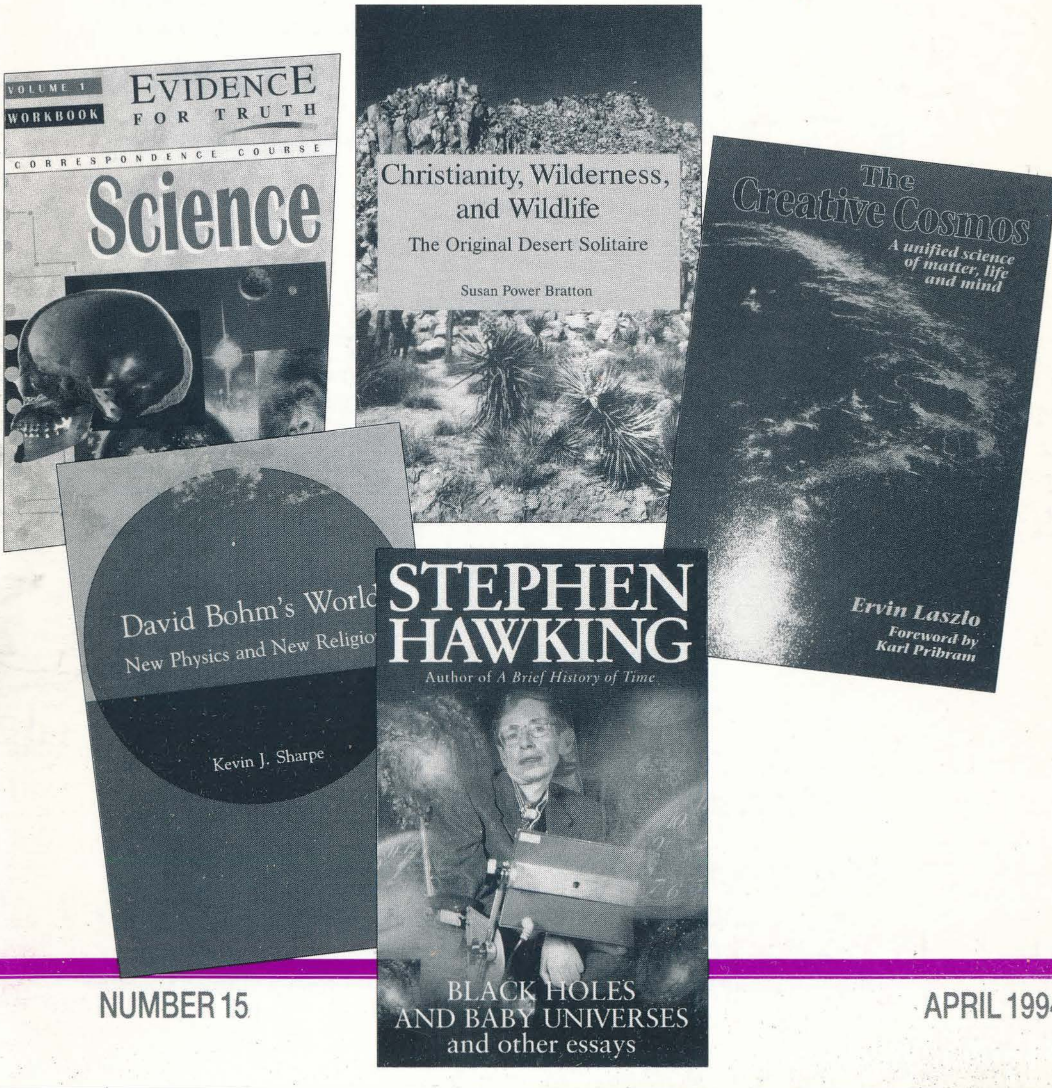
FAITH & THOUGHT

• BULLETIN •



NUMBER 15

APRIL 1994

CONTENTS

EDITORIAL

The main contribution to this Bulletin is the lecture given by Donald Hay to the Institute at the AGM last May. We hope this may lead to some comments.

The AGM for 1994 will be on Tuesday, May 18th at 6.15 p.m. in St Peter's Church, Vere Street, London. This will be followed at 6.30 p.m. by the Annual Lecture to be given by F. Nigel Hepper, B.Sc., F.I.Biol., entitled 'A Botanist Looks at the Bible'. Mr. Hepper was formerly Research Botanist at the Herbarium, Kew. Dr. Michael Collis will be in the chair. We welcome all members to this meeting.

NEW MEMBERS OF THE VICTORIA INSTITUTE

(J) indicates joint membership of the Victoria Institute and Christians in Science.

Dr. Peter Hammesley, B.Sc., Ph.D. . . . . Caterham, Surrey
David J. Murray, FIMgt, FIQA, MIMC . . . . Blackburn, Lancs.

Tai-Wai Fong	London J
Dr. Alexie V. Nesteruk	Oxford
Keith George, B.Sc.	Chingola, Zambia
Prof. S. J. Mikolaski, BA, MA, BD, D. Phil (Oxon).	Oceanside, USA
Dr. Brent Waters	California, USA
Sandra Pearson, B.Sc.	Croydon, Surrey
Krestanska Akademie	Prague, Czech Rep.
Prof. Michael Bame, M.Th, Ph.D.	Yaounde, Cameroon J
Roland L. Durn	Ilford, Essex

CORRESPONDENCE

Sir,

C. W. Mitchell (Faith and Thought Bulletin, 14 (1993), 3–5) fails to take account of why and how changes crept into New Testament manuscripts. Mistakes sometimes occured through a scribe's eye jumping from a word in one line to the same word in another, or through mishearing a word in dictation. The sort of changes to which Mitchell refers, however, are most easily explained by someone misreading or mishearing an unusual phrase as the more usual one which he was expecting. This is why most modern translations follow the earlier manuscripts with readings that are more 'difficult', rather than the 'easier' ones behind Textus Receptus and the KJV. (Incidentally, the choice is not between TR and Westcott/Hort, but between TR and modern editions such as Nestle, which take account of even earlier manuscripts.) As for the supposed 'errors' . . .

In Mark 7:31, may not the evangelist mention an 'apparently unnecessary' diversion through Sidon for the simple reason that it occured, and the memory of Jesus going '40 miles out of his way' had impressed itself on his foot-weary disciples?

While the reference to Judea in Luke 4:44 is not found in the parallel verses in Matthew and Mark (which is no doubt why it was later 'corrected' to Galilee, to bring it into agreement with them) it does agree with the witness of John's gospel, and thus supports its reliability as history.

The gospel writers were no doubt as aware as we are that the sun could not be eclipsed by the moon during passover (**Eklipontos** in Luke 23:45) while the root of our word 'eclipse', simply means that the sun's light failed. In Luke 22:32, Jesus prays that Peter's faith may not **eklipe**.

R. H. Allaway

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

Donald Hay, Jesus College, and Institute of Economics and Statistics, Oxford

1. INTRODUCTION

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

For Christians there is the further issue as to whether they have anything distinctive to say on these two questions. One might expect Christians to have a particular interest in economics as a social science, based on models of human behaviour. Christians have a distinctive view of human beings as created in the image of God, but fallen, with consequences for human behaviour. *Prima facie*, there-

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

fore, one might expect Christians to have something to contribute. It is even more likely that there is a Christian position on how economic life should be evaluated. There is a long Christian tradition of social ethics, exploring God's purposes for human life and community.

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

2. ECONOMIC METHODOLOGY: IS ECONOMICS 'SCIENTIFIC'?[1]

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

2.1 Economic theory

The pattern for economic theory set by J. S. Mill's *Essay on the Definition of Political Economy* (1836) has proved extremely durable. He argued that economic analysis should proceed by reasoning through deductive logic from basic assumptions about economic man.

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

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

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

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

But the question is what restrictions are appropriate: it is natural to look to empirical analyses for guidance.

2.2 Empirical analysis

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

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

2.3 Christian reflection

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

Image of God	*Fallen*
Personal, responsible, making choices	Egotistical, choice/actions determined by selfishness
Enters into loving relationships	Relationships characterised by power and fear
Steward of the natural (created) order	Exploiter of the natural order
Work as gift or vocation	Work as toil

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

3. A CASE STUDY IN METHODS OF ECONOMIC ANALYSIS: CONSUMPTION AND SAVINGS IN THE UK IN THE 1980s

3.1 Theory

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

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

3.2 Econometric analysis

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

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

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

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

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

3.3 Details of the financial liberalization

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

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

3.4 Christian reflections

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

4. EVALUATION

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

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

In retrospect, matters are perhaps less clear cut. If attention is focussed solely on microeconomic aspects (and so ignoring the resurgence of inflation in the late 80s and early 90s, and the balance of trade deficit in manufactured goods), it is evident that some serious problems had surfaced by 1989. There was a substantial problem of debt which persisted into the 90s. Surveys showed that in 1989, 2.4 million households had 'problem' debts i.e. debts which they had difficulty in repaying. Some 560,000 households had three or more problem debts. In 1990, nearly 48,000 houses were repossessed; 1.5 million electricity users and 1.0 million gas users were behind with paying their bills. At least 70% of problem debts arose from unexpected events—redundancy, loss of overtime or sickness. Sheer improvidence and stupidity was a factor in only a minority of cases. Citizens Advice Bureaux were flooded with requests for help and advice. Studies by the Policy Studies Institute and the Jubilee Centre revealed a huge amount of heartache and suffering in the families affected by debt.[9]

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

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

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

4.2 Evaluation within a Christian normative framework[10]

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

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

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

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

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

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

5. CONCLUSIONS

5.1 How 'scientific' is economics?

Our discussion in sections 2.2 and 3 above has suggested that within a modest range of variation in conditions, economic behaviour is quite regular and predictable, at least in aggregate, and that econometric methodology is adequately developed to model that behaviour with some precision. The problems arise when there is a major change in conditions, especially major unanticipated changes in policy. For a start, economies are complex, open systems and impacts can be difficult to trace accurately. Furthermore, changes in policy can generate changes in economic behaviour, not least because of an educative element, as was evident in the example of financial liberalization explored in this paper.[10] The lesson seems to be that economists should be more modest about claims for their discipline, and the general public should be more cautious about accepting dogmatic claims by economic experts.

5.2 Is the basis for economic prescription satisfactory?

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

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

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

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

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

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

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

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

BOOK REVIEWS

Ken Leech *The Eye of the Storm*, DLT, 1992, 272 pp., paperback, £15.95

Ken Leech is the Community Theologian at St. Botolph's Aldgate. The writer of this review has just arrived at the same church, as Rector.

The book is sub-titled 'Spiritual resources for the pursuit of justice' and in it he argues for an authentic and rugged spirituality that struggles for justice and peace in the face of domination. That struggle, which is epitomised in his own struggle for justice in his brave and courageous stand against racism in the East End will, he argues, enable all engaged in it to discern the face of God, the God of Justice and so to share in the peace of God. Justice and peace are at the heart of this book.

For me the most interesting part of the book is the chapter entitled Desert in the City, an autobiographical account of his years of ministry in the very heart of the East End as he identifies with the community in its totality. The East End continues to be one of the poorest areas of the country with severe problems of housing overcrowding, housing damp, homelessness, physical and mental illness. It is no surprise that TB once thought to be eradicated in Britain has just broken out in the East End. He describes the deprivation of this community vividly as someone who lives a simple life in a small flat in the heart of Whitechapel.

The book however is not the subjective thoughts of a resident but is well researched and substantiated by a plethora of references—571 in total, illustrating the depth and magnitude of Ken Leech's knowledge and experience.

I would recommend this book for anyone wishing to take up the challenge to immerse themselves in the struggle for peace and justice in an unjust and violent world.

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David Bridge (Ed.) *God of Science, God of Faith*, Methodist Church Home Mission Division, 1988, 80 pp., £3.00

This small popular booklet has many good things in it, although it has weaknesses that will hinder some people from using it. It is a piece of popular apologetics covering several science and faith issues and the write up of a working party. It starts with a long 'scientist's version of Genesis 1' with the opening sentence 'In the beginning was the Big Bang'. It is careful to define terms, but what can one say when it seems totally to repudiate creation 'ex nihilo' because it is 'difficult for scientists' and 'matter and energy are, in their various forms, everlasting'! Creation is seen merely as a process which began 15 billion years ago. 'Creationism' is caricatured in an unfair way. On the origin of life it is said that 'it can only be a matter of time before it is possible to reproduce, in the laboratory, processes which amount to the creation of life'. In the chapter headed 'Body, Mind and Soul', it is concluded that these are 'three significant ways of looking at our person. In Christian terms . . . the soul is dominant'. The chapter on Miracles has no clear conclusion, but leans towards the view that these events are merely surprising and awe inspiring. That is because of a semi-deistic view that God 'is bound by' the 'laws of nature'; a view which, apart from anything else, is surely outdated. Each chapter closes with possible questions for discussion.

OLIVER R. BARCLAY
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Wesley Carr *Manifold Wisdom—Christians in the New Age*, SPCK (London), 1991, 142 pp., paperback, £9.99

The purpose of this book is to analyse the message that the New Age phenomenon provides for the Church 'about the context of belief in which its gospel has to be interpreted'. The author regards the New Age as a phenomenon rather than a movement, as it has no coherent body of belief.

One of the central questions raised by the existence of the New Age phenomenon is 'where does the ultimate control of our destiny lie?' The holistic approach, characteristic of New Age writers, attempts to combine ideas from Buddhism and Quantum Theory, for example. Carr suggests that this may indicate that neither a purely scientific nor a purely theological answer to this question is tenable any more.

I found some resonance(!) with my own observations, in the chapter on spirituality. The New Age points to the contemporary desire for different experiences and not just a dry apologetic for religious belief. However, I disagree with Carr's proposition that Christian faith is fundamentally about 'sustaining the rumour of God (as a personal, transcendent being) rather than offering any great clarity about him'.

Another central issue raised by the New Age is the question of human identity and significance. Within his discussion of this issue, Carr argues against the understanding of sin as law-breaking and in favour of a definition in terms of the violation of another's boundaries. He also defines sin as unwisdom, in contrast to the manifold wisdom of God.

The New Age is criticised for being hopelessly over-optimistic about human nature and our ability to solve major problems, such as the environmental crisis. Carr, correctly in my view, argues that it is the humility of a worshipper and not nature mysticism which is required as the basis for political action on 'green' issues.

Carr believes that the New Age may itself be over-rated, but that it provides an indication of our present context. He concludes that the future of the Church lies less in trying to solve insoluble problems and more in 'sustaining the sense of wonder at the existence of God'. But what is the value of such a Church to the hungry and the homeless?

I found Carr's thinking often difficult to follow and the ideas this book contains need wrestling out of the brambles of the text. However it is an interesting, perhaps prophetic book which deserves to be studied as an original analysis of the challenge of the New Age phenomenon.

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ISSN 0955-2790