

JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 27, March 2000

From the Editor:

In this issue there are three articles. Gordon Menzies writes about international debt relief, developing his presentation to the 1999 ACE Study Group. Paul Oslington writes about a theological economics. Finally Prabhu Guptara has contributed a review article written from a Christian perspective on a recent work by British authors on Islamic Finance.

As always submissions to the Journal are invited. Readers are encouraged to submit draft manuscripts or to discuss ideas for papers at a preliminary stage.

The 2000 ACE Study Group will take place at Jesus College, Oxford, 14th-15th July, with papers from the following: Chris Clapham (Manchester), Andrew Henley (Aberystwyth), David Nussbaum (Oxfam) and Ian Smith (St Andrews). The booking form is available from Donald Hay, Jesus College, Oxford, OX1 3DW, or can be obtained from the ACE website.

From the ACE web site back issues of the ACE Journal from 1993 to 1997 can be downloaded along with a link to North American ACE and other useful information. The web address is <http://users.aber.ac.uk/arh/ace.html>

The North American ACE Bulletin now has a new format and has been retitled *Faith and Economics*. The Fall 1999 issue contains articles by P.J. Hill on public choice and by Roland Hoksbergen on NGO's and economic development. Further details from the secretary, John Mason (mason@gordon.edu).

Andrew Henley,
School of Management and Business,
University of Wales Aberystwyth,
Penglais,
Aberystwyth,
Ceredigion, SY23 3DD,
Wales, UK.

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

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THE ECONOMICS AND ETHICS OF INTERNATIONAL DEBT RELIEF

Gordon Menzies, Wolfson College, Oxford University*

1. Introduction

In the part of England where I reside it is not uncommon to be approached on the street by people who claim to want money for life's necessities. If I am asked whether giving money under these circumstances is a good thing, two thoughts come to mind.

First of all, it depends upon how God sees the situation. There are several possibilities. Suppose a woman asks me for five pounds. How can you evaluate that situation without knowing the full story - what if I stole it from her five minutes ago? In this case it would be morally reprehensible to refuse her request, or even to ask what the money is for. Given my recent actions, I would not even have the rights of a steward. Another possibility is that I give the money to her to protect myself from abuse, or to help promote a placid cohort of street-dwellers. God may not be impressed with my enlightened self-interest, but He may be using me (in spite of myself) to help someone. Finally, I may give something, remembering someone else who became poor for me. But I have to be careful of deceit, which may affect my mode of help. (I generally offer help rather than cash, trying to screen out those who are not genuine).

The second thought that comes to mind is that there are many ways to help people in this situation. In some circumstances, it may be best to not give money directly to them. I could give money to a night shelter, or to a sympathetic political organization, or to an evangelist. I could even befriend someone whom I meet regularly on the street. None of these options are without problems, but none of them are crazy. Some options are either wrong or crazy. Rudely refusing all requests will not affirm the dignity of persons, and, giving out my cashcard, together with the injunction to do good, does not take human sinfulness very seriously.

There are some similarities between helping people on the street, and helping the poor in other countries via debt forgiveness (outlined in section 2). As in the case of the street-dweller, I ask 'How might God see the situation'? My answer will depend on whether scriptural principles can be brought forward in defence of debt forgiveness, which is the subject of section 3. In section 4, I refer to economic analysis in order to cast doubt on some variants of the debt forgiveness proposal. Drawing on the ethical

* My thanks to Huw Evans (former IMF Director), Duncan Green and Henry Northover (CAFOD), Nick Buxton (Jubilee 2000), Andrew Dilnot (IFS) Prof. Ian Harper (Melbourne Business School), Rev. Andrew Moore (Jesus College) and the participants of the Association of Christian Economists study group meeting (Jesus College 1999). Any remaining errors are my own responsibility.

evaluation in section 2, I also ask whether the current Christian proposal gives sufficient room for sacrificial Christian giving.

My main conclusions are as follows. The goal of debt forgiveness is neither wrong nor crazy. It can be supported biblically, ethically and economically. As a general rule, however, moral hazard implies that unconditional forgiveness should not be proposed. The nature of appropriate conditions remains an area of dispute, though I think that the Jubilee 2000 campaign needs to acknowledge that some orthodox economic policies can help the poor. However, the general finding against unconditional forgiveness ought to be overturned if the creditor somehow stole from the debtor nation, perhaps in collusion with the national leadership. Clearly there is a need for an international bankruptcy code.

In all of this, a distinction between aid and commercial relationships should be maintained. Even if a country is struggling to meet conditions, humanitarian aid, funded by more generous Western budgets, should still find its way to the poor.

If unconditional forgiveness is abandoned, what is distinctively Christian about the Jubilee 2000 proposal? One answer may be that a wealth transfer from the church (as opposed to taxpayers in general) provides a distinctive Christian witness. For particular Christian groups, it may be an opportunity for public repentance for any past wrongs done to the recipients of debt forgiveness.

2. HIPC and Jubilee 2000: Will the Real Robin Hood Please Stand Up?

I will confine my comments in this paper to the two proposals currently on the table for debt forgiveness. They are the Highly Indebted Poor Country initiative (HIPC), and the Jubilee 2000 proposal (J2K).

HIPC

The stage setting for HIPC goes back to the oil crisis of the 1970s. The OPEC (Organization of Petroleum Exporting Countries) cartel achieved an enormous transfer of wealth from the industrialized world between the time of the first oil price hike (1974) until the collapse of the oil price in 1985. The so-called petro-dollars were saved by the OPEC nations, and then recycled back through the world financial system to developing countries, many of whom were experiencing balance of payments difficulties due to higher energy prices. In the early 1980s, a high interest rate policy was instigated by the US Federal Reserve to break the back of US inflation. This, together with weakened world demand, adversely impacted upon debtors' debt service costs and export revenues respectively. International debt problems hit the headlines in 1982, when Mexico had to reschedule its debts. Capital flows to many developing countries ceased, and a drawn out process of debt rescheduling commenced.

For the poorest countries, most of the debt was sovereign, and owed to OECD governments and international agencies. Rescheduling occurred at the so-called Paris Club of creditors. If the club believed, usually on the say-so of the IMF, that the country was making a significant adjustment effort, the debts would be rescheduled (i.e. payments delayed). However, for many years the Paris club stuck to the principle that the rescheduling must never occur at concessional rates, implying that the net present value of the debt was maintained.¹ Once the danger to the international financial system passed, there seemed to be little political will to tackle the issue of unredeemable debts. The political-economy analysis of the Evans (1998) suggests four obstacles: the absence of a crisis, the insignificance of the countries in the world economy, the reluctance of institutions to acknowledge past mistakes, and the reluctance of the United States, until the Clinton administration, to get involved.

Despite the 1987 introduction of the IMF's much-heralded Enhanced Structural Adjustment Facility (which Evans says was largely a reaction to mounting arrears on IMF loans to the poorest countries), the situation did not change substantially for over a decade. The 1989 Brady plan provided some relief to the Latin American countries (and US banks), but bypassed the poorest countries, most of which are in sub-Saharan Africa.

Over time, the 'no net present value reduction' principle eroded leading, in 1996, to the unveiling of the HIPC initiative by the IMF and the World Bank. Under HIPC, very poor countries could apply for the writing off of sovereign debt provided that they pursued sound economic policies for a sustained period of time (the so-called conditionality requirement). Another innovation was that HIPC aimed to treat each country on a case-by-case basis.² The 41 HIPC countries have debts totaling \$205 billion. Following the June 1999 Cologne summit, there is a commitment to write off approximately \$100 billion, providing conditionality is satisfied.³

At the Cologne summit, G-7 finance ministers stopped short of pledging tax increases to compensate HIPC creditors. Instead, they called on the multilateral development banks (MDBs) to carefully examine any ways of realizing efficiency gains. They also promised to consider giving resources to an expanded HIPC Trust Fund (the HIPC Trust Fund was set up to help all MDBs finance debt forgiveness). This, together

¹ When debt contracts are refinanced at lower than market rates, the value of future obligations, in current dollars, falls. Money designated for a future repayment can be placed in a Bank, earning a high rate of interest. Hence the decline in *present* value.

² HIPC initiative has gradually begun to address is the importance of debt service relief, as opposed to debt principal relief. Although a reduction in the debt stock should translate roughly into a proportional cut in the service repayments, it is not so for the HIPCs. Much of the debt service is not being paid anyway, so there is a point up to which debt forgiveness will not reduce interest payments.

³ This is not a large sum of money in the scheme of things. It is the same order of magnitude as the payout for the U.S. savings and loan crisis.

with a so-called Millennium Fund (taking private sector contributions), will be key to lowering debt service payments.

In addition to these funding mechanisms, the G-7 agreed to sell up to 10 million ounces of the IMF's gold reserves, using the interest on the proceeds to finance debt relief. Members of the U.S. Congress have come out against the sales, however, and the outcome is in doubt. Some members of Congress oppose the gold sales on the grounds that they will help the IMF's Enhanced Structural Adjustment Facility (ESAF) in its transition to self-sustainability. This self-sustainability will make ESAF less accountable to donor governments. Furthermore, there is concern in Congress that the sale of gold reserves will decrease the price of gold on world markets.

If the sale falls through, the debt initiative will have to be financed directly through government contributions. Absent tax increases, this means that either it will not be financed at all, or it will be financed at the cost of many governments' normal aid budgets (Morrison 1999).

J2K

In the early 1990s, Non-Government Aid agencies (NGOs) campaigned and lobbied for debt relief through the so-called Debt Crisis Network. In 1994, one Martin Dent (professor in Keele University, UK) linked up with Bill Peters (an ex-Diplomat with experience in Malawi) and Isabel Carter (the Community News Editor of Tearfund) to create Jubilee 2000. In April 1996, the Jubilee 2000 campaign commenced, with funding from three Christian aid organizations: CAFOD (Catholic), Christian Aid (ecumenical) and Tearfund (evangelical). In 1987, the campaign was launched in the US and elsewhere. In October of that year Jubilee 2000 (UK) became a formal coalition of aid agencies.

J2K describes its aims as (a) a one-off cancellation of the unredeemable debts (b) of the world's poorest countries (c) by the year 2000, (d) under a fair and transparent process. I describe each aim in turn.

The inspiration for condition (a) allegedly comes from the Jubilee year in the Old Testament (Deuteronomy 15), though the Jubilee year was neither one-off nor confined to unredeemable debts.⁴ More recently (in 1990) the All Africa Council of Churches called for a Jubilee on African debt, so the term 'Jubilee' may be evolving somewhat

⁴ In Deuteronomy 15, the people were commanded to cancel fellow-Israelite debts and free Israelite slaves every seven years (though it is not called a Jubilee in this passage). Leviticus 25 is the actual Jubilee legislation. Every 50 (or 49) years, on the day of the atonement, the people were commanded to 'proclaim Liberty'. All land was to return to its original family, redefining all land sales as leases (with the exception of houses in walled cities, under some circumstances). In the same passage, charging interest, or selling food to those in need at a profit, is prohibited.

away from its biblical meaning. The one-off condition probably also owes something to game theory, since a one-off cancellation would seem to remove an incentive to refrain from lending in the lead up to a (regular) Jubilee. This will be taken up briefly in section 4.

J2K shares aim (b) with HIPC, though it wants more countries covered and more money spent. It has earmarked 52 countries (compared with 41 under HIPC) with debts totaling \$350 billion (\$205 billion under HIPC) for relief of \$200 to \$300 billion (\$100 billion under HIPC).

Aim (c) is largely directed at marketing, though the deadline underscores the frustration of NGOs over the amount of time it has taken to get this issue addressed.

Aim (d) is not unique to J2K. In fact, it may well be inconsistent with aim (c); work on an international bankruptcy code will probably continue beyond the year 2000. The goal of an international bankruptcy code, if realized, could give some optimists hope that there will never again be a need to forgive (aim (a)). The pursuit of fair bankruptcy codes has a motivation independent of aim (a), however. It can be argued for on the grounds of an injustice. The continuance of basic public services in the case of bankrupt local U.S. authorities is enshrined in Chapter 9 of Title 11 (Insolvency) of the US Code (Raffer 1995). J2K argue that this principle of protecting the weak from economic adjustments ought to be upheld in the international arena.

The proposal has received criticism for its ambiguity about conditionality. Perhaps because it is a coalition, it has not stated unequivocally that it supports conditionality. However, its support for the practice of setting up publicly observable funds for spending debt savings on desirable projects (as has been done in Uganda) indicates that it does see the danger of governments misappropriating savings from debt cancellations. Furthermore, in Pettifer (1999) the UK director of J2K outlines a view of future debt bargaining which involve penalties for countries breaking agreements. The movement is negative about the IMF in general, and dismissive of IMF Structural Adjustment Programs in particular. The possibility that some orthodox economic policy prescriptions may help the poor is not explored.

Will the Real Robin Hood Stand Up?

Undoubtedly J2K is proposing something more generous than HIPC. What is unclear is how effective some of J2K's proposals would be if they were implemented. Of particular concern is the lack of clarity about conditionality, and its apparent stance against all economic orthodoxy. Both J2K and HIPC might perish for a lack of funding.

Having outlined the proposals, I now ask 'How might God see this?' Postulating an answer may not be straightforward. As Hay (1989) notes, the scriptures may not provide a royal road to knowledge for some social issues, but they do help us to have

God's concerns, and they challenge us to look humbly and carefully for truth, starting with His revelation.

3. Ethical/Theological Evaluation

Method

The literature on a Christian response to poverty is immense, particularly if one includes the works of those associated with liberation theology, and, the literature that sees the market as intrinsically evil. Rather than review all of this, this section merely notes a few different sets of theological 'moves' which are sufficient to build a case for debt forgiveness, and leaves the reader to decide whether s/he feels convinced by those moves or not.

In general I follow the method of Hay (1989). As God's character is eternal and unchangeable, I expect His word to contain eternal unchangeable patterns or principles, based upon his character. This is a task of systematic theology, sifting through the biblical material over a wide range of social contexts, hoping to see patterns emerging which do not seem to depend upon culture.

Applicability of Old Testament

If debt forgiveness is to be motivated primarily by the Old Testament Jubilee principle, I must ask two preliminary questions. First, how much of the teaching on the Jubilee year in Deuteronomy 15 is inappropriate for the 20th century.⁵ Someone who wanted to claim that Jubilee is an eternal principle would point out that the motivation for the Jubilee (gratitude for redemption) is a theme that runs deep in both Testaments, even if the cultural manifestations change.

The second question is far more testing. Should Christians in a democracy try to make Old Testament guidelines for community life the standards that govern secular society? The question really has two parts: Is it realistic to expect non-Christians to agree with God's standards, and, even if they do, does the church's pursuit of these goals cloud its gospel witness? Some Christians would say 'no' to the first part. While they would accept the Jubilee principle, they would argue that it can only find expression in the redeemed community of God; Israel in the Old Testament, and the church in the New Testament. The following passages, which indicate how generosity can be encouraged, show the basis of their skepticism.

'If there is a poor man among you ... be open-handed and lend him freely whatever he needs. Be careful not to harbour this wicked thought. "The seventh year, the year of canceling debts is near" so that you do not show ill-will toward your needy

⁵ I am adopting the convention of referring to Lev. 25 and Deut. 15 teaching as Jubilee, though the latter passage, which promotes debt cancellation, does not use the term.

brother and give him nothing. He may then appeal to the Lord against you, and you will be found guilty of sin.....[and, on freeing slaves] Remember that you were slaves in the Land of Egypt and the Lord your God redeemed you. That is why I give you this command today.’ (Deuteronomy 15: 7-15)

‘..remember that at that time you were separate from Christ, excluded from citizenship in Israel and foreigners to the covenants of the promise, without hope and without God in the world. But now in Christ Jesus you who once were far away have been brought near through the blood of Christ.....He who has been stealing must steal no longer, but must work, doing something useful with his own hands, that he may have something to share with those in need.’ (Ephesians 2:12-4:28)

These passages show the difficulties of ascribing Christian motives to secular decision makers. The motives alluded to above (fear of sinning against the Lord and gratitude for redemption in Deuteronomy, and, God's generosity in Christ being a motive for our generosity in Ephesians) could not be expected from a non-Christian.

But the second question presses upon us. Even though some secular support for Jubilee exists, is this how the church should be using its energies? A considerable number of Christians would regard evangelism as a more fitting target for time and resources, even if some social action appears possible. This view is suspicious of the ultimate effectiveness of social action, and concerned about the corrupting influences of secular forces on the Church. (or, more creatively, it notes that with the increased prevalence of democracies in the world, widespread revival could reasonably be expected to affect social issues, as the number of Christians edges toward the magical 50 per cent).

Evangelicals dissenting from this view note that it would not hurt their evangelistic efforts to have the church adopt a sane, compassionate stance on a high-profile issue. Furthermore, they would argue that the church's mission involves loving concern for peoples' material condition, not just as a means to evangelism. A sophisticated version of this is argued in Stott (1999). Looking at some of the tragic silences of the church (e.g. the Lutheran church and the Holocaust), he argues that the evangelical church has to display more concern with social justice. However, looking at some of the church's unsuccessful impositions (e.g. Prohibition) he argues that the method of involvement should be ‘persuasion through argument’. A correction could entail more involvement with issues such as J2K.

Clearly deep issues are being touched upon here, to do with the relationship between Church and State. However, the problems are perhaps less acute for J2K, where there is a good measure of secular support (unlike, say, the Church's stance on abortion). It would appear that Christians have struck a happy medium between the imposition of Christian values and the uncaring detachment outlined carefully by Stott.

However, secular support comes with a price tag. Christian proponents of J2K have to accept that it is not realistic to expect godly motives for the secular contributors, but they argue that at least part of the Church's mission can be achieved in spite of this.

The argument begins with a kind of consequentialism; as long as the poor are fed, God's will is being done. It then reminds us that the sovereignty of God applies in all authority structures, in spite of many people's motives. Common grace is sufficient to ensure that some of the moral obligations to the poor are felt by those without Christian faith, even though they are not described in Christian terms. This appears to be correct. The rhetoric of an atheistic system such as Marxism is thoroughly opposed to poverty. Furthermore, the progress of J2K to date is itself testimony to a measure of secular compassion. These observations should be sufficient to recognize the possibility of community altruism. The J2K proposal may have to rely partly on confiscatory taxation, enlightened self interest or gimmicky advertising. But there is enough of the image of God left in human society that an altruistic act like debt cancellation may have enough support to proceed.

Biblical Principles

If the above difficulties can be resolved, are there biblical principles (including Jubilee) that can support (or modify) debt forgiveness? I note eight. The first four principles are from Hay (1989) and, hopefully, God ($-\infty$ to $+\infty$):

The first principle is that *people have a right to food, clothing and shelter, both for their preservation and their dignity*. If one concedes that other things such as health and education contribute to preservation and dignity, and, if debt relief implies more money for health and education, then it follows that debt relief could be supported by appealing to this principle. Indeed this may be a sufficient principle for Christians to support J2K, even if they find the linkage to the Old Testament theme of Jubilee unconvincing.

The second principle is that *humanity has a call to stewardship*. Crippling debt burdens do reduce the incentive to work (acting as a 100 % tax on effort) leading, arguably, to a tendency to ignore ones responsibilities as a steward. Debt relief could conceivably encourage persons to exercise responsibilities by restoring rewards to effort.

The third principle is that *humanity should care for the environment*. What is not clear, however, is what the environmental effect of debt relief (and increased industrial development) in the South will be. Despite all the talk of holism as one surfs the J2K web site, the hard truth may be that sometimes there is a tradeoff between environmental concerns and poverty reduction. This principle is therefore highly relevant; Christians may legitimately choose environmental protection over and above

poverty reduction in some cases. Ideally, more success at alleviating extreme income inequality would relieve the intensity of this tradeoff.

The final relevant principle from Hay (1989) is that *the exercise of justice is primarily the responsibility of the domestic authorities*. At a first glance, it appears that debt forgiveness humiliates the authorities in the debtor country and therefore erodes their legitimacy. However, we must be careful what the counterfactual is. It does appear true that debt forgiveness is not very dignified, compared with the scenario where the debtor pays everything. But if the comparison is made to the scenario where an indefinite rescheduling procedure takes place, it is not clear that debt forgiveness worsens the stature of the debtor government. In fact, if debt forgiveness involves conditionality with tough eligibility tests, then the negative effect of debt forgiveness may be outweighed by a positive signal.⁶

The final principle is that of *human solidarity*, as alluded to in Acts 17:26 (Stott 1999). Christians ought to find it offensive that the poor are offered some protection from creditors in rich countries, whilst their counterparts in poor countries are not.

The principles thus far, or their secular equivalents, seem to provide a case for debt forgiveness. Christian aid agencies can therefore expect some support for this proposal in the future, even if the cooperation with secular agencies does produce an uneasy marriage.

There are three further principles which I would like mention, partly to balance the earlier ones, and partly to show that not all Christian reflection on debt forgiveness has a secular equivalent.

I have already mentioned the *jubilee principle*, and shown that it does not really have a secular equivalent. The gulf of motivation is simply too wide. There is another alleged principle that *markets are, by their impersonal nature, evil*. If this is true, then it would seem to me to imply that debt forgiveness is a right, not a gracious act. If these countries have installed evil economic systems, with the North's encouragement, then it seems clear that the North owes them recompense. In the same vein, there is a large literature, stretching back to the Middle Ages on the question of the moral legitimacy of charging interest. Most Christian economists in the West have followed Calvin in this matter (while ignoring his many caveats), who believed that charging of interest is permissible, but only if it does not result in the exploitation of those in need.⁷

⁶ This answer is relevant for those who say that accepting debt forgiveness will ruin a debtor county's reputation (their only conceivable collateral). If debt forgiveness involves following a hard program of sound policy, then this disadvantage may not be realized.

⁷ 'Following in the footsteps of the Slave Trade Abolitionists' on www.jubilee2000uk.org compares the institutions of debt and interest to the institution

Finally, there is the *Biblical rejection of consequentialism*. That is, the bible has a holistic view of acts, taking note of *both* motives and outcomes. Christians may give the same amount of money to those in need as a form of enlightened self-interest, or as a response to God's generosity. Given that motives are important, it follows that God prefers the latter to the former, along the lines of 2 Corinthians 9:7.⁸

Given the compromises inherent in consequentialism, perhaps God would want the church to be a large financial contributor to J2K, alongside secular tax-payers. With the Millenium Fund in place, there is the machinery to do this. If a greater financial role for the church is pursued by J2K, the Acts model of selling assets may be a useful guide, as a self-imposed non-distortionary lump-sum tax. It is always a temptation when giving out of income to take away from other areas of giving.

The Ethics of Debt Forgiveness

To summarize, there is a community of interest between arguments in favor of debt forgiveness from a biblical point of view, and arguments emanating from secular development agencies. The common ground seems to be a realization that the rich have a responsibility to ensure that the poor have access to food, clothing, shelter, education and health.

I can find no unanswerable ethical objection to the churches and international development agencies cooperating to alleviate misery in the South via debt forgiveness. It is refreshing to see the Christian church setting an agenda that secular society is taking note of. Furthermore, it may be a powerful witness to the sacrificial love of God if Christians offer to put their own assets on the line, rather than other peoples'. Such a display of generosity could also be accompanied by an admission of any wrongs done by various churches to the relevant countries in the past.

However, it would be wrong to note the symbolic benefits, while ignoring the outcomes. Consequentialism is not to be confused with a legitimate concern for consequences. To this end we will now examine some of the economic aspects of debt forgiveness.

of slavery. This is fair in some instances, but it is not obvious in others. Today, many debt contracts are honored without slavery, or slave-like dependence. Furthermore, with the modern breakdown in the family/clan/village production centre, it is hard to see how savings could be efficiently directed towards productive investment without some form of capital market. Given the arms-length nature of capital market transactions, it would appear necessary to offer a reward to savers for postponing consumption.

⁸ The error of consequentialism is to judge an act *solely* on its consequences.

4. Economic Evaluation

There are four recurring themes that appear whenever the economics of debt forgiveness are discussed. They are *debtor moral hazard*, *IMF structural adjustment programs*, *creditor moral hazard* and *debt rescheduling negotiations*.

Debtor Moral Hazard

Moral hazard refers to *post-contractual opportunism*, where there is a so-called hidden action. An example would be a woman deciding to have a baby partly because she had just joined a health fund with generous maternity provision. *Adverse selection* refers to *pre-contractual opportunism*, where there is so-called hidden information. An example of this would be a woman who had already decided to have a baby searching for a health fund with maternity provisions, without disclosing her private intentions to the insurer.

Debtor moral hazard is (inaccurately) used to refer to the proclivity of debtors to take out large risky loans, under the belief that they may not have to pay them back, because of the prospect of debt forgiveness. Since the opportunism occurs before the loan is taken out, this is really *debtor adverse selection*. True *debtor moral hazard* is when borrowers, already in possession of funds, undertake riskier projects, knowing that they might not have to pay back the money. Either way, the argument against debt forgiveness is obvious; forgiveness now will alter borrower's perceptions of the chance of forgiveness in the future, causing adverse selection for future debtors and moral hazard for unforgiven debtors.

This seems to be a very strong argument. Imagine *reductio ad absurdum* that your local bank offered a one-week \$US 100,000 loan to anyone who wanted it, with a 50 per cent chance of forgiveness by the end of the week. Clearly the prospect of forgiveness cannot be literally unconditional.⁹ There are two defenses of forgiveness, however, in the face of this difficulty.

The first is to note that such risks exist where there is a domestic bankruptcy code. Searching for, and monitoring, sound investments become even more crucial in its presence. This explains the wise emphasis that J2K places upon developing such a code internationally. But note that bankruptcy can not be described as *unconditional* forgiveness. There are conditions and costs that make bankruptcy unpleasant for those who cast themselves upon it.

⁹ It is sometimes argued in Christian circles that unconditional forgiveness ought to be pursued as a testimony of God's forgiveness of us. The parallel is imprecise, however. The Christian is not only forgiven; she is given a new nature. The jubilee legislation similarly relied on a theocratic ethos. I take up some of these issues in the conclusion.

The second response to the problem of debtor moral hazard is truly ingenious. J2K's stated aim of a *one-off* cancellation of debt would, if achieved and believed, not alter anyone's perceived probability of future forgiveness. Somewhat surprisingly, J2K does not explore their highly original idea. The key problem is how to credibly commit to such a proposal. The possibilities are extraordinary, unrepeatable, funding (eg. selling historic church property), or, some kind of legal commitment in international law (analogous to the legal arrangements advanced in favor of central bank independence).

Until J2K can make the case for a credible one-off forgiveness commitment, I am left with the conclusion that moral hazard makes unconditional forgiveness inappropriate, at least in the sense that unpleasant 'bankruptcy' conditions ought to apply. As was noted earlier, these may fall far short of fully repaying the loan.

In reply to the criticism that the helpless and poor should not have to suffer from their government's bad management, I can only concur. This is the strength of separating aid from commercial arrangements. Ideally, western aid budgets should be generous, and should aim for direct provision of basic needs of the poor. Instead, they are often designed with the vested interests in the donor countries in mind. Pettifer (1999) acknowledges the possibility of being tough on the leadership of a country, while sending in aid for the poor.

But there is another argument for conditionality, that seems to be rejected by J2K.

IMF Structural Adjustment Programs

What J2K seem to mean when they criticize conditionality is that they do not approve of IMF structural adjustment programs. At a deep level, the J2K proposal probably gains from the groundswell questioning of free market liberalism, evidenced by the Seattle WTO conference. Stressing 'conditionality from below' (i.e. conditions of a debt relief contract emanating from the debtor country's 'civil society') the coalition refrains from endorsing Western-style economic policies as a means of alleviating poverty.

What is at stake here is not the *goal* of policy. I think J2K is correct to press for poverty alleviation as the main goal of development; too often it has been assumed that the interests of creditors are *a priori* the interests of the poor. But even if this is accepted, there is the question of how the poor are to be helped in the long term. IMF structural adjustment programs may help the poor. There are several policy prescriptions of economic orthodoxy that should be seriously considered by a government wanting to serve the long-term interests of the poor. Each may be rejected, but the question of the alternative policy must be honestly faced.

First, the price mechanism is a socially cheap way of providing information and incentives. In the absence of a well-functioning price mechanism, how is allocation of

resources to be achieved? Second, moderate and stable inflation is necessary for prices to do this job effectively. How will hyper-inflation help the poor? Third, unless the fiscal authorities have long term financing credibility (either through a well functioning tax system, or small outlays), the fear of an eventual hyper-inflation tax will prove disruptive. What does it do to the poor to adjust to government subsidies and benefits only to have them suddenly taken away in a crisis? Fourth, good supervisory standards are necessary in the financial sector. How will the poor be affected in a financial sector meltdown?

I hope that the above makes it clear that a limited economic orthodoxy can be argued for by appealing to the plight of the poor. Furthermore, this limited orthodoxy is not necessarily a veil for a right-wing oppressive agenda. For example, it says nothing about the size of the government. Provided it does not distort prices too much, and the tax system works, the government can usefully intervene to help the poor, providing health, education and perhaps employment.¹⁰ Neither does it preclude being more concerned about distribution, externalities, the environment, public goods and other market failures.

However, the limited orthodoxy needs defending, judging from the J2K web page. The IMF deserves criticism for representing the interests of the powerful more than the weak, but it does not deserve all its policy advice to be dismissed. The silence of the centrally-planned cadavers should not allow us to forget their message; it is difficult to organize economic affairs otherwise.

If the limited orthodoxy is accepted, it provides an argument that conditionality should go beyond merely making 'bankruptcy' undesirable.

The argument is twofold. First, IMF style conditions may help the poor indirectly as was argued above. Of course, the limited orthodoxy only aims to generate wealth - distributing may require more IMF activism. More subtly, the difficulty in meeting IMF conditions may actually help the debtor countries in their future access to world capital markets, in a way that home-grown 'conditions from below' may not. If these countries embrace capitalism in any form, *access to world capital markets is crucial for their long-term development*. Meeting IMF conditions may remove the stigma associated with being a 'basket case' in need of forgiveness. By being able to commit to difficult projects they provide a signal to future creditors that they are worth lending to.

I realise this is controversial, but if J2K is going to be a positive influence for long term poverty reduction, it has to engage economic orthodoxy more than it does. Whether it can do so without destroying its support base is another matter.

An Aside: the Imposition of the West?

¹⁰ The failure of Western capitalism to provide full employment has been one of its most disappointing features.

Strangely enough, the howling down of free-market liberalism may be followed by yet another perceived Western ‘imposition’. At some time in the future there may be backlash against the promotion of Western-style democracy in the debtor countries. Like the 19th Century missionaries and the IMF, NGOs have a certain worldview that they espouse ‘from above’.¹¹ Some NGO spokespersons are explicit about this.

“Most NGOs also argue for civil society involvement in decisions on terms and conditions of debt relief, including how to spend the money. Therefore, *both NGOs and G-7 governments want to use debt relief to leverage certain policies in developing countries* [with G-7 supporting IMF policies]. The debate is over which policies, and how quickly to give up that leverage.” Morrison (1999), italics mine.

“...[the purpose of the proposal is] to ensure that money released (i.e. debt service remitted) goes in the service of the poor. There must be guidelines to this effect - and in particular transparency guidelines - but the DRB [Debt Review Body in her proposal] must leave scope for policy choice to local institutions, and thereby foster local debate about economic choices, and through such debate *strengthen democratic institutions*. The major purpose of the concordat will be to release debtor nations from bondage, and to *rebuild* [sic] *effective sovereign and democratic government*.” Pettifer (1999), italics mine.

Is the aim of promoting democracy a means to relieving the suffering of the poor, or is it an aim in itself? If it is the latter, there is cause for reflection, and a more explicit acknowledgement of this agenda.¹² Despite the obvious strengths of democracy, Christians are presumably sensitive to the charge of cultural imperialism, and are wary of espousing any system of governance without due regard for its weaknesses. In a passage advocating democratic socialism over communism ‘in practice’ Hay (1989) notes:

“[a defence of democracy].. is a deduction from biblical premises: it has no direct biblical support. On the contrary, in the Bible all kinds of regimes are taken for granted, and accepted as the ‘ministers of God’ so long as they attend to their God appointed task. They cannot be rejected *a priori*.” p. 194

Creditor Misbehavior

¹¹ This is not to disparage missionaries, or the other groups. Everyone has a worldview that they will promote, subject to their view of respect for persons.

¹² Pettifer is quite upfront about this issue. In contrast, the Red Cross code for NGOs suggests that aid should not be used to further a particular political or religious standpoint. It is doubtful whether such an aim is achievable, at least in its absolute form.

So-called creditor moral hazard is unlikely. Once the contract has been signed, the influence of the creditor is much diminished. (Although it is perhaps possible that the creditor might go soft on monitoring for some reason.) Creditor adverse selection, where creditors 'pick on' countries that are in weak financial bargaining positions is certainly possible. A very serious problem, however, is the collusion of creditors and the debtor governments to defraud the local population. A dictator can borrow money, spend it on their own consumption, and then abscond, perhaps retiring on some Swiss bank account savings.¹³ This is made possible because international law dictates that debt attaches to a nation, not to a regime. Clearly, there is a conflict of interest if a dictator has the power both to borrow money for his own aggrandizement, and impose repayment on his population.¹⁴

J2K argues that extreme creditor misbehavior ought to be punished by wearing the loss of bad debts. It is hard to argue against the justice of this, or the economics, particularly when a regime has used borrowed money to oppress its population. In fact, this was the pretext used by the United States when it forgave Cuba its debtor obligations to Spain after taking it over the former in 1898. Another, more radical, proposal is to change international law so that debt attaches to a regime, when the regime is not democratically elected. Behind the legal veil, however, there lies the reality of politics. 'Important' countries (such as the UK after WW1) are forgiven; unimportant ones are ignored.

Finally, we note that J2K is critical of debt rescheduling negotiations. They argue that the Paris Club way of doing things, with the creditors setting the conditions for rescheduling on their own terms, is unfair.

"... the present system of lending and borrowing ... is dominated almost entirely by creditors. In this respect the international financial system resembles the dark ages of the Dickensian era, when creditors had the power to imprison and destroy the lives of debtors. This was before bankruptcy procedures, regulated by independent receivers and conducted within the framework of the law, were introduced. These days we don't have debtors prisons for people. We have them for countries instead. The keys to these debtors prisons are held by the IMF, the agent of all international creditors, public and private." Pettifer (1999)

Hopefully international bankruptcy procedures will go some way towards redressing the weak bargaining position of the debtors.

5. Conclusion

¹³ The Jubilee home page has some material on dictators who have built up substantial external debt, partly for their own ends.

¹⁴ In economics' jargon, they have a different rate of time preference.

As I return to the street, I feel uneasy with some of what I have written. There's nothing like the swirl of the city centre - the smell, the cold, the faces - to dim the memory of words on paper. Perhaps it's the look of the beggars that confronts me the most. I think of the woman who carries around her baby, asking for money. I know she doesn't want the money for what she says she does; she keeps asking me for receipts, so she can return the goods after I have gone. And what sort of world will that child see - he didn't choose this - it just isn't fair. Another beggar sits in the rain with a blanket around him. He thanks me for an apple and stares into space. What kind of a life is this?

People who rail against the rich creditors and the IMF see far worse things than these. Oxford beggars have all their limbs, and most have shelter for the night. The army doesn't roam the street aimlessly killing men, or raping women to give them AIDS. The people are not starving, neither are they dying of treatable illness while the government shuts down hospitals to pay creditors. Like the proponents of debt relief, I find myself asking 'how can those who have the means to help others hold back?' I also ask myself how orthodox economics can so easily bypass this with words - words on paper in a far away office.

As Christians, we ought to be the first to admit that the world is not as it should be. This is sometimes hard for Christian economists like myself, who are so used to the company of Economic Man that we begin to take on his acceptance of selfishness as *the* way of thinking about social life. It becomes normal, or worse still, good. If there is a weakness in my arguments I suspect it is here. God can choose to completely overturn what seems powerful and immobile. It must have seemed this way to Christians in the communist system. So it may seem one day to those for whom the Western economic system does not work. Perhaps the more visionary writers on the J2K web page are right - maybe one day the international financial system will be run along lines somewhat closer to the Jubilee ethic.

For better or worse, my reflections on debt forgiveness assume the maintenance of the economic *status quo*. I do not mean that particular institutions like the IMF will not change, or be replaced. But I do assume that Western capitalism, with its huge impersonal markets, run along the lines of self-interest, will continue. On this view of things, the world financial capital market remains central to the future of debtor nations, and their poor. In this, perhaps the most impersonal of all markets, the savers and users of funds rarely shake hands, and the savers always want a reward for losing the use of their money. Without access to this market, the future is bleak for the HIPC's. This is why I have suggested, somewhat against my Christian intuition, that unconditional forgiveness is not to be supported. Indeed, given the maintenance of the status quo, I actually support structural adjustments based on what I have called a limited economic orthodoxy.

In any discussion of conditionality, however, a distinction between aid and commercial relationships must be maintained. Even if a country is struggling to meet

conditions, humanitarian aid, funded by more generous Western budgets, should find its way to the poor.

Debt forgiveness is neither crazy nor wrong, but it is not a panacea. Many of these countries will continue to experience substantial difficulties, not the least because of their internal political problems and, in some cases, endemic corruption. For this reason, it makes a lot of sense to support an international bankruptcy code, perhaps with a provision that debt attaches to a regime rather than a nation. I agree with J2K that the victims of despots should not have to pay twice for the excesses of a regime that inflicted 'odious debts' upon their populace. Under these circumstances, forgiveness is a right, rather than a plea for mercy. I hope that proposals for bankruptcy will take this suggestion on board.

Much has been achieved by J2K, since the time that the Paris club rescheduled debt with no change in the present value. We can be grateful that the Church has been positively affirmed in the secular media for its role. Perhaps it is time for the Church to think of making a direct contribution to the Millennium fund. After all, recent developments notwithstanding, the Church has not always been known as the champion of the poor.

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A THEOLOGICAL ECONOMICS*

Paul Oslington, School of Economics, Deakin University, Geelong, Australia;
osling@deakin.edu.au

1. A Theological Economics

My argument for a theological economics brings together several strands of thought, none of which are new¹. St Augustine spoke of the city of God which is entwined with the city of this world. For our purposes the most relevant aspect of his work is not the political relationship between the two cities, but his comments on the relationship of theology to his classical Greek and Roman philosophical heritage. Augustine's problem of how to relate the claims of theology to a system of thought which had become his own after many years of training, is in many ways similar to our problem of how to relate the claims of theology to economics. His solution was that the classical heritage need not be discarded, but should be utilised, and moreover finds its full meaning in the light of Christian theology commends itself to us.

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¹ This paper attempts, in the course of the argument, to reference and discuss some of the literature on the relationship between Christian thought and economic thought. More comprehensive surveys include Munby (1956), Preston (1979, 1983, 1991), Hay (1989, 1993, 1994), Waterman (1987, 1988), Brennan and Waterman (1994), Hynd (1985, 1987), Hawtrey (1986, 1997), Wogaman (1977, 1986, 1987), Smith (1993), Gay (1991), Richardson (1988), Anderson (1996), Tiemestra (1993), Hoksbergen (1994) and Wilson (1997). The literature surveyed by these writers is not necessarily representative of what economists who are Christians think about the relationship between Christianity and economics. It seems that the views of clerical and quasi-clerical bodies are over represented in the literature, and also that the views those with extreme positions are over represented - there is no need to write if you are happy with the existing situation. Certain other positions also by their nature tend to be invisible; for instance if you believe there is no relationship between your Christian faith and economics then you will tend not to identify your work as Christian Economics. If you believe Christian economists should concentrate on being a good economist rather than compromising this through superficial and fruitless forays into theology and ethics, then the work which results will be invisible as Christian Economics.

Many centuries later John Henry Newman, partly stimulated by the Tractarian controversies over the claims of the state and secular learning verses the claims of theology, came to a similar conclusion about the primacy of theology without having to reject secular learning. For Newman, all knowledge is one, and the sciences including theology form a circle of knowledge. Theology or the sciences suffer loss if any is removed from the circle, or if any try to usurp the place that properly belongs to others. In *The Idea of a University* he speaks specifically of the new discipline of political economy as one which is valuable in its proper place but which is showing dangerous tendencies towards usurping the domains of ethics and theology. At the same time as this warning to the political economists, he cautions the theologians against straying into the domain of this new science in the same way as they strayed into the domain of astronomy and fell into error by claiming the sun circled the earth.

In our own century Harry Blamires (1963) has exhorted us to seek a Christian mind, which relativises the claims of secular science. John Stott (1983) attempted to work out the content of such a mind in more detail. Lesslie Newbigin (1986, 1989, 1991) in his writings about the nature of a missionary encounter between the Gospel and Western culture has questioned the confinement of the claims of Christian theology to a private world and the trivialisation of them as matters of opinion or personal taste. He encourages us to see the Gospel as relevant to, and more than that of being the core of, the public world of truth. Newbigin's call is to recognise that if the Gospel is true then it is true for all, or in other words to recognise the Lordship of Christ over all. This in no way means withdrawal from the science and politics, nor does he recommend greater clerical involvement in science.

A more recent and highly developed argument along similar lines is provided by the English writer John Milbank. For him theology is a "metadiscourse...in postmodern terms" which "seeks to position, qualify or criticise other discourses" (Milbank 1990 p.1). Theology is a social science, and queen of the sciences (Milbank 1990 p.380) and "able to elaborate its self understanding in terms of a substantive and critical theory of society in general" (Milbank 1990 p.6). This assertion, though, must be read with an awareness of Milbank's view of this social science as a distinctive set of practices within a distinctive community, rather than social teaching deduced from Christian doctrine. McGrath's (1990) arguments about the sociology of knowledge in relation to Christian doctrine are in some ways similar

On the recent American scene, notable advocates of the primacy or relevance of theology in intellectual endeavour have been Francis Schaeffer (1976), Carl Henry (1964), Colin Brown (1990), Mark Noll (1994) and George Marsden (1997). Marsden's proposal is a modest one for the admissibility of faith informed perspectives in academic discourse.

2. Some Clarifications

The first clarification concerns the nature of theology in the proposal for a theological economics. Theology, for Augustine, Newman and many others, is revealed truth. I do not pretend that this definition is uncontroversial, even among those of Christian faith. Some objections which might be raised are considered in the next section on the arguments for my proposal for a theological economics².

It is important to clarify at this point that I am not claiming the revealed nature of theology puts it outside normal historical, linguistic and economic processes³. These processes are an essential part of revelation and not a weakness or a problem to be explained away. Social scientific study of theology is to be welcomed.

The great merit of Milbank's work is that he squarely faces the modern and postmodern attempts to undercut the claims of theology by emphasising the historical and linguistic nature of theology. He turns these critiques from modern and postmodern social science back on themselves and shows their claims to be no less arbitrary than those of theology as revealed truth. In his words "theology has rightly become aware of the (absolute) degree to which it is a contingent historical construct emerging from, and reacting back upon, particular social practices conjoined with particular semiotic and figural codings" and that his "entire case is constructed from a complete concession as to this state of affairs" and "offers no proposed restoration of a pre-modern Christian position" (Milbank 1990 p2). Bultmann (1984), Torrance (1969) and Pannenberg (1976) are other attempts to uphold theology as revealed truth in the light of the modern social scientific study of theology. My own proposal proceeds from the recognition of theology as revealed truth, but at the same time part of normal historical and linguistic processes.

A second clarification. Acceptance of the necessity and primacy of theology does not do away with the need for economic enquiry. Theological economics does not mean that economics can or should be deduced from theology⁴; it means that economics

² This assertion of theology as revealed truth is linked to particular positions about scripture as a source of theology, the nature and authority of scripture, and the interpretation of scripture. My argument begins with theology rather than its sources, and discussion of these issues is beyond the scope of this paper.

³ One could add to the long list of social scientific work on these aspects of theology the recent analyses by economists of religion, for example Dixit and Grossman (1984), Bhagwati (1991), Iannaccone (1992a, 1992b) and Stark, Iannaccone and Finke (1996), and Ekelund *et al.* (1996).

⁴ While I admire the achievement of neo-Calvinist writers such as Kuyper (1980), Dooyeweerd (1979), Storkey (1979, 1986), Goudzwaard (1979, 1992) and Vickers (1976) who have deduced economic principles, and in some cases detailed policy, from Christian presuppositions, and have highlighted the opposition between a Christian and secular or pagan worldviews, I am uneasy about reducing the relationship between theology and economics to deduction of one from the other.

is subject to theology in that it is positioned, relativised and criticised by theology. Theology then pushes us forward into such economic enquiry. As St Anselm said, faith opens the way to understanding, and this seems to have been true in the history of science, although perhaps less so in economics compared to the physical sciences.

Thirdly, as a practical matter, some separation between theological research and economic enquiry is probably desirable. Each of the sciences has its own characteristic methods of enquiry, to some extent determined by their different objects, and even if this were not so, we still might expect some benefits from specialisation and division of academic labour. It is difficult to resist the case from the history of science for a division of academic labour.

For example, although for John Henry Newman stressed that knowledge was a unity, the Catholic University of Ireland, of which he was the first Rector, had a place for most of the disciplines found in existing Universities, including a lectureship in political economy.

3. The Primary Argument

The primary argument for the necessity of a theological economics comes from within Christian theology. Orthodox Christian theology claims that God has created the world, providentially sustains it, through Christ has redeemed it, and will finally judge and destroy evil, and these claims confront the claims of individuals and academic disciplines to autonomy and finality. Any other type of argument for the primacy of theology, apart from one arising from within theology, would undercut itself.

It is not claimed that this argument is acceptable to all economists (is there any argument which is?) but tension between this claim of primacy of theology and the practices of economists and the discipline of economics is precisely what is predicted by theology, in particular the teaching that we live in a world characterised by rebellion against God.

This type of argument from revealed truth is currently inadmissible in academic economic discourse, and it is worth briefly exploring why at this point. For many economists the objection to the claims of Christian theology is that they are not verifiable, or that they are not falsifiable. Falsifiability, at least in principle, of economic propositions has been particularly important in the twentieth century methodological debates within economics and if contemporary economists were asked to state their methodological beliefs the most common answer would probably be some version of falsificationism together with some remarks about the futility of methodological discussion. Blaug (1996) and McCloskey (1983) are a good illustrations of these methodological sentiments.

The falsifiability objection to the claims of Christian theology has been extensively considered in the philosophy of religion literature, (for instance Flew 1955)

and it is possible to answer the falsifiability objection in a number of ways. One approach is to try identify aspects of theological claims that satisfy the falsifiability criteria, but this in my view only works for theological claims to a very limited extent. Another is to argue, following Hick (1983), that theological claims are verified eschatologically. Still another is to argue, following Newbiggin (1989) or McGrath (1990), that the appropriate way to test theological claims is in mission.

None of these responses question the demand for falsifiability. This demand has recently been challenged in the philosophy of religion literature by Plantinga (1983, 1993a, 1993b) and Wolterstorff (1984). Examining the structure of the demand for falsifiability, they find it rests on a prior commitment to foundationalism and evidentialism. Foundationalism divides beliefs into basic beliefs which need no grounding, and non-basic beliefs which do. A belief is allocated to the basic belief category if it is either self evident (eg $2+2=4$) or incorrigible (e.g. I feel cold). For beliefs which do not pass these tests, and are thus non-basic, evidentialism provides a set of rules for justifying them, which amounts to tracing them back to basic beliefs. Religious beliefs, it has been traditionally argued, are non-basic beliefs which lack sufficient evidence, where sufficient is understood in a falsificationist sense. Plantinga and Wolterstorff challenge this by showing that religious beliefs are properly basic, and hence the demand for falsification is illegitimate. This illegitimacy must also extend to the economists demand for evidence in the falsificationist sense before religious claims can be accepted within economic discourse.

The philosophical questioning of the falsificationist challenge described in the previous paragraphs is just one of the many that are available. Others which question it at a deeper level are the philosophical hermeneutic approach of Martin Heidegger and Hans-Georg Gadamer, Wittgensteinian approaches, and various pragmatist arguments.

Let us briefly examine the philosophical hermeneutic approach. The first move is to follow Heidegger (1962) and see the economists' falsifiability demand as an example of post-Enlightenment tendencies in philosophy which obscure more fundamental questions of being. This move undermines the understanding and valuation of knowledge that lies behind the falsifiability challenge by changing the question from an epistemological one to an ontological one. Understanding is connected with being, and comes as being is thrown forward and confronted with things which require interpretation. In Heidegger's later writings this leads to an extreme devaluation of science, but we do not need to follow him in this – what is important is his identification of the question of being and his view of understanding in relation to being.

Gadamer (1965, 1975, 1987) builds on Heidegger's work in his own critical discussion of modern scientific method. Unlike Heidegger he does not minimise the achievements of science, but instead shows how ill grounded and arbitrary are some philosophical accounts of scientific method – including those often used by economists to exclude explicit theological discussion. Gadamer shows how the demand for certain knowledge is an unhelpful exaggeration of some strands of post-Enlightenment thinking

(what Bernstein 1983 calls the Cartesian Anxiety), how unreasonable is the rejection of tradition and authority, and the prejudice against prejudice. He also expands Heidegger's comments on the circular nature of understanding – describing a process where the interpreter begins with a preunderstanding (this is inescapable, and makes understanding possible), is confronted with a thing (perhaps a text, perhaps an action⁵), and then understanding comes with the fusion of the horizons of the interpreter and thing encountered. In Gadamer's philosophical hermeneutic framework, the interpretations of an economics which aims of certainty, rejects authority, and attempts to eliminate of tradition and prejudgments have no privileged position over the interpretations of a theological economics. In fact from an ethical point of view, it is the philosophical account of economics which excludes theological discussion which should be viewed with suspicion⁶.

The point of these short accounts of other philosophical positions is to demonstrate that there are respectable philosophical accounts of science, including economics, that do not reject theological discourse in principle. In fact in some of these alternative philosophical accounts it is the exclusion of theological discourse which emerges as dubious. So far the discussion of the reasons why theology is unacceptable within economic discourse has focussed on certain philosophical objections. But economics is also part of the wider culture of modernity (and in some ways is the epitome of it) and this culture resists the claims of theology.

Lesslie Newbigin (1986), identifies three dichotomies which are at the heart of modern secular culture. They are between facts and values; between public and private spheres; and between certainty and ignorance⁷. In each of these dichotomies economics and religion are on separate sides. Economics is popularly regarded as being about facts, in contrast to religion which is a matter of opinion or taste; economics is a matter for public debate whereas the religion of your choice is practised in private; economics strives for certain knowledge while religious knowledge continues to be regarded as epistemologically dubious. These dichotomies make religious perspectives, (not to be

⁵ Human action, the subject matter of economic analysis, has many of the characteristics of a text and thus economists in explaining human action are confronted with the same problems as all other interpreters of texts. This interpretative view of economics has been developed by Wilhem Dilthey, Max Weber, Paul Ricoeur, and Charles Taylor, among others.

⁶ This last point is taken further by the philosopher Paul Ricoeur, who argues that the non-violent appeal or testimony of revelation is a model for the human sciences, including economics.

⁷ As well as the dichotomies, Newbigin (1986) discusses the banishment of discussion of purpose from science.

confused with religion as an object of study), distinctly unpopular in modern academic discourse, and especially so in economics^{8 9}

4. Necessity: Secondary Arguments

As was observed in the last section, the only fully consistent argument for the necessity and primacy of theology must arise from theology itself, but there are secondary arguments which also point to the necessity or at least relevance of theology¹⁰.

The less ambitious argument of Marsden (1997) for the admissibility rather than the primacy of theology can base itself on these secondary arguments without inconsistency. For this less ambitious argument, a more inclusive definition of theology than revealed truth (for instance theology as reflection on ultimate questions, or theology as a worldview) suffices.

a) Theological Structures in Economics

A secondary argument for a theological economics, either in the strong sense of primacy or the weak sense of admissibility, is the existence of theological structures within economic theory. Theological aspects of Adam Smith's economics have been discussed at length by Viner (1968, 1972, 1978) and Minowitz (1993) among others.

⁸ There is some similarity to the situation of the New Testament writers, and even to the situation of Augustine. The Roman authorities did not really care about religion provided it did not intrude into the public sphere, and maintained this exclusion through the enforcement of the cult of the emperor.

⁹ These observations about the hostility of secular culture to theological discussion in academia apply to my own Australian situation. Australia is an intensely secular society, to the extent that few Australian universities teach theology and some are even barred by their constitutional documents from ever doing so. The University of Sydney is barred from teaching "confessional theology" while the University of Melbourne cannot teach "religion". Apart from a recently formed Catholic University there are no religious universities. The theological colleges that prepare candidates for ordination in denominational churches have had only weak links with Australian universities. In contrast to the modest amount of discussion of theological issues in British and American academic economics journals there has been virtually none in Australian economics journals, what discussion goes on tends to be private or else sponsored by churches rather than universities. It must also be said, though, that bitter sectarian disputes in the early history of Australia's education system were also important in Australian universities distance from the churches.

¹⁰ There is a rough analogy between my primary and secondary arguments and the theological categories of revealed and natural theology. Economics itself may be viewed as a form of natural theology in the sense of Barr (1993).

Malthus' economics is discussed by Waterman (1991) and Pullen (1981) among others. There is a wealth of material on the at least quasi theological structures in Marx' thought, including Kolakowski (1978), Kamenka (1972) and Howard and King (1994). The theological elements become less explicit as we move into the twentieth century. Marshall is dealt with by Groenewegen (1995), and Keynes by O'Donnell (1989). Discussion of the theological content of Walrasian economics, the core of modern of modern neoclassical economics may be found in Nelson (1991), Hamilton (1994) and Simons (1995). Interestingly all these discussions of modern neoclassical economics are by non-economists - it seems that economists are less able to recognise the theological content of the currently dominant variety of economic theory than in previous varieties.

b) Economic Analysis in Theology

If there is economic analysis implicit in theology, as well as theological in economic theory this strengthens the case for fruitful links between theology and economics, and the admissibility of economic arguments in theology and theological arguments in economics.

Is there economic analysis in theology? This is not the question of whether economic policy can be derived from scripture, but rather the question of economic analysis which is part of scripture itself¹¹. Neither is it the question of the extent to which the tools of economic analysis are helpful in understanding scripture, in the same way as anthropological and sociological tools have been used by writers like Gottwald (1979), Oakman (1991), Theissen (1992), Meeks (1993), Judge (1960) and Esler (1992)¹² What I mean by economic analysis in theology is things like the economics of the year of the Jubilee in the book of Deuteronomy, the economics of the departure of the Hebrew people from Egypt and their subsequent settlement in Palestine, the economics of Palestine in the time of Jesus that lies behind the critique of that society in the Gospels, the structure of the eschatological economy presented in the book of Revelation. It is of course controversial what does and does not qualify as economic analysis, but it is my contention that the analysis in the scriptural documents is substantial and coherent enough to qualify as economic analysis. The work of the late Barry Gordon (1989) stands out in this area.

¹¹ A number of Latin American theologians including Gutierrez (1971), Bonino (1976), Miranda (1974) and Ellacuria (1990) have argued there are very close affinities between Marxian economics and the Christian scriptures, but this is not in my view exegetically sustainable. Even so it seems a less implausible reading than the identification of free market economics with the Christian scriptures by Lindsell (1982), Schaeffer (1985), North (1974) and Novak (1982).

¹² It is surprising that while the tools of economic analysis have been deployed to understand other ancient societies, they have been little used to help understand the Christian scriptures.

5. *What Does a Theological Economics Mean in Practice?*

If the arguments for a theological economics have any force, what does this mean for what economists actually do? In the first part of the paper the strong sense of a theological economics meant that theology orientates economic enquiry, relativises it and criticises it where appropriate. In terms of orientating economics, theology can perhaps provide a framework for ethics that economists seem to be searching for as part of the current revival of interest in the relationship between ethics and economics represented by works such as Hausman and McPherson (1993, 1996) and Groenewegen (1996)¹³. In terms of criticism, theology can identify certain weak points in neoclassical economics, for instance the inability of neoclassical economic theory to deal with divine grace. How is it a commodity in the sense of neoclassical economics? Doesn't the notion of a price of divine grace destroy its essence?

What does a theological economics mean for the structure of the profession and academia? A priority seems to me to be encouraging the university and the mainstream economics profession to be more receptive to theological discourse. This means the mainstream profession, although there is a place for specifically Christian study centres, association and journals to nurture such infant discourse until it can survive in the mainstream.

What does a theological economics mean for the individual economist, especially the economist of Christian faith? The priority here seems obvious, for individuals to be trained in both economics and theology and able to relate the two disciplines. As John Stackhouse points out in a recent article, this is not as easy as it sounds for “there are powerful historical, social and psychological forces at work which resist and retard Christian scholarship (Stackhouse 1996 p.13). He classifies these as problems with the scholar (for example insufficient preparation to the task, and the lack of a sense of vocation), problems with academia (for example the publish or perish pressure in the crucial early stages of most academic careers), problems with peers (for example abuse and neglect of those who break the secular rules by trying to integrate their faith and academic work); and problems with the task itself (the need to master two literatures, and the need to tread new paths in trying to integrating them). These problems seem to me to remain important even without accepting exactly Stackhouse's

¹³ Theology is not helpful here if it is used to fill a gap created and shaped by some other ethical system – for instance to try to fill in the structure of the social welfare function. This use of theology risks removing crucial elements of a proper theological ethics – for instance the eschatological dimension – and destroying its coherence. This danger of removing the eschatological dimension of theology when economists try to make use of theological ethics has been emphasised by Hawtrey (1986, 1997). Hauerwas (1983) and Milbank (1997) are useful discussions of theological ethics.

account of what Christian scholarship is¹⁴. And in an increasingly pressured and highly specialised academic environment the problems seem to be getting worse rather than better.

Is ‘Christian Economics’ a helpful label? There are some problems with it. Labeling work Christian Economics concedes there is another economics which is autonomous and devoid of theological content. This reinforces the secular assumption that such work is surely trying to. Use of the label also seems to go with withdrawal from both mainstream economic and theological discourse, which cuts the work off from the standards of evidence and argument in mainstream economics and theology.

Labeling may be an issue of personal taste, but I would like to see the discipline of economics and the discipline of theology, without adjectives, in the type of relationship to each other that has been sketched out in this paper.

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¹⁴ For instance Richardson (1988, 1998) offers a very different account.

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REVIEW: ISLAMIC FINANCE: THEORY AND PRACTICE (Paul S Mills and John R Presley Macmillan Press, UK, 1999, hardback, 171 pages, £ 45.00)

Prahbu Gupta, Director, Executive and Organisational Development, Wolfsberg Executive Development Centre of UBS A.G.*

Why should members of ACE be interested in a book on Islamic finance? Because the Islamic financial system is at present the only reasonably well-articulated major contender against the current materialist economic system (capitalism), and because Islamic finance is based on tenets curiously parallel to those in the Old Testaments. Examining the case for and against an Islamic financial system may also help us to consider the case for and against developing a genuinely Biblical economics. Further, one might wish to consider that, as the failure of the Church adequately to address its prophetic duty on the issue of social justice in the nineteenth century led to the creation of Marxism, and as the failure of the Church adequately to tackle the desire for peace and a new world after World War II led to the birth of ‘flower power’ and the New Age in the Sixties, so the failure of the Church adequately to tackle the challenges of capitalism is leading at the moment certainly to individual conversions to religions or philosophies which are perceived as offering some hope regarding the key issues of global capitalism such as social justice, animal rights and environmental care (‘sustainability’); if the Church continues to fail in its prophetic duty to address such issues, we may well see the development of another soul-less and therefore ultimately destructive mass alternative to global capitalism.

Mills and Presley observe that “the financial headlines continually bear testimony to the recurring problems of our current approach to banking and finance, (so) it is right to consider whether a more fundamental response than the usual palliatives of more bailouts and regulation is needed” (p. viii, parenthesis mine - here and throughout this article). *Islamic Finance* is therefore “motivated by the suspicion that there is another way. In particular that the critique of interest-bearing debt finance has more economic cogency than is assumed by mainstream economics. The book begins by setting the Islamic critique of interest and proposals for a non-interest banking system in the context of the Islamic approach to economic analysis. It then develops the theoretical properties of the non-interest model and assesses the recent experience of Islamic banking in practice, before outlining the economic benefits (and costs) of a non-interest financial system....”. (p. viii)

The salient feature of Islamic finance is its rejection of usury (which, being interpreted into modern English, is the rejection of *all* interest). Mills and Presley conclude their book with a consideration of the prohibition of interest in the West but, for people who accept the authority of the Qu’ran or of the Bible, this is probably the best point at which to begin. The authors remind us of facts we conveniently choose to forget, if indeed we have ever come across them in the course of our indoctrination into

* The author writes in a personal capacity.

materialist economics. For example, “the Western belief in the benign results of interest-based financial operations is historically relatively novel. More typical has been the attitude of the English Puritan(s) ... to the effect that lending at interest is inherently exploitative” (p 101). Why has the consistent Western tradition of opposition to usury been lost? Due “to the divorce of ethical debate from economic theorizing” (p. 101). When was the historic opposition to usury dropped in the West? The authors date this to the period after Calvin, though this is in my reading historically mistaken, and ought to be traced to the introduction of the distinction between usury and interest by the Roman Catholic Church in the thirteenth century.

In any case, the authors argue, “there was far more economic sense in the ...opposition to interest than is currently assumed.” (p 101). This case the last chapter sets out to explore. The chapter starts by clarifying that the distinction between ‘legitimate’ interest payments and ‘unjust’ usury was originally intended only to indemnify the lender rather than to provide a financial return. (It is worth noting, however, that in the Bible, standing surety is roundly condemned too, from which one might draw the principle that indemnifying the lender is as unsound as is usury). “The number of instances when such payments were deemed legal was gradually increased until most loan charges were legitimized under the guise of ‘compensation’. Lenders persisted with the euphemism ‘interest’ in order to avoid the unwelcome associations of ‘usury’”. (p. 102)

Mills and Presley’s summary of the Western opposition to interest begins with the well-known Deuteronomic prohibition of interest, reinforced elsewhere in the Old Testament. The authors seem to think that there is “no explicit rationale for the prohibition given in the texts themselves” (p. 103) - a belief which appears to me to be sustainable only if one confines oneself to the specific verses in question. However, the context of these verses makes it clear that the prohibition of interest was part of a larger spirituo-socio-politico-economic system in which there would be ‘long life’, ‘none of the diseases’ which plagued the Egyptians, ‘peace and plenty’ and ‘no poor’ people (because, though there would always be some income differences, poorer people would be taken care of by the generosity of those who were richer, by the system of tithes and offerings, by the restriction on collateral, by the prohibition of usury, by the generous provision for freed slaves, times of festival, the cancellation of debt, and so on; see Deut. 4.49; 5.29 & 33; 6.2; 7.14 & 15; 14.22-28; 15.1-18; 16.9-17; 24.8, 12, 14, 17, 19-21; 26.12; 28.11-12 et al). So the creation of a society based on interest, *inter alia*, militates against these promised benefits. That is the rationale for the prohibition of interest - though of course there is no ‘economic’ rationale provided in the texts which makes sense in modern economic terms; in other words, the question here is: ‘logic’ or ‘rationale’ by whose definition?

The authors are right, however, in pointing out that post-prophetic rabbinical teaching explained the prohibition “largely in terms of encouraging charity and community feeling, rather than declaring interest to be inherently unjust. Jewish communities have tended to observe the prohibition of interest amongst themselves but

charged interest on loans made to Gentiles (following the brother / foreigner distinction of Deuteronomy)” (p. 103). Among the Greeks, “only Plato and Aristotle voiced outright opposition to the very existence of interest within Greek thought....interest free lending to family and friends was greatly esteemed within ancient Greek societies, (but) interest was regarded as legitimate if charged on an impersonal or business loan - echoing the Old Testament injunction” (p. 103). Roman authorities were “far more interventionist, however, as the perpetual indebtedness of peasant farmers, and the severe penalties for default, resulted in periodic debtor revolts. The maximum interest rate was set at 10 per cent in 450 BC but eventually lowered to zero in 342 BC. This outright prohibition quickly became obsolete in practice, but was periodically revived during debt crises. Sulla eventually adopted the customary rate of 12 per cent as the legal maximum in 88 BC, which continued until the fall of the Western Empire” (p. 103).

However, the authors are again on tendentious ground when they declare that the New Testament makes “only passing reference to interest.... Most relevant is Jesus’ teaching to his disciples on lending (‘If you lend to those from whom you hope to receive, what credit is that to you? Even sinners lend to sinners in order that they may receive in return the equal amount. But love your enemies, and do good and lend, despairing of nobody’). An idiomatic rendering of the final phrase would be ‘lend, without hoping for any return’. Whilst Jesus is clearly advocating a radically liberal approach to lending, it is not clear what is to be forgone - interest, principal or the hope of reciprocal favours” (p. 103). The authors’ commentary is weak because the text clearly contrasts the usual practice among ‘sinners’ of lending to others in hope of getting back ‘the equal amount’ (no expectation of interest, even among sinners!) with the practice, commended by Jesus, of not lending only to those from whom we might hope to receive anything (no reciprocal favours!) - rather of lending even to those from whom we despair of receiving the principal. ‘Lending’, in other words, is to be done simply as a ‘good’ in its own right. The believer is to give freely and liberally, expecting back neither interest nor principal - nor indeed reciprocal favours - in contrast to the calculating attitude of unbelievers. (In a similar vein, see also Jesus’ teaching on luncheons and dinner parties, Lk 14: 12-14; and on the otherwise easily-declinable appeals of beggars for one’s cloak; as well as on the unjust but legal demands by Roman soldiers requiring one to carry their luggage for a mile).

Other explicit references to interest, point out the authors, come in the parables of the ten talents or minas. “By implication, these references describe interest as ‘reaping where one has not sown’”. (pp 103-104).

In any case, as a result of the Biblical teachings, interest was formally proscribed within the Church by the Council of Elvira (306 AD) and the Church Fathers were unanimous in condemning usury for greed and uncharitableness. St Augustine went further and declared usury to be a variant of theft and so inherently immoral, though interest was first proscribed for all citizens by a Western legislature under Charlemagne in 789. Until approximately 1050, interest-taking was considered to be a sin of greed

and lack of charity. However, the commercial revival of the late eleventh century and the ensuing increase in demand for business loans tempted theologians to reclassify usury as a sin of injustice. This was also the time when the distinction between interest and usury came to be accepted though the harshest anti-usury Church legislation was passed by the Council of Vienna (1317), which called for the excommunication of usurers as well as the excommunication of any ruler who sanctioned usury. In other words, usury was classed along with heresy. The theoretical ban on usury continued till the late eighteenth century in Roman Catholic Europe (Mills and Presley claim that the Vatican formally recognised the legitimacy of interest only in 1917 though this is debatable) and it would be useful to know to what extent it applied in practice in Roman Catholic Europe. In Protestant Europe, the ban on usury continued only till the sixteenth century, when Calvin's grudging acceptance of it when applied to borrowings by rich people opened the door to the legitimisation of interest. From 1600 onwards, the debate in fact shifted from whether to proscribe interest altogether to which rate was most expedient to have as the legal maximum. Ultimately, the debate shifted to whether a legal maximum could be justified at all, for instance in the writings of Jeremy Bentham, which carried the day, resulting in the 1854 Moneylender's Act that abolished the 5% usury law and allowed lenders to charge at any rate. A limit of 48% was reimposed in 1927 in an attempt to protect vulnerable borrowers. However, since the passage of the Consumer Credit Act (1974), even that restriction was removed - borrowers must instead demonstrate exploitation to a court given their circumstances. There is no definition of exploitation in the legislation, and I understand that there is no case law on the subject.

Briefly, we may say that there is a strong case against the taking of interest through the centuries of Western thought and that the theoretical and spiritual grounds for the ban on interest have never been countered. These grounds focus on the Biblical attitude to charity, justice, social divisions and societal health, to relationships, to work, to risk, to money and to time: "Eventually, the whole usury debate turns on our attitude towards time. The justification of interest entails the claim that, quite literally, 'time is money'. Since the mere passage of time supposedly alters the value of assets, money and satisfaction automatically, their forfeiture over time (through a loan) automatically justifies interest as compensation. The opponents of interest would dissent. Since nothing is certain in time, we ought not to act as though it is. Contingent profit-share and rental contracts allow for positive returns to be made, and the services of durables to be enjoyed, over time. But they do not presume that the mere passage of time necessarily affects anything. Hence, it is unwarranted to justify discounting through positive time preference" (p 110-111). I am not sure that rental contracts are Biblical either, but let that pass, for the moment.

After piling up the case against interest on ethical, legal and economic grounds, the authors conclude lamely: "While this accumulation of evidence against interest might seem compelling to some, unfortunately the case for the prosecution has one major flaw. Most of its arguments are predicated upon initial premises - be they religious, ethical or legal - that are not unanimously held. If usury could easily be

equated with an obviously immoral act, such as theft, then the case for prohibition would be clear” (p. 112). The problem with this position is that, in our pluralistic world, there is no act which is “obviously immoral” - or at least there is no act whose immorality is obvious to everyone. Robin Hood did not consider theft immoral. Nor is theft necessarily considered immoral by certain socialists on the one hand, or on the other by muggers and street louts. In fact, the prohibition of theft has no adequate moral basis outside the Semitic religions, since it is sanctioned at best by tradition, rather than being rooted in the character of God and of the universe as it is in the case of the Bible. Internationally-accepted moral standards in relation to murder, monogamy, work and most other matters originate within the Semitic religions and certainly have no unarguable validity in materialist humanism. So I do not understand why the authors abandon for perceived political correctness the case which they develop with such intellectual rigour.

The authors go on to argue that “the practical drawbacks to interest ...must be weighed against the pragmatic disadvantages of its prohibition. In particular, the proscription of interest in a society uncommitted to the underlying requisite religious or ethical ethos will merely result in a thriving black-market for loans - with suitably adjusted risk premia - and the proliferation of contractual devices that disguise interest as profit, rent or unconnected favours. ...While compelling grounds can be given for the rationalization of the Biblical prohibition of interest, their acceptance depends on prior commitment to particular religious or ethical norms....Without moral pre-commitments, the usury debate becomes a pragmatic one. Whilst there are many practical disadvantages to a free market in interest-bearing loans....Western countries have been stripped of the religious and ethical presuppositions conducive to the proscription of interest.” (p 112-113). This is surely going too far. While it is true that there appear to be fewer and fewer people in the West with an *a priori* commitment to particular religious practices, it is also true that there are more and more people with an *a priori* commitment to ethical norms which are coming to be seen as universal, such as human rights, honesty, transparency, and so on - though it probably ought to be added that such commitment in many instances may be much weaker than among those with specifically religious beliefs.

In any case, the authors conclude that “if the legitimacy of interest is to be seriously questioned again, the debate must hinge on the feasibility and practical benefits of a non-interest financial system, which have been examined in the preceding chapters” (pp 112-113). There is much merit in such an approach, though in our day one ought to add the consideration that any usurious economic system is also a high-growth system since it minimises risk for the lender, guaranteeing returns and making capital accumulation possible. In a non-usurious economic system, the only way of accumulating wealth is by hard work (which has its limits), by risk-sharing methods of wealth-generation, or by looting, theft and other immoral means (all of which also have their limits). In historic or traditional non-usurious economic systems, group cultures generally further militated against high growth rates by encouraging conspicuous consumption usually of a public sort (monuments, feasts) while conspicuous

consumption of a personal sort was not discouraged. The Protestant contribution to reversing these cultural attitudes is well perceived historically, *à la* Weber and Tawney, though its precise role in so doing is hotly contested academically (was it the sole cause? was it the sufficient cause? did or do such reversals happen elsewhere? and so on). The merit of a usurious high-growth economy is progress in the supply of material goods. The demerits of a usurious high-growth economy are that it inevitably increases the gap between the poor and the rich, does not necessarily or by itself contribute to the alleviation of poverty (and can in fact increase poverty), and has in any case since the eighteenth century contributed to global environmental degradation (even though it has contributed also to “local” environmental improvement). There is an open question about whether a high-growth economy by its very nature grows faster and faster and whether, when it becomes a global high-growth economy (as it has since more or less the last ten years), it becomes cancerously uncontrollable from an environmental point of view. There are “believers” and “sceptics” on both sides of this debate but I mention it here only to place it on the table as the authors do not seem to me to take sufficient cognisance of this issue, which must also be placed in the balance when one considers whether to press or to abandon the case against usury.

We come now to the rest of the book. As the chequered history of usury in the West shows that there was a gulf fixed between theory and practice for most of the time that usury was banned, so the experience of the Islamic opposition to usury too reveals that the theory and the practice of Islamic finance have a large gulf fixed between them. What is the reason for these gaps? The general impression is that this is because the idea of Islamic finance is inherently unsound, just as the idea of an Islamic society is backward-looking. (Compare the fact that if the notion of “a Christian society” still appeals to some people, the notion of “a Biblical financial system” usually seems strange - even though there is general agreement that neither capitalism nor socialism are inherently Biblical.) The authors structure their work as follows:

- Chapter 1: The Background to Islamic Economics and Banking (and a brief discussion of its guiding principles)
- Chapter 2: the Islamic Critique of Interest (with the relevant textual evidence and subsequent casuistry, as well as Islam’s legal, ethical and economic critique of interest, examining especially Islamic definitions of money and capital)
- Chapter 3: The Interest-Free Financial System (elaborated by Islamic theoreticians)
- Chapter 4: Modelling Profit-and-Loss Sharing
- Chapter 5: Non-interest Banking in Practice
- Chapter 6: Non-interest Finance and Macroeconomic Stability
- Chapter 7: Key Issues in the Islamic Financial System.

It is not possible to describe and discuss each chapter in detail; I will mention, describe or discuss matters according to the degree to which they appear to me to be of possible interest to readers of ACE.

1. “The devout Muslim with disposable wealth has always faced a dilemma. Qu’ranic opposition to interest is clear, but so too is the condemnation of hoarding and wasteful consumption. The impasse is that of having wealth to save but few legitimate financial instruments with which to do so” (p 15). However, the dilemma arises only because of human fear and greed - in the Qu’ran as well as in the Bible, excess wealth is meant for hospitality, support for the poor, and so on. An Islamic society (as also a society governed by Old Testament or New Testament values and beliefs) is a society in which there is equality of opportunity for everyone to develop and apply their talents to the fullest possible extent, the rewards of which are not meant to be hoarded or loaned on interest but are meant to be enjoyed along with others, though not in a wasteful manner. So what is one to do with excess wealth? It is intended to be given away. This requires supernatural reliance on God in order to counter the fear and greed which naturally attends the accumulation of wealth - a fundamentally different attitude from that of the worldling who is concerned with the accumulation of wealth for its own sake or as a means of keeping uncertainty and mortality at bay for as long as possible. If Islamic society hoards in spite of clear Qu’ranic teaching to the contrary, this is because there is no supernatural life there, just as evidence of this and other sins in Christian communities is evidence of lack of experience of God’s power there.

2. The problem for “devout Muslims” (with financial hoards estimated to be of the order of \$80 billion in Muslim countries in the early 1980s) therefore became that of how to devise financial intermediaries that operate without resorting to interest but which still yield a return to depositors. “The achievement of Islamic economists and bankers has been the conception and elaboration of such a structure” (p 15). Undeniably, this is an achievement but, much as the development may delight economists theoretically, the achievement is a sort of Pyrrhic victory: Islamic theoreticians have created what neither the Qu’ran nor the Old Testament nor indeed the New Testament ever intended to be devised. That is why it leads Islamic scholars into the sorts of difficulties and disagreements in which they find themselves and it is also why it leads Islamising societies into the practical difficulties their economic systems face as a result. Those who find this saying too hard will naturally commit themselves to something along the lines of current theories of Islamic finance which are, I agree, an achievement which centres round the elaboration of the theory of “interest-free banks” or structures for profit- and loss-sharing (PLS). The authors go on to discuss issues in the theory of interest-free finance specifically in relation to trade and consumer credit as well as government borrowing and monetary policy.

3. “The framing of a theoretical Islamic model society (is) relatively easy. However, like other theocratic ethical systems, Islam can diagnose what is currently wrong and describe the “perfect” society, but is less certain about what to do if people refuse to conform to Islamic moral standards....Islamic economics also includes the evaluation of the government initiatives and legal reforms needed to transform current institutions and modes of behaviour in Muslim societies into those which conform to Islamic norms....building bridges between the “is” and the “ought” ...This leaves ample scope for divergence of opinion because scant guidance is given in Islamic law on such

pragmatic questions” (p. 2). This is not quite true; both Biblical and Qu’ranic guidance is available: those who do not obey must be appropriately punished and, depending on the severity of their disobedience, even killed - but our times do not cope with the logic or the necessity of this, regarding this sort of thing as primitive and barbarian when the problem may be our own social and spiritual blindness.

4. The debate regarding interest-free banking “has remained entirely theoretical, however, primarily because the existing private Islamic banks which have to hold 100 per cent demand deposit reserves are enormously disadvantaged in free market competition against conventional banks” today (p. 18) which can leverage their deposits with international legitimation by 850% and indeed by more than this in some parts of the world. “The jury is still out on PLS banking because ... countries (which) have abolished “interest” without committing themselves to a full-blown PLS system....remain open to the charge that non-interest banking has been instituted merely to salve the consciences of pious depositors rather than to make a radical impact on how the financial system operates” (p 57)

5. While the authors are right in noting similarities and correspondences between Islamic, Hebrew and New Testament thinking, they seem to think that these similarities are fewer than is in fact the case. For example, it is not only the Qu’ran but also the Old and New Testaments which are primarily theocratic (other rulers are regarded as being instituted by God and therefore worthy of respect and even obedience only so long as these rulers act in consonance with God’s revealed ways). Again, it is not only Islamic social thought, but also Old Testament and New Testament social thought, which is organised by the principle that “the spiritual and moral takes precedence over the material and pragmatic, based on the assumption that human happiness is ultimately to be found in moral obedience rather than material ease” (p.2). This is also the case, *mutatis mutandis*, with belief in a life beyond that of this earth; with the teaching that God rewards and punishes us in that life on the basis of the principles on which we have acted in this life; with the rejection of the notion of inalienable property rights in favour of the status of trusteeship of all that is justly acquired by us; the condemnation of hoarding, squandering and denying to the poor; the duty and indeed importance to God of our work; belief in justice, equality of opportunity, and so on.

6. “What distinguishes Islamic thought from Judaism, Christianity and even Muslim pietism is that the jump from individual obedience to the transformation of society is automatic” (p.2). This is debatable. Consider that the Mosaic laws were given before the Hebrews went in to occupy the promised land specifically in order that an ideal state and an ideal society might be built there. Their society was to be a righteous one, in contrast to the sinful societies which at that time occupied the land (the Hebrews had earlier been told that they could not occupy the land for four generations because the iniquity of the Amorites had not yet reached the depth which would justify God bringing them judgement in the form of the entire elimination of those people by the Hebrews; see Gen. 15.16). In other words, Jewish ethics starts specifically in the

context of the founding of a righteous state, and there is as little distinction between individual and “national” matters in original Judaism as there is in Islam. And, insofar as the religion of Jesus is predicated on the failure of the “gathered” Jews to maintain the Mosaic law, the new community of the followers of Jesus is intended to be a “scattered” community, doing its work like yeast in “all the world”. Further, insofar as the instructions for the followers of Jesus are a stronger version of the instructions given to the Hebrews, it is clear that the followers of Jesus were meant to *influence* the world as yeast influences the rising of bread-dough rather than be a *national model* to the world as in the case of the Hebrews. In whichever part of the world the followers of Jesus were in greater concentrations, it is clear that their influence would go beyond the merely individual to the structural, creating relatively more model societies everywhere rather than an absolutely model society in the promised land - till, that is, the perfect society is directly introduced by God through the radical structural transformation of the heavens and the earth at the completion of the “end times” which were inaugurated by Jesus the Lord.

7. “At the outset there appears to be no fundamental difference between the accepted economic objectives in the West and those of a truly Islamic economy. The underlying feature of any economy must be the desire to achieve social and economic justice.” (p. 3). This is an astonishing statement, unlikely to command agreement from Friedmanians and others who are much more concerned about having instead a high-growth economy and who believe that minor matters such as social and economic justice look after themselves by the operation of Adam Smith’s invisible hand.

8. “Islamic opposition to interest is primarily inspired by religious adherence to the teachings of the Qu’ran. However, this has not prevented the theoretical analysis and justification of a PLS (profit- and loss-sharing) financial system in order to convince sceptics of the efficacy of Shari’ah (God’s laws). In their turn, the sceptics have countered with various theoretical objections that are believed to render a non-interest system impractical or inefficient.” (pp 21-22). The authors present both sides of the argument by outlining the theoretical implications of a PLS financial system and assessing its feasibility in the light of conventional economic theory and historical experience - coming out broadly in favour of a PLS system.

9. Mills and Presley present a highly concise discussion (less than six pages) regarding the principal-agent problems in financial contracting, covering the background, the case for debt finance with asymmetric information (and its limitations), and the implications thereof for interest-free banking and finance. The case for the defence of non-interest banking is similarly concise (just over 4 pages), before the authors move to their assessment: they acknowledge that financial contract theory poses a *prima facie* case against non-interest banking. “However, the case against a non-interest financial system is far from overwhelming. In practice, debt finance copes inadequately with risk-sharing in an uncertain world and imposes its own significant agency costs. Also, the practical difficulties associated with non-interest finance are not insuperable. Monitoring costs can be reduced by randomized checking and the handling of borrowers’

transactions, whilst their incentive to cheat can be restrained by intertemporal contracts which tie lower PLS ratios in the future to satisfactory performance in the present. In particular, financial contract theory and conventional banking experience suggest that PLS finance will be far more feasible if placed within the context of long-term banking relationships. “ (p 32)

Having mentioned some ways in which a non-interest banking system might indeed be superior, their overall conclusion is: “By stressing the intertemporal nature of the financial terms on offer, a non-interest banking system should at least prove workable” (p 33).

10. “The theoretical benefits and limitations of a non-interest financial system bear a close resemblance to those of (M.L.) Weitzman’s proposal to replace flat-rate wages with profit- or revenue-sharing labour remuneration arrangements....Weitzman predicts a robust economy with a cycle of diminished amplitude and a tendency to full employment (because of) the stabilizing consequences of introducing flexibility into the labour remuneration mechanism” (p 34).

11. In a non-interest contractual system “the manager is left free to choose the individually optimal level of investment in each state contingent on his contractually specified level of effort. Such a contract permits a mean-variance improvement in capital investment - average investment is increased whilst inefficiently large fluctuations around this level are reduced.” (p 45)

12. “Conventional economics has neglected the role interest plays in fostering wealth inequalities (and a) non-interest financial system would retain substantial scope for inegalitarian flows of property income, but these should be lessened by the absence of compound interest and the widespread sharing of profits and losses with savers” (pp. 45-46).

13. “The quest to find workable (and beneficial) alternatives to interest has strong implications for agricultural finance, particularly in developing economies. The potential for rural moneylenders to exploit and enslave smallholders through high rates of interest and input prices is well-documented. Consequently, there is great scope for PLS development banks specializing in agricultural finance and input supply” (p. 46)

14. “Rulers came to see Shari’ah as applicable to individual conscience but not to social legislation” (p 49) - paralleling what happened in the West.

15. “The most frequently posited advantage of profit-and-loss sharing (PLS) is its contribution to (economic) stability. Whereas conventional finance supposedly amplifies the business cycle, PLS finance is predicted to dampen it” (p 58). The case is examined by setting out the supporting monetary and financial theories of the cycle and the ways in which non-interest banking could alter matters. Wicksell, Hayek, Fisher, Minsky, as well as financial cycle theories dependent on asymmetric information (the

equity-rationing approach and the agency cost approach) are all examined to consider non-interest contributions to cyclical dampening (including the destabilizing movements in the cost of capital, fractional reserve banks and credit volatility, bank failures in depressions, speculative lending and borrowing, non-contingent liabilities and debt deflation). The authors conclude: “Debt finance has long been accused of contributing to cyclical instability....However, this is one of the commonsense propositions that economics has delighted in contradicting. (These theoretical rebuttals of the impact of debt finance have been undermined by) the application of asymmetric information considerations to financial relationships (which) has shown ways in which financial structure can have an effect on the real economy. Secondly, the increase in private sector indebtedness in the 1980s resulted in financial fragility ... (which) contributed to the length and depth of the subsequent recession. Two implications can be drawn...(First, it) is illogical that the corporate tax systems of developed economies invariably favour debt over equity finance. Interest payments are tax deductible whilst dividends and retentions are considered as taxable profit. This reduces the cost of debt finance, relative to the equity equivalent, by a company’s marginal tax rate. This bias needs to be eliminated not only on efficiency grounds, but also to encourage greater resilience to financial shocks. Indeed, the externality costs of debt financing indicate that the tax incentive should be reversed rather than eliminated. (Second, the) growth in aggregate demand in Anglo-Saxon economies is now closely tied to the private sector’s willingness and ability to borrow. That such debts are rarely indexed introduces an inflationary bias to the output:inflation trade-off facing the monetary policy-maker, particularly on the downswing of the cycle”. (pp 70-72).

16. Clearly, interest-based finance may not be the only cause of instability within capitalist economies. Equally clearly, a non-interest economy may not be without cycles. But, the authors conclude: “a non-interest economy would be more stable than its debt-financed counterpart. The benefits, in terms of a lower cost of capital and a more advantageous output:inflation trade-off would be considerable” (p 72).

17. In chapter 7 (“Key Issues in the Islamic Financial System”), though the authors acknowledge that the issue of equity deserves full consideration because it is in some ways an even more significant, they choose to focus on only four issues: savings behaviour, the allocation of loanable funds, bank stability and public finance, and government borrowing. “A potential theoretical weakness of proposals for a non-interest financial system that is often alleged is their possible impact upon savings behaviour” but, on the basis of considering the insignificance of return-related savings, the reaction of savers to greater return variance and the riskiness of PLS deposits, they conclude: “careful weighing of the arguments suggests that the introduction of a PLS banking system would have an indeterminate effect on aggregate savings behaviour and might even raise the average propensity to save and the bank-intermediated supply of loanable funds” (p 73). They then discuss one “fundamental concern of critics of a PLS financial system (which) is that the elimination of interest removes the one price signal that efficiently allocates loanable funds between competing demands, and the equilibration of planned saving and investment. An inefficient allocation of loanable

funds and lower productivity are predicted. This outcome relies on the assumption that there is no alternative to the rate of interest as an allocator of loanable funds, and that it does the job efficiently at present. Both assumptions are open to dispute” (p 77). “Intermediating finance through interest-bearing contracts biases the supply to borrowers and projects with collateral and secure cash-flow. There can be no presumption that these projects have the highest net present value of those on offer. The resulting allocation of credit discriminates against small firms with little capital, entrenches the status quo and increases the amplitude of the lending cycle. (While interest-based) finance circumscribes short-term agency and monitoring costs, leading to a lower cost of capital, (these) advantages are offset by longer-term inefficiencies in project selection and inappropriate risk-taking (resulting in insufficient) monitoring of borrowers....Few non-interest proponents claim that their system would achieve the “first-best” allocation of investible resources, and macroeconomic equilibrium at a high level of activity in theory, let alone in practice. However, there are sufficient grounds for questioning the allocative efficiency of the rate of interest as a price signal, and for claiming that a profit-related allocator may do better” (p 85). Regarding bank stability, the authors argue that, in effect, banks gamble on the “law of large numbers” and on depositor confidence in order to remain solvent and liquid. Banking history is “littered with occasions” when the gamble did not pay off. “Hence governmental regulation and under-writing of banks is a universal phenomenon.... the safety net provided to private sector banks goes unchallenged...and yet bank collapses and runs are still with us. The fundamental problem cannot be solved by treating its symptoms with better regulatory medicine because the ultimate cause of bank instability lies in contracting on an interest basis”: “Banks and other deposit-taking financial intermediaries exist to transform the maturity and liquidity of financial assets. Yet, by issuing interest-bearing liabilities, whose nominal (par) value is guaranteed and potentially callable on demand, conventional banks pretend that they are not transforming asset maturity and liquidity” (p85).... “Thus far, state intervention has largely succeeded in preventing system-wide bank collapses at the expense of subsidising banks to take risks; favouring large banks over small, and banks in general over other financial intermediaries; incurring high costs to taxpayers through bank rescues and nationalisations; adding to the inflationary bias of capitalist economies; and perpetuating a banking system that amplifies the economic cycle. Interest-based banking has survived thus far by persuading the monetary authorities to underwrite many of its liabilities. The options facing monetary authorities are either to “paper over the cracks” (e.g. by tinkering with DI liabilities) and risk the costly support or collapse of the edifice in the future; or to rebuild the financial structure on firmer foundations, rendering external support unnecessary. If some preconditions are met, a non-interest banking system should not only be feasible, but also more stable and less costly to the rest of the economy” (p 98). Finally, on government borrowing, the authors argue that while the elimination of interest-bearing government debt has serious welfare disadvantages, the long-term economic and moral advantages should outweigh these costs: “The most widely-felt impact of a non-interest financial system would be the elimination of interest-bearing mortgage and consumer debt ...high levels of household indebtedness can prove economically divisive - as the well-off enjoy better terms and access to credit - and socially destructive. Further

detrimental consequences can include depressed aggregate savings propensities and more volatile consumer durables demand. High levels of household leverage yield a more fragile macroeconomy, vulnerable to rises in real interest rates. These effects are amplified by a housing sector dependent on mortgage finance to fund house purchases....Clearly, the current reliance upon interest-bearing mortgage and consumer credit is one without its costs. Consequently, there are practical reasons for advocating its replacement(and though there are difficulties in a non-interest financial system such as) the provision of credit needed for immediate consumption or liquidity (there are feasible substitutes such as) charitable or state-run interest-free loans funds...non-interest mutual credit arrangements and time-multiple overdraft facilities” (pp 99-100).

Conclusion

Our authors are cautious and systematic, making little reference to Jubilee, to tithing and wider gift-giving, to the economic value of living a sober life and to “Protestant ethics” generally, or to the contemporary need for a “slow-growth economy”. It is interesting that Abraham and his descendants were withdrawn from “high-growth economies” or at least “high” economies in Ur, Egypt, Babylon and Persia and sent to build the “low-growth economic system” outlined in the Old Testament. However, as the Hebrews and the Christians are, at the same time, promised “prosperity” it may be worth drawing a contrast between “pagan” prosperity and “Godly” prosperity. “Magical” sacrifices and unjust systems were replaced with a “rational” system of tithes, rest for the land every seventh year, sabbath rest for people every seventh day, numerous festival seasons and feast days, and so on.

While Mills and Presley have some reservations about Islamic finance itself, the book more or less thoroughly endorses the Islamic (and Biblical) case against the ungodly usurious system which pervades the world as a result of the current domination of universities and senates by materialist humanism.

It is delightful to have this serious evaluation of the contribution of Islamic finance. What is needed now are similar evaluations of contemporary Jewish economic thinking as well as of the radical alternatives represented by The Other Economic Summit. Similar evaluations of the “relatively high-growth economies” of Egypt, for example in the Early Dynastic Period (3100-2686BC), of China, for example during the Zhou dynasty (1066-221BC), of the Mayans from 325-925AD, of the Incas say from 1200-1530AD, of the Aztecs under Montezuma I and II (1440-1519AD), of the Songhai Empire between 1464 and 1591AD, and of India during the Gupta period (300-500AD) as well as during the Mughal period (specifically 1527-1605AD) would be fascinating as well as useful.