Religion and Economics

Jack Boan – 2006 Jan 30

Introduction

I became interested in this topic about a year ago, when I was invited to give a lecture on the subject at the Seniors' Education Centre, in October 2004. Subsequently, Rick Kleer, in December 2004, told me that his attention had been drawn to the fact that a large compendium on Economics and Religion had been published. I tried, unsuccessfully, to acquire the two volumes via an interlibrary loan, but it had the effect of disabusing me of any notion that my foray into this field was original! That conclusion was re-enforced when Finnish Professor Esa Mangeloja, read a paper, here, late last year.

My work in this field so far has been delimited to the Christian religion, about which I have become fairly familiar over a lifetime of study and practice.

My question is this: are phenomena like the Washington Consensus sanctified by religious dogma? In what follows, I will let you in on why I think it is. My story has at its root Justification by Faith, the discovery of which set Martin Luther free. So, I will take a few minutes to trace its background, before moving on to the development of the basic economics model. I will show, as well as I can, how the basic economic model has been influenced by Justification by Faith, and finally, sketch out some implications for society and for the profession of Economics.

Genesis

Anthropologists tell us that when humans began to be aware of themselves apart from their environment, they developed a belief in a Creator, a God or Gods, which would send such things as earthquakes, cyclones, droughts, *etc.*, as punishment for wrong-doing. Such primitive views die hard. They were alive and well in many parts of the world when the Tsunami struck on Dec. 26, 2004. Primitive peoples burned offerings on an altar to try to appease their God. However, as time went by, and life became more secure than it was when they were hunters and gatherers, leaders began to point out that God does not care about their burned offerings, but instead demanded contrite hearts. So-called Prophets arose who consistently pointed out that what was wanted was some evidence of caring for one another. Isaiah may be taken as typical. Speaking for God, he says, "When you spread forth your hands, I will hide my eyes from you; even though you make many prayers, I will not listen; your hands are full of blood. Wash yourselves, make yourselves clean; remove the evil of your doing from before my eyes; cease to do evil, learn to do good; seek justice, correct oppression; defend the fatherless, plead for the widow" (Isaiah 1:15-17). In like tone, Jeremiah says, "Even the stork in the sky knows her appointed seasons, and the dove, the swift and the thrush observe the time of their migration. But my people do not know the requirements of the Lord" (8:7). Amos says, "I hate and despise your feasts, and I take no delight in your solemn assemblies. Take away from me the noise of your songs; to the melody of your harps I will not listen. But let justice roll down like waters, and righteousness like an ever-flowing stream" (5:21-24). Micah says, "… and what does the Lord require of you but to do justice, and to love kindness, and to walk humbly with your God" (6:8). The picture is clear: if you want to succeed as a people, you must care for one another.

This view is re-enforced in the New Testament. Matthew quotes Jesus as saying, when asked what is the greatest commandment, “Love the Lord your God with all your heart and with all your soul and with all your mind. This is the first and greatest commandment. And the second is like it: love your neighbor as yourself. All the Law and the Prophets hang on these two commandments” (22:37-39).

As far as I can see, the message is that if you want to succeed as a people, you must care for your neighbour’s welfare, which, by extension means to care for the environment, too. This same kind of concern is the essence of **For the Common Good** (Daly & Cobb, 1989).

Mankind bumbled along throughout the Middle Ages and then came Martin Luther (1483 – 1546). Martin had a problem. He wanted desperately to please his God, but he was never convinced that he had done enough. His guilt continued to weigh him down. Just about at the end of his rope, he happened to open the Bible at the book of Romans, and he read “However, to the man who does not work, but trusts God who justifies the wicked, his faith is credited as righteousness” (Romans 4:5). For Luther, a new day had dawned. Works were fine, and expected, but they had nothing to do with how you would be treated in the hereafter; what matters is this simple truth: the person whose faith in Jesus Christ as Savior was secure. How this would play in economics is what we turn to next.

However, before we leave this section, it is important to note, that the Theistic notion that God sends calamities of various kinds to punish us for wrong-doing, dies hard. I think that any fundamental view that gets established tends to live on, long after it may have had some relevance.

Economic Theory and its Development

Fundamental to economic theory is the role of the individual. Throughout most of history, the individual had no choice except one of obedience to whoever was his boss. Society was organized hierarchically, under a Sultan, King or whatever. As I read the record, rules of one kind or another regulated economic life. During the centuries of Roman domination, a flourishing commercial world developed, and in fact, modern commercial law is based on their codified commercial law. Not only that, the Scottish legal system is heavily indebted to Roman law. “The first professor of Scots law at the University of Edinburgh, Alexander Bayne, explained, ‘We consider the Roman laws which are not disconform [sic] to our own fixed Laws and Customs, to be our own Law’” (Herman, 2001, p.74). Later, the distinguished judge, Lord Kames, said, “Our law is grafted on that of Old Rome. The Roman law is illustrious for its equitable rules, affording great scope for acute reasoning.” (Op. cit.). [This is in contrast to English Common Law, which is based on precedent, not reasoning]. I will return to Kames when Adam Smith enters the scene.

The recurring theme throughout the period leading up to 1517, when Luther nailed his famous 95 theses to the church door in Wittenberg, and even subsequently for a while, was that economic life issued from the moral and ethical view of the world held by the individuals in power. Thomas Aquinas (1225? – 1274) comes to mind. The reliance on scripture for guidance was paramount. *E.g.*, Roger Bacon (c1210 – 1292), who is thought to be the father of the experimental method, said, “… there is one wisdom that is perfect … [it] is contained in the scriptures" (Stearns, 1948,p 54). In his definitive work, **Religion and the Rise of Capitalism**. R.H. Tawney, captured the essence of the spirit of this period as follows: "Their fundamental assumptions, both of which were to leave a deep imprint on the social thought of the sixteenth and seventeenth centuries, were two: that economic interests are subordinate to the real business of life, which is salvation, and that economic conduct is one aspect of personal conduct, upon which, as on other parts of it, the rules of morality are binding" (Tawney, 1922, p11).

Luther freed the individual to become a person in his/her own right, but the victory was tempered by the tradition of an authoritarian society. Nearly a century after Luther's victory at the Diet of Worms, in 1521, Thomas Hobbes (1588 – 1679) was born and his **The Leviathan** was published in 1651. John Locke (1632 – 1704) had his **Two Treatises of Government** published in 1689. It seems that it took that long for the notion of possessive individualism to be developed. C.B. MacPherson (1964) credits these two giants with its development. Once out of the lamp, however, the genie took off.

Possessive individualism, as explained by MacPherson "… is found in its conception of the individual as essentially the proprietor of his own person or capacities, owing nothing to society for them. The individual was seen neither as a moral whole, nor as part of a larger social whole, but as an owner of himself. The relation of ownership, having become for more and more men the critically important relation determining their actual freedom and actual prospect of realizing their full potentialities, was read back into the nature of the individual. The individual, it was thought, is free inasmuch as he is proprietor of his person and capacities. The human essence is freedom from dependence on the wills of others, and freedom is a function of possession. Society becomes a lot of free equal individuals related to each other as proprietors of their own capacities and of what they have acquired by their exercise. Society consists of relations of exchange between proprietors" (op.cit.).

Meanwhile, John Calvin (1509 – 1564) in Geneva, and John Knox (1505? – 1574) in Scotland were busy as church reformers, relying of the declarations of Luther, and elevating the word of God as the supreme source of wisdom. They preached justification by faith, following Luther, but added the doctrine of predestination. The latter was the belief that God had foreordained who would be accepted to live in paradise after death. This belief gave their parishioners a measure of anxiety. How was one to know whether you have been chosen? It came to be thought that if you were successful in your calling, whatever it was, God must be smiling on you, and has your name in his book. Such believers worked diligently to become rich, the richer the better, which was proof that their everlasting souls were safe in the arms of Jesus. After all, weren't they justified by faith?

Early in the 17th century, an interesting thing was happening in Scotland. That tiny country was having a sort of a renaissance, or Enlightenment, as Herman (2001) called it. A jurist, Lord Kames (Henry Home, 1696? – 1782) worked out a philosophy in economics much in keeping with the political notion of possessive individualism. In opposition to the notion that the most important instinct that human beings have in common is their moral sense, Kames argued that it is their sense of property and desire to own things. "Man is disposed by nature to appropriate", "To Kames and his followers, including Hume and Adam Smith, to own *things* is in fact to own *myself*. Property makes me a whole and complete human being" (Herman, p.82) He goes on, "David Hume would put it even more vividly: all the other passions, including self-interest itself, have relatively minor effect on our lives, compared with the desire for property. 'this avidity alone of acquiring goods and possessions for ourselves and our nearest friends is insatiable, perpetual, universal, and directly *destructive to society*.'" The function of Laws was then to keep others' avidity for property from taking yours. (op.cit.) Kames' views about the importance of each individual being able to acquire and hold without threat personal property, and to dispose of it as wanted, was passed on to two of his subsequently important associates, David Hume (1711 – 1776) and Adam Smith (1723 – 1790). Herman (2001) says, "…Hume would have to agree with Adam Smith: "We must every one of us acknowledge Kames as our master.'" (p. 81).

It is evident in The Wealth of Nations (1776) that Smith never gave up on his views expressed in his earlier **Theory of Moral Sentiments**, but he made central to his view on the creation of wealth the idea that human self-interest is the engine. He famously wrote, "The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor" (Smith, p.326) Better known, perhaps, is his statement, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self love, and never talk to them of our own necessities but of their advantages" (p.14) and he said, "… he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" (p.423). Incidentally, this is the only mention of the Invisible Hand, in the whole 900 pages of the book, but it set the world on fire.

Following Smith, economic theory began to be written. Ricardo, James Mill, Malthus and West played a role in the early 19th century, their contributions collated and extended by John Stuart Mill in 1848, culminating in the definitive statement by Marshall in 1890, with his **Principles of Economics**, 8th edition. I think it is fair to say that this analytical body of thought continues to be refined to this day. Using this model, it can be shown that if certain assumptions obtain, like perfect competition and free markets, and a few others of a technical nature, the best of all possible outcomes will be realized, a situation called Pareto Optimum. It is this model that informs the group in Washington whose economic policy has the name of *The Washington Consensus.*

The latter has resulted in the World Bank and the International Monetary Fund dictating to the have-not nations of the world that they must get rid of all regulations, and embrace strict market capitalism. The hypothetical freedom of the individual, upon which it is based, I submit, began with Luther's discovery of Justification by Faith, which was firmly imbedded in the thought of the day, when about a century later, Smith's bomb-shell was set off, and consciously or not, is basic to the economic model of today. That is why I claim that The Washington Consensus is sanctified by Holy Writ, Romans 5:4. They cannot be wrong, because the proof is in the pudding. Countries of the Western World have become over time very rich. It works!

Or does it? Seabright (2005) does **not** think so! "Impressive as it is, the theory of competitive and efficient markets has two major gaps. The first is that Pareto-efficiency says nothing about equality: if the poor cannot be made better off without harming the rich, competitive markets will not help them. In fact, the history of recent economic development suggests that the poor and the rich can have a mutual interest in exchange, but it's important to remember that competitive markets are about exploring avenues of mutual interest, not about redressing preexisting imbalances of power and wealth. The second gap is that the theory says nothing about what makes it reasonable for individuals to trust those with whom they have to deal. It takes for granted that when people make deals and write contracts with each other, the deals will be respected and the contracts carried out." (Seabright, p.100). In fact, what makes it possible is social capital, education and law, which underscore those economic activities, and the market says nothing about putting social capital in place.

A third short-coming, and this is the concern of Daly and Cobb (1989), the model of competitive markets is powerless, per se, to do anything about preserving, and repairing the environment.

A more serious problem still, is that the economic model of the Washington Consensus, and other religious entities like the Fraser Institute, underpins the development of what John Ralston Saul, in his 1995 Massey Lectures called the Triumph of Corporatism. The fall-out from this tragedy are multiple. I will give just two examples. (1) It justifies the greed of the C.E.O., some of whom have been charged and convicted. Greed is Good has become accepted behavior. (2) The acceptance wholesale in society of gambling. This anti-social virus is everywhere, from the grocery store to the casino, from charities, desperate to find the money they need to carry on, to the school-yard. What's in it for me has been the mantra. It reaches the level of the absurd when organizations like the Regina Symphony Orchestra and Health charities, stoop to raffles to raise money. Probably the leaders in all these endeavors, from the corporation to the pathetic charity, believe that their actions are Justified by Faith.

The economics profession, to its credit, has individuals who work on real world problems beyond the limitations of the basic economic model. The question is how will their findings get to be incorporated in the body of economic theory?

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