Hard times Lessons of the economic downturn: Lessons of the economic downturn

by Dennis P. McCann
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How should Christians understand—and what should they learn from—the worst economic downturn since the Depression? Does the crisis raise fundamental moral or theological questions about our economic system? Four scholars offer their reflections.

What's to be learned from the economic crisis? Perhaps not much, since the crisis is far from over. Nevertheless, it is an occasion to reacquaint ourselves with certain lessons that ought to have been learned decades ago. Some of these are eminently practical—a return to basic principles of prudent stewardship at a time when politics, ideology and new technological capabilities have conspired to make each of us, whether we wanted it or not, individually responsible for his or her own long-term economic security. Others resonate with deeper theological concerns regarding the vicissitudes of—dare I say it—human nature and destiny. Had the theological movement called Christian realism not already emerged from the bitter experiences of the first half of the 20th century, it would be our fate, in light of this crisis, to invent it.

Christian realism had become all too rare among those entrusted with the common good—as should have been evident when Alan Greenspan, commenting last fall on the collapse of major financial institutions, confessed with uncharacteristic clarity, "Wow! I didn't see that coming!"

How could he not have seen it coming? Where did we ever get the idea that financial institutions were best left to regulate themselves, as if the all-too-human tendencies toward greed, wishful thinking and incompetence somehow diminished as the size of bonuses for investment bankers increased? It turns out that Nick Carraway in *The*

Great Gatsby was wrong: the rich are no different from you and me. As Reinhold Niebuhr warned us, the rich are as capable of egregious levels of self-deception, recklessness and indifference to the common good as any of us, under similar circumstances, might prove to be. Why then would anyone have fallen for the idea that leaving them to pursue their collective self-interest would result in anything other that the wholesale pillaging of our hard-earned savings and investments?

Once again it turns out that the greatest threat to capitalism is the capitalists themselves. The utopian expectations enshrined in neoclassical economic theory—namely, that the key players in the markets would all behave predictably as "rational utility maximizers," thus producing the common good as if by an invisible hand—once again have been exposed not only as delusional but as dangerously delusional. Greed run amok, chafing against the slightest impulse toward restraint ("Get government off our backs!"), can no longer be viewed as mere irrational exuberance; it is a cancer that threatens to destroy the very system that sustains it. The lesson is that the common good requires strong and effective government regulation of the economy. While there are some signs that the Obama administration understands this lesson, everything depends on Americans having the political will to resist the special interests that will fight at every step the imposition of the required reforms.

As the process of achieving a political consensus to restructure the economy unfolds, there are troubling signs that the rest of the world is drawing its own conclusions about the viability of the American model of democratic capitalism. In the current issue of *Vanity Fair*, Nobel laureate economist Joseph Stiglitz describes the ways in which the debate over "what we have learned" may not be decided in the U.S. Not only has the economic crisis reopened internationally the old controversy over the merits of capitalism versus socialism, but it has done so at a time when China and other emerging economic powers are exploring the possibility of establishing an alternative to the U.S. dollar as the world's reserve currency.

If in the months ahead the signs of recovery begin to reverse themselves, the rest of the world may conclude that abandoning the U.S. dollar is less risky than staying with it. In that case, the lessons to be learned and the debates to be revisited will become ever more probing and urgent. Only this time we will have to start over in a globalizing economy no longer focused on Wall Street or guided by the "Washington consensus." China and the other emerging economic powers will set the terms of the debate, and we will have to learn to make our points within them. That will pre sent the ultimate test for any Christian realism worthy of the name.

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The economic crisis is the consequence of deeply distorted economic institutions and practices with which we have long lived—institutions and practices incompatible with Christian teaching and based on an idolatrous conception of wealth.

Begin with debt and credit, which are at the center of both the economic and theological semantic fields. To give someone credit (from *credere*, to trust, believe) is to deem them trustworthy for repayment of something loaned. At the center of credit is the relationship of trust, which requires mutual knowledge and a shared universe of meaning. The ideal example: a small-town bank at which the person taking out the loan is known by the banker and vice versa. Or the case of a business loan in which the creditor has good reason to trust that the person starting up a new business will be able to repay.

By contrast, bad debt is based on relationships with little or no mutual knowledge, and where trust is virtually nonexistent. Debts of desperation—for necessities of life—and lending that is in any way coercive because of vastly unequal power relations are a form of slavery. Hence the Old Testament condemnation of such indebtedness, the scriptural call for a Year of Jubilee and Jesus' many teachings on the forgiveness of debts.

The credit crisis brought to the front pages what anyone who read the back pages had known for years: the prosperity of the U.S. was an utter illusion, built not on production of basic goods and services but on debt. The U.S. savings rate is the lowest of any advanced nation, our national debt is funded by China, and household debt surpasses household income. This debt was constructed by impersonal institutions that pushed credit onto persons who were not credit-worthy. Consumers' prosperity was an illusion because it was based on debt, not on socially produced and shared material wealth.

Behind this illusion of prosperity and wealth lies a deeper structural problem: the financialization of the economy, or the triumph of the financial point of view. By this I mean the growing tendency of business managers to look at business assets such as factories or service industries as if they were financial assets from which maximum return should be sought. From that viewpoint, it makes rational sense to sell off a factory or a company (destroying jobs and sometimes communities) if the capital can be deployed for greater gain in some other way. The primary purpose of economic activity and business is no longer the production of goods and services but the making of money, of profit—and management performance is measured by that alone.

With financialization, the most basic dimensions of economic activity—stewardship of natural resources, creation and protection of jobs and communities, reinvestment of created wealth into productive and community-strengthening institutions—are not merely devalued but destroyed. To take the example that triggered the economic crisis: banks—and investment houses that increasingly functioned like banks—discovered that they could bundle high-risk mortgages into investment instruments and sell them to investors. A miracle: the risk involved in making loans suddenly disappears! Selling the bundled mortgages (a form of derivative) was a way of selling risk and promising high rates of return.

Reportedly people at J. P. Morgan genuinely believed that they had put an end to risk. If risk disappears, there is an immense incentive to make more loans no matter the credit-worthiness of the debtors. That is what happened. And the disappearance of risk meant also the disappearance of trust as fundamental to credit and to economic transactions. The social distance between the sellers of risk in global financial institutions and the debtors bent on consuming more and more could hardly be greater.

The mortgage implosion may have been the catalyst for the economic implosion, but the real cause was and is the underlying rot in our economy, which can be summed up as the triumph of making money (and of consumption as an indication of economic well-being) at the expense of attention to the production of the goods people really need and to the care of people, communities and the natural gifts of creation. The challenge for us as Christians is to use this crisis to move the economy toward what Wendell Berry calls “good work”: work that honors God, the neighbor and creation. And the cornerstone of such an economy is trust.

—Jon P. Gunnemann, emeritus professor of social ethics at Emory University.

The recession will soon be over: on that you have my money-back guarantee. It is not the Final Crisis of Capitalism, and requires no special Christian alarm. Since 1800 there have been about 40 such episodes. In every one the recovery has led to higher incomes.

The recessions do not come from greed—which in this vale of tears, after all, is universal, and hardly peculiar to Wall Street. The recessions come from hope and courage, from venturing on building railways and then overbuilding them; from founding dot-com companies, and then overfounding them; from innovating in financial services, and then overinnovating. We go too far, as imperfect creatures with imperfect knowledge of the future. Who among us anticipated the present downturn? Not many economists, I can tell you—and if they *could* anticipate, they'd be rich, wouldn't they? But in the meantime we get better railways, computers, banks. That's why the recovery is always greater than the decline. The trend has been startlingly upward, the second most important event in human history.

The jagged rise of innovation has been disturbing, but on balance it has been immensely good for the poorest among us. In 1800 the typical person in the world, in the U.S. as in Japan or Brazil, got along on about $3 a day, plus or minus a dollar. It had been so since the caves. Now the average person in the world earns $30 a day in inflation-corrected terms, and in countries like Norway, which have taken full advantage of innovation, the figure is $137 a day. Innovation has relieved crushing poverty and given new scope for spiritual growth.

Innovation has been better than any exercise of the usual Christian charity. Indeed, from the point of view of a theology of creativity, it has been Christian charity. Give what you will to the poor of the world, economic creativity since 1800 has given ten times more. Simple charity is good for your soul. But if you wish actually to help the poor, you should let markets and innovation work, because they are what have transformed the lives of the poor. Look at China or India, freed from Mao's communism or the License Raj. The world economy has sharply slowed this year. But it will return next year to raising the incomes of the poorest faster than at any time in history.

Christians especially should not be anxious about the present recession. We should of course be concerned for people hurt by it—a concern in keeping with a social gospel. A social gospel would recommend extending unemployment benefits and doing other things to soften the hurt. But a social gospel should not crowd out a spiritual gospel, the good news of a God who so loved the world. Christianity—or for that matter Islam or Buddhism—does not promise an easy life. It promises an eternal life in God's image. It celebrates (without idolatry) our God-given creativity and free will, which entails risk and recession. To quote Gerard Manley Hopkins: "He fathers-forth whose beauty is past change: / Praise him."

—Deirdre McCloskey, who teaches economics, *history*, *English and communication at the University of Illinois at Chicago*, *and who wrote a theological defense of capitalism*, The Bourgeois Virtues: Ethics for an Age of Commerce.

The question of the Economy of the economy may be the most important question to be asked in the midst of the Great Recession. This question reminds people that economics only recently became an autonomous science. Even the earlier architects of this science, Adam Smith, James Steuart, David Ricardo and John Stuart Mill, referred to it as "political economy," signaling its inseparability from political philosophy. Adam Smith held a chair in moral philosophy, from which his economics is inseparable. Among 20th-century economists John Maynard Keynes was explicit about this connection. "Economics," he wrote, "is a moral science." To remember these linkages is to consider the place of economy within Economy—the larger moral, political and theological context within which economy operates. Theologians know something about the latter even when we know little about the former.

That theology is linked with economy may seem more difficult to defend than the linkages among the other disciplines. Yet any archaeology of economy will find theology at its inception. Smith and Steuart were committed to stoic theological dogmas, which are perpetuated with the theory and practice of modern economics. Let me give an example. In their influential textbook *Economics*: *Principles and Policy*, William J. Baumol and Alan S. Blinder discuss the irrational nature of rent controls for the poor. They argue that these always have negative, unintended consequences. To act as if they did not is to battle "the invisible hand," which is a peculiarity found in "lawmakers and rulers . . . from Rome to Pennsylvania." This, of course, is a theological judgment. There is an "invisible hand" (*Deus sive natura*)—God or nature, it does not matter which—that providentially determines natural laws of production and distribution. To challenge those laws, even with good intentions, inevitably creates more harm than good. The Economy of the economy is set. All we can ask about is the economy.

Has this worked? Has bracketing out the question of the Economy of the economy produced what it promised? Adam Smith promised the "wealth of nations," drawing on a biblical passage from Isaiah 61—a passage that sets forth the hope of Israel's return to Jerusalem. Smith's "wealth of nations" replaces the eschatological hope many of us regularly declare on Sunday: "Christ has died, Christ is risen, Christ will come again." I confess I do not comprehend what this confession means, but it's significance for the Economy of the economy cannot be over emphasized. For the difficulty with the theological dogmas (the Economy) undergirding capitalism is the immoral assumption that unintended means can produce a harmonious end. Lions simply have to act more like lions without regard to lambs—and the best possible harmony results. In other words, profit maximization is the best way to produce social harmony. Some economists forecast that this simple "natural" law, left to its own providential working, would drive the Dow average to 36,000 by 2010, lifting all who played along. We were misled.

Theologians do not have specific counsel on how to salvage banks, open the flow of credit or regulate financial institutions—nor is that our task. Our task is to instill and cultivate knowledge of the Economy. When more clergy know their Myers-Briggs type than can explain the doctrine of the enhypostaton, we know we have forgotten the Economy. Christ is God's Economy, and his obedience to a life of reconciliation is necessary for that life. The end cannot be had without the means. In our apologetic haste to accommodate the best of the social sciences and correlate theology to them, have we lost our ability to give a convincing account of this divine Economy? Without it, we lack an adequate context to discuss the economy. We act as if the question of the Economy is settled. Its unsettling offers us an opportunity for remembrance.

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