special science does have a distinct focus. It is indeed the fullness of our living and breathing life, *Coram deo*, which the specialist in economic theory investigates when

deriving economic concepts and analysing economic structures. Each of the special sciences studies our integral human experience from the standpoint of one or other aspect. But even though creation is seen from one or other aspect it is still the full reality of God's creation order, and the awesome responsibility of the human agent, which confronts the economic theorist in the formulation of the economic concept. This is why, in the economy of creation, a reformed economics seeks to restore economic theory to its rightful task, and limit its activities in a way that creatively keeps it from usurping other special scientific perspectives.

Economics is thus a normative science based upon foundational concepts concerned with our relation to the natural world, our neighbours and the One who continues to make it all possible. Economic theory, like all other thinking, is inherently religious thinking because it is controlled by underlying values that direct all of our decisions, planning and action. These decisions are not just a matter of social life in which we care for the "natural world" and our neighbours. It is that. But these decisions are always made in a larger context - *Coram Deo* - in which God also calls upon all men and women, old and young, to face up to historical problems as part of their practical stewardship of everyday life.

### **5. Six Paradoxes, Three Intractables and the Morality of Economics**

From the outset of their treatise the authors ask us to consider "*Six Paradoxes*" which confront us all, and which economic reflection must address if it is to move forward and help us move forward historically. How is it that a society of enormous wealth experiences enormous scarcity? they ask. How is it that poverty is increasing not on the fringes but at the heart of wealthy societies? How is it possible that as wealth increases opportunities to practice care decrease? Why does unemployment rise instead of dropping in the midst of economic growth? A rising standard of living coincides with a rising incidence of disease. How come? With more wealth we have far less time. Why? Poverty, environmental degeneration and unemployment are problems which are caught in the seeming grid-lock of these paradoxes.

As a book of economic theory the book emphasises that the science of economics is about the way we live our lives. Economics is about stewardship. And answers to the intractable and bewildering problems of our stewardship do not come by way of formulae - not even by enshrining the six paradoxes and three intractables, to be resolved by 12 categorical imperatives. Adequate reform can only come by a painstaking, historical labour which seeks the renewal of society according to how society should be lived. This means that economics is a normative science. But is economics *qua science*, simply practical ethics?

Like Alan Storkey (1986), Fred Catherwood (1964) as well as some of the early 20th century American institutionalists, *Beyond Poverty and Affluence* is consistent with the view that economics should never neglect its ethical style, even if it should not usurp the study of ethics, or simply become a subsidiary department of an all-embracing moral philosophy.

Goudzwaard and de Lange, have immersed themselves in academic economics. They know the rhetoric and the arguments, the abstractions, the formulae, debates about boom-bust cycles and j-curves. They build a convincing case that the economic *Weltanschauung* which propels Governments, international agencies, banks, foreign trade, corporate life, and overseas aid, is inevitably caught up conflicts between world-views, varieties of religious commitment which hold our global culture in their sway. The trend toward economic growth seems to be at odds with responsible stewardship, even as business seek to grow to ensure employment for their employees and public institutions are privatised to ensure their long-term viability.

## 6. Aid for the Over-Developed West

But the appropriate response is not a world-flight which ignores academic debate or a world-fright which is covered into submission by smooth talk, but we still must learn to take a few steps now towards a renewal of our economy. We have to ask how we can provide appropriate aid, Goudzwaard argued some years back, for the chronic over-development of the West. We also have to find a creative theoretical way to diagnose, and bring about practical therapy for the over-development of economic thinking within the academy.

To give an example. Decisions to limit basic rates of pay, or to have high unemployment, are not just a matter of bowing to fate as cowardly Ministers of Industry might have us believe. These are decisions which are made in terms of a normative vision about stewardship and nurture for the nation's people. But, the authors point out, policies born of fatalism, encourage fatalistic attitudes. The dogmatic orientation of what we experience as economic rationalism ends up nurturing abstractions about curves on graphs "flattening out", as if the policies have nothing to do with steamrolling people's lives. Stewardship, in such a view, is about making "tough" decisions. It involves "bottom line" entries into account books and discovering how much is left after all budget items have been accounted for. Unemployment is an integral part of the economy, even as Marxists have insisted for over one hundred years. Ruining rain forests doesn't do away with the environment; it changes it for the worse. It is not a question of whether large-scale multi-nationals are to contribute to the fabric of civil society; it is rather with the rightful management their involvement, the public legal shaping of their contribution, in direct and indirect ways.

Such an orientation is never just a matter of the "bottom line", because accountancy only ever makes sense in terms of our deepest values. The "bottom line" of our accountancy, as one dimension of our ultimate accountability, concerns who we are. The true "bottom line" is our stewardship as human beings, as workers in God's vineyard if you will, in which the arguments about our budgeting can alone make sense. Counting our pennies makes sense in the context of a structure of *ac-count-ability Coram Deo*.

## 7. Accounting and Accountability

Further this question can only be adequately addressed with an open and clear statement of who "we" are in "our" economic life. If "we" reduce ourselves by our economic theory then we find ourselves dominated by the concepts and the theories we have constructed. They become a tyranny, when in fact they were formulated to help us better understand our own work. When "we" is reduced to who we are in an economic sense our conceptual dilemmas are only just starting. Do we call a halt and assume "we" means "we Australians"? Or is the "we" who we are in our private lives? Or is the "we" really our market value in a global sense? Whichever way it goes we face intractable logical and theoretical problems because philosophically we have crossed over the reductionist threshold and defined ourselves in terms of whatever economic science tells us about ourselves. We must then find some or other countervailing absolute to hold us and the economy made out of our abstractions in its place. That in a nutshell is the problematic which the authors claim to have avoided by reference to their Christian orientation. That is why they see themselves fully immersed in the history of economic thought whilst also claiming to develop the outline of a practical regime for the historical resolution of global, glocal and local economic problems which will have large-scale public and private ramifications.

### ***8. Twelve Steps and Some Practical Policy Proposals***

Here I can only describe their suggested “few steps” in brief. The final chapter is "A Twelve-Step Program for Economic Recovery". This sounds over ambitious but it is also an implicit suggestion for the reform of the economics curriculum within the academy. The practical regime they put forward is also a suggestion about what contribution economic theory should make to the entire encyclopaedia. The book’s “practical” side is thus also an implicit challenge to universities to ensure that the study of economics get “theoretical” and in tune with reality. We live in a global commonwealth bestowed with great riches, great wealth and the next generation needs sharper insight into our stewardly view of ourselves and the way things have been formed historically.

The first proposal concerns the world monetary system - the way in which the world's rich countries are structurally to be dependent upon poorer countries. Nations are called to serve and care for each other. They must do this with an eye to the true situation in the global market. In this way we can take seriously our own nationality but reckon with the interdependencies which span the global and make the earth the home for all of its inhabitants.

The second step considers salaries and wages - payment for services rendered should not only be retrospective but prospective. Payment should be such to enable people to continue the good work they are doing. If this principle was applied to the full gamut of industrial relations, across the board, including to cut the salaries of over-paid senior executives, then not only would the disparity between the over-paid and the under-paid close significantly. As well the over-paid would find themselves significantly more at ease with their fellows, more able to contribute and less likely to inflict alienating managerial systems which hide the fact that they have retired from active stewardship into inactive sinecures. Here is an example :

University vice-chancellors, co-opted by Governments, are a good example of a class of senior executive who badly need salary and wages reform so that they can be re-integrated into their academies as *primus inter pares* rather than as alienated, arrogant and remote chief executive officers doing the Government’s bidding.

A retrospective comparative view of wages and salaries would then compare the "caring" function of the jobs performed. A prospective view would allow us to see tasks that are needed in the future for genuine care of the planet and of our social ecology. Another example:

Funding palliative care is not just money down the drain as current public debate might almost imply, because in caring for those who have cared for us we are confronted with aspects of ourselves and our daily stewardship we would easily forget if their aging did not bring it to our remembrance.

The third step concerns restructuring our understanding of the responsibility of powerful corporations - re-building the fabric of civil society.

By using our socio-political imagination we might be able to find ways to persuade management of large-scale corporations to extend their brand name sponsorship of high profile national sporting teams to make relevant contributions to social development programmes (which would include sport)

in poorer areas in our nations and continents so that as public companies they also have a **moral** incentive to help build a society that will grow past fixations upon advertising icons and consumer goods.

The fourth is oriented to pricing and production. The following steps include social security, the environment and economic growth are the focus of the next steps followed by public debate, technology, networking, assessing international trade and the predominance of Western life-style.

### ***9. A New Economics Curriculum***

The point of the program is not that the authors are trying to build some grand utopian scheme. They are wanting to formulate principles of economic stewardship which have a direct and indirect, formal and informal, impact upon what we do at macro-, meso- and micro- levels of our human community. Therefore, the 12-point program is as much for the “widow and her mite” as it is for the corporate “movers and shakers”, erstwhile whistle blowers, unionists, and citizens engaged in buying and selling activities in the market place of the life of nations. It is as much for those united in diffuse organisations like church structures (denominations) which use resources in a decentralised way, as it is for highly regimented corporations which are ruled from the top. It is as much a schema which can be applied with profit by an informal alliance by parents in a local sporting team, as it is an approach to economic planning which should be taken seriously by politicians who work out their stewardship by debating in Parliament.

It is also a worthwhile statement of principle that can help academics better face questions about the normative and appropriate “division of labour” within the increasingly tattered social fabric of our academic stewardship in Australia as we move toward the turn of the millennium.

The twelve points can be used on the personal level - the reader debating them through with her/himself; on the inter-personal level as friends and colleagues discuss their own contribution, as well as in more formal and organised settings from the local sporting club all the way up to the united nations and the board rooms of multi-national organisations.

### ***10. Conclusion***

To conclude I quote the footnote at the beginning of the final chapter where the authors quote from the post-Marxist theologian Ernst Bloch : “When you begin to pay in hard cash for what you have preached about - the poor, the exploited and the oppressed - then you are Christians. If you do not, then you are chatter-boxes and hypocrites.” The authors then ask : Can we achieve something of the radicality of human action to which the Bible calls us, also in economics? The implication is that not only Christians, but all of us, should radically reappraise our stewardship and our economic theories.

*Beyond Poverty and Affluence* challenges us to start living that we might see something of a practical outworking of our theories and concepts in what we do to care, even as what we continually care to do, day by day, contributes to the historical structure of our caring.

### ***References:***

Fred Catherwood (1964), *The Christian in Industrial Society*, Leicester IVP.

Bob Goudzwaard (1970), *Ongeprijsde Schaarste* [Non-priced scarcity: social costs and uncompensated effects as a problem for economic theory and policy], The Hague: Van Stockum (with English summary).

Bob Goudzwaard (1972), *A Christian Political Option*, Toronto: Wedge.

Bob Goudzwaard and John van Baars (1978), "Norms for the International Economic Order" in *Justice in the International Economic Order*, Proceedings of the Second International Conference of Reformed Institutions for Christian Higher Education, Calvin College, Grand Rapids, August, pp. 223-254.

Bob Goudzwaard (1975), *Add for the Overdeveloped West*, Toronto: Wedge.

Bob Goudzwaard (1979), *Capitalism and Progress : A Diagnosis of Western Society*, Grand Rapids: Eerdmans.

Bob Goudzwaard (1984), *Idols of our Time*, Leicester: IVP.

Bob Goudzwaard and Harry de Lange (1995), *Beyond Poverty and Affluence : Toward an Economy of Care With a Twelve-Step Program for Economic Recovery* (Translated and edited by Mark R van der Vennen) Grand Rapids and Geneva: Eerdmans & WCC. [ISBN 2-8254-1138-8]

Bob Goudzwaard (1996), "Who Cares? Poverty and the Dynamics of Responsibility: An Outsider's Contribution to the American Debate on Poverty and Welfare" in Stanley W Carlson-Theis and James W Skillen, *Welfare in America : Christian Perspectives on a Policy in Crisis*, Grand Rapids: Eerdmans, pp. 49-80.

Alan Storkey (1986), *Transforming Economics* London: SPCK.

**BOOK REVIEW: *FOUNDATIONAL EPISTEMOLOGIES IN CONSUMPTION THEORY* by ALAN STORKEY, VU UNIVERSITY PRESS, AMSTERDAM, 1993 (ISBN 90-5383-264-5)**

**David Hawdon, Department of Economics, University of Surrey<sup>1</sup>**

This is a book which should be read by all interested in the analysis of consumer behaviour from a Christian perspective.. The book originated as a doctoral thesis at the Free University of Amsterdam, and is concerned with the issue of what constitutes true knowledge in economics. The first four chapters present a sustained critique of foundationalism in economics, i.e. the attempt to establish a neutral scientific basis for understanding based on rationalist, humanist principles. The coverage is extensive and the views of many eminent economists from Jevons to Gary Becker are investigated in detail. One useful feature is the author's grouping of his material by traditions - logicists (Jevons, Pareto and Hicks), rationalists (Cournot, Walras, Schumpeter, and early Samuelson), means-ends rationalists( Kaufman, Robbins and Becker), positivists ( Samuelson, Friedman, Popper and econometricians generally), Cambridge causal school (Mill, Marshall, JN Keynes, JM Keynes), and finally behaviourists (Scitovsky and Katona). As a result of this investigation Storkey argues that the quest to find a unique foundation to economics has failed and that an alternative approach is required. This is provided in the final chapter entitled 'Conclusions and New Directions'. We will devote the remainder of this review to a consideration of Storkey's own position.

After reviewing some of the reasons why he believes that the attempt to find an infallible foundation for the construction of well-formed knowledge has failed, Storkey concludes that no kind of knowledge can claim to be neutral, or infallible by virtue of the way it has been formed within a scientific discipline. Valid knowledge according to foundationalists, excludes the norms, principles and codes by which consumers normally make decisions either on positive/normative grounds (that an ought cannot generate an is), or because the categories are radically different. Its approach is impersonal, and excludes motives, aesthetics, communities, institutions and ideologies from its consideration. It is not able to account for the differences between consumption in the US and in Russia, for example, because Storkey claims that differences in ideology are vital to the explanation. In other areas, questions of belief such as 'when is consumption wrong?' and 'what is an ecological acceptable pattern of consumption?' are ruled out by foundationalists when they clearly matter for consumers.

Storkey argues that a proper approach to consumption research should accommodate the day to day experience of consumers and consumer theory and incorporate advertising, marketing sales and product research, together with an understanding of how consumers think, feel, plan and account. He argues that investigators should focus on consumption as a substantive area of human activity rather than as an application of economic theory. This would enable the normative and ecological issues which are right in the middle of consumption choices today (together with geography and biology) to be discussed.

---

<sup>1</sup> This review has benefited from extensive discussion with Tony Garrood, but the views expressed are the author's own.

Foundationalism needs to be questioned because it is rooted in a particular culture. 'Because of existing commitments of the profession, much so-called neutral theory has been formed to validate a culture where self-gratification is a sacred value'. This culture is, however, increasingly under attack from ecologists and post-modern writers, as well as, it may be added, from all who question the materialist viewpoint.

The foundationalist approach is criticised because of its assumption of 'the centrality of human understanding, the need for an authoritative channel, and the emphasis on science as the predominant mode of knowing.' Storkey presents several reasons why a Christian understanding shows that these assumptions ultimately fail.

1. Human knowledge is necessarily dependent and derivative because humans are part of creation. This explains why the various attempts at foundationalism have been so diverse. Ignorance and error are not merely due to motives and pressures, but to the essentially partial nature of human knowledge. Foundationalism is defective because it does not recognise the priority of God's revelation and the fallibility of human processes of constructing knowledge.
2. Faith has a central role in any scientific endeavour. This includes faith in our senses, our laws of thought, in procedural principles, which do not come by proof but are 'established by our judgement, by our inner conception and given with our self-consciousness.' Theory should be faithful to its subject matter and to norms of truthfulness - which requires that the investigator acknowledges the disguised beliefs brought to the investigation. These beliefs should form part of the debate.
3. The search for an authoritative channel of knowledge is mistaken, it provides no security, and it prevents focusing on the subject, in this case consumption.
4. He contrasts 17th century science which was a systematic way of studying God's creation including the relationship between student and the creation, with modern science's emphasis on obtaining an infallible way of gaining knowledge. Scientific enquiry should recognise its source in the Creator rather than in Nature, Reason or Science.

Against the foundational approach, Storkey argues for a Christian perspective. This does not have a compelling foundational argument to validate it, but by giving access to God's revelation, 'subject to the failings of its adherents does address the world as it is', and this should be evident although not self-evident at all kinds of points and different levels.' (p. 204)

The Christian perspective acknowledges the normative aspect of human behaviour because humans are created in an open relationship with God and creation 'exhibits the way it was created and sustained'. Human life is normatively guided and this guidance involves truth, justice, love and care of the natural world. So it is not enough just to describe the way things are, but to question much of human life as problematical.

His approach sees the different disciplines of which economics is one, as studying areas which find their central meaning in God's creation and in the created nature of humanity. Each discipline is allowed only a limited role. This opens up the possibility of a rich interdisciplinary

pattern of study. Rather than disciplines relating as domains of knowledge, they can be seen as studying layers of human meaning which interact very closely. Consumption is viewed as a domain of human activity which involves more than the economic.'

Specifically, a Christian understanding questions the anxiety which surrounds economic activity, 'the need for patterns of accumulation which are self congratulatory and aim to provide individual security'. In the same way other orientations - libertarian, Marxist Islamic for example, shape consumption and their impact should be examined. The Christian orientation sees the development of wisdom as a goal; one of the aims of research should be education of consumers to be wiser in their activities and choices.

So what about Storkey's own approach to consumption?. In the first place it is certainly not methodologically doctrinaire or foundationalist. He defines consumption as 'a major human activity involving the resources provided in Creation and the meaning which people give to their lives' (p.205). Consideration of consumption cannot therefore exclude the issues of faith, culture, world view, understanding and personal commitment which give it its meaning. Consumers may be disposed by their culture towards overconsumption, destructive patterns of consumption, or unfair distribution of consumption.

Because consumption involves more than the economic its study should be a transdisciplinary undertaking. This is seen clearly in unusual circumstances such as war when the economic may not be the most important aspect of consumption. It can also be seen in connection with health, whim or aesthetic based choices. The theory of consumption should therefore address the issue of which aspect of human activity should predominate in any given situation. The importance of institutions should also be recognised as a factor in explaining some consumption, e.g. coffee (different patterns at home and work) and cars (different use of company and private cars).

Consumption also involves planning, economic values, efficiency, lifestyle and distributional considerations wider than those of the foundational positions which Storkey rejects. Furthermore consumption has impacts on other areas of economic activity such as efficiency at work which should be taken into account. Such an approach opens up a wider range of instruments and methods than are available in foundationalist economics, including motivational studies and ethical judgement. This is consistent with his view of the purpose of theory as 'to help people consume with wisdom' in contrast with the idea of 'self validation by prediction testing or consistency - the otherworldly approach of the foundationalists'.

Storkey rejects the positive - normative distinction by asserting that economic choices involve normative considerations. If this is granted then consumer valuations and the faith and culture which generate them become central to the area of theory. The Creation is seen as a source of values that represent good human living.

Although his argument thus far would seem to suggest that every act of consumption should be assessed on an individual basis, Storkey in fact tries to reduce his task to manageable proportions by a classification of ideal types of consumer who 'represent divergent responses.' Ten types are distinguished -

- the survival type, characterised by low resource levels, basic lifestyle, and heavy social dependence;
- the traditional type, shunning innovation in consumption or work patterns;
- the puritan type, distrusting indulgent consumerism, working hard and saving much, and whose consumption is influenced by their faith;
- the hedonist type with a strong orientation towards present consumption, focused on pleasure, with pleasure industries defining what gives satisfaction;
- the ecological type who looks to the long term viability of consumption and to the land and resources used;
- the acquisitive type interested in acquiring property rights and an emphasis on owning rather than consuming;
- the personal fulfilment lifestyle in which self-fulfilment in various chosen programs or lifestyles is predominant;
- marriage and family identity types characteristic of immigrant communities where the emphasis is on the home as a focus for consumption;
- the security type who buys to maintain security of income, property, etc.; and finally
- the meek who relegate consumption to a secondary role. They value relationships, fairness in transactions, and the welfare of others and regard goods as instrumental to these ends.

Storkey provides an interesting analysis of these types in relation to their likely differing responsiveness to the time horizon of consumption, price sensitivity, saving commitment, interest rate response, work commitment, and many other areas. Changes in consumption behaviour are more likely to be due to transitions of individuals between types than to rational calculations based on prices. Motives are important factors and should be a focus of investigation, together with relevant consumption strategies.

In stressing the interdisciplinary aspects of consumption, Storkey adopts a Dooyeweerdian modal framework approach. Sixteen distinct disciplines from religion to mathematics are seen to be relevant to a proper model of the consumer decision making process. Complex behaviour like that of dieting can better be understood using this type of comprehensive analysis.

Storkey questions the usual definitions of family efficiency. The efficiency of the family defined in terms of the resources needed to sustain it varies tremendously and has profound impacts on consumption behaviour. Family breakdown affects the efficiency of families and causes increased demand for housing, legal services, childcare, and so on. Storkey argues that changes in institutions must be understood before changes in consumption can be comprehended.

At this point Storkey defines the 'neighbour principle' based on the second great commandment - to love your neighbour as yourself - which he argues is the 'normal mode of human response.' The neighbour principle implies a legitimate concern for our own welfare but not one which is best served by maximising subjective pleasure. This approach follows from a realisation that resources are received from God, should be accepted with gratitude and praise, and should be used for the benefit of others whose needs are to be met in justice and fairness as if our own.

The role of prices in consumption decision making is very small according to Storkey. Instead the consumer decides according to priority rankings based on such things as fitness for purpose, attitudes of others to one's purchases, and time constraints affecting the consumers search for goods. Indeed people may be driven to adopt specific work patterns by the need to sustain a particular level and type of consumption.

In a rather reluctant effort at systemisation, Storkey provides a list of sixteen different approaches (which he calls forms) which should inform the study of consumption decisions.. These begin with a religious analysis of meaning, and proceed through ethical and justice issues to biological chemical and finally mathematical issues. He argues that the greater flexibility of this multi subject approach is actually more rigorous because it exposes the theorist to multiple validation criteria. For example, he mentions the need for evaluation of medical evidence if the effects of alcohol consumption on people's work is under investigation. This would seem to require a range of knowledge outside the economist's traditional range of methods, which Storkey calls reskilling.

To what extent has Storkey achieved his aims. The first part of the book represents a comprehensive survey of major economists' efforts to establish firm foundations for their subject. It is much wider ranging than either Blaug (1992) or Caldwell (1994), the standard works on economic methodology. Although some of the criticisms of existing theory have been made before, Storkey's is a valuable attempt to trace them back to the philosophical underpinnings of the stances adopted. The emphasis on real people and their motives for consumption is a welcome redressing of the traditional concern with rationality conditions. However, the following observations are relevant.

1. Storkey rejects the primacy of economics in favour of a multidisciplinary approach to the study of consumption. The obvious question is how do we resolve the differences in explanations of behaviour offered by the different disciplines? If every consumption situation has to be studied separately, what valid generalisations can be made? The reader is left with no clear understanding of what can be achieved by systematic study.
2. The book's presentation would be improved by inclusion of some carefully worked examples of the application of the new approach. In order to be convincing, it would be useful, for example, to see how the various components of the neighbour principle calculations are to be weighted in decision making. How are commodities chosen when there is a conflict of interest between interested parties?
3. What happens when the judgements from religion, ethics, psychology, biology, etc. conflict with each other. In an issue such as the demand for abortion, for example, how can a conclusion be reached? Does the fact that abortion would seem to be in direct conflict with the creation principle mean setting the demand to zero? Although one might be sympathetic to this approach, how would one persuade non-Christian policy makers?
4. The approach is rather reminiscent of institutional economics in its call for detailed investigation of many issues surrounding an area of economic activity. This approach is also non theoretic and relies on a variety of verification procedures. Yet it has not supplanted the dominant school within

economics, which remains firmly wedded to classical constrained maximisation. Would this new approach fare any better?

5. If lack of realism is his principle criticism of existing theory, then Storkey is likely to experience the force of Caldwell's comment 'Few economists argue that realism should be the exclusive criterion for choosing among theories, and those who have come close to this are generally ignored by the majority of the profession' (Caldwell p.84)

Nevertheless, such is the profound crisis affecting economics at the present time, particularly in the United Kingdom where applications for college economics courses are dropping, that a firmly based Christian approach such as Storkey's can only be welcomed as providing a thoughtful alternative to the classical tradition. In addition, the task of educating consumers by making them think about the aims of consumption, about how well they are handling their own problems with consumption and devising strategies to cope with debt and maldistribution of consumption items is a valid one. The book will have served its purpose if it makes economists reconsider their basic enterprise and if it helps consumers towards a better lifestyle. For the Christian economist it offers hope that something useful may emerge from time devoted to the study of this important area of economics.

### ***References:***

- Blaug, M. (1992), *The Methodology of Economics, or How Economists Explain*, 2<sup>nd</sup> Edition, Cambridge: Cambridge University Press.
- Caldwell, B. J. (1994), *Beyond Positivism: Economic Methodology in the Twentieth Century*, 2<sup>nd</sup> Edition, London: Routledge.