

REFORMED WORLD

Volume 59 (1) • January 2009

Reflections in a time of crisis

Sampie Terreblanche
Edward Dommen
John P. Tiemstra
Bill Phipps
Michel Rocard
Shirley J. Roels

**WORLD
ALLIANCE OF
REFORMED
CHURCHES**

WORLD ALLIANCE OF REFORMED CHURCHES

The Catholic Presbyterian (1879-1883) The Quarterly Register (1886-1936) The Presbyterian Register (1937-1948) The Presbyterian World (1949-1955) The Reformed and Presbyterian World (1956-1970) Reformed World (1971)

Volume 59, No 1

January 2009

ISSN 0034-3056

Editor: Douwe Visser

Contents

• Editorial	01
• The Second Meltdown of the Ideology of Market Fundamentalism <i>Sampie Terreblanche</i>	03
• A Reformed Perspective on the Global Economy <i>Edward Dommen</i>	19
• Financial Crisis and the Culture of Risk <i>John P. Tiemstra</i>	31
• Hope in the Perfect Storm <i>Bill Phipps</i>	37
• What has happened to us? France's former prime minister Michel Rocard analyses the financial crisis <i>English Summary by Kristine Greenaway</i>	43
• Ce qui nous est arrivé: autopsie d'une crise <i>Interview avec Michel Rocard</i>	45
• Christian Manufacturers at the Crossroads <i>Shirley J. Roels</i>	53
• European Union Press release: European Union leaders discuss ethical contributions for global economic governance with European faith leaders.....	77
• WCC Press Release: Pentecost Message "Brothers and sisters, what should we do?"	78

**REFORMED
WORLD**

is published quarterly by the

World Alliance of Reformed Churches

150, route de Ferney, PO Box 2100, 1211 Geneva 2, Switzerland - www.warc.ch

President	Rev. Dr Clifton Kirkpatrick
Vice-Presidents	Mr. Helis H. Barraza Diaz
	Ms. Judith E. Fisher
	Rev. Dr Henriette Hutabarat-Lebang
	Rev. Dr Gottfried W. Locher
	Rev. Dr Ofelia Ortega
	Rev. Lilia Rafalimanana
Geneva Secretariat	Rev. Dr Setri Nyomi - <i>General Secretary</i>
	Rev. Dr. Douwe Visser - <i>Theology and Ecumenical Engagement</i>
	Rev. Patricia Sheerattan-Bisnauth - <i>Church Renewal, Justice and Partnership</i>
	Ms. Jet den Hollander - <i>WARC Mission Project</i>
	Ms. Maureen O'Brien - <i>Finance & Fundraising</i>
	Ms. Kristine Greenaway - <i>Communications</i>

© Copyright by the World Alliance of Reformed Churches, Geneva. Except where otherwise stated, the writers of articles are alone responsible for the opinions expressed. No article may be reproduced in whole or in part without permission.

Editorial

The global economy is a complicated matter. It is not easy for non-specialists to understand why a credit crisis affects the daily lives of so many in the world. Today money transfers are in most cases a “virtual” matter. A huge sum of money can cross the globe in the push of a button. Why is it that in the complicated world of finance and banking, risk-taking by a few puts the simple daily lives of many under threat even when they are not themselves involved in speculative business deals?

The World Alliance of Reformed Churches has over the past years been outspoken about the state of affairs in the global economy. The Accra Confession speaks strongly against the neo-liberal global economy with its lack of balance between the wealth of a few and the poverty of many. This document was adopted in 2004 at a time when the world of high finance was reporting astronomically high profits. Any criticism of a market economy that was in many aspects uncontrolled by transparent state government regulation seemed idealistic and was considered as marginal by those in the world of finance and banking who dreamt only of even higher profits.

In no way it should be said that the Accra Confession is a document having predicted the credit crisis. The World Alliance of Reformed Churches was not “speculating” against the market. The Accra Confession is first of all a document showing solidarity and a passionate will to have a system changed. Its economic expertise has occasionally been challenged. There has been and there should always be an open ear for all genuine critique. Also, in no way should it be said that within the World Alliance of Reformed Churches there is reason for triumphant feelings such as: “We have always said that something was rotten in the state of affairs of the global economy”. The credit crisis has brought too much suffering to allow any feeling of triumph.

Compassion and solidarity with those who suffer are dominant factors for the World Alliance of Reformed Churches when critiquing the global economy. The compassion is genuine but has to be embedded in further reflection. Because “there is a season for everything”, as Ecclesiastes 3 says. There is “a time to break down and a time to build up” (verse 3). So there is a time to cry out and a time to reflect further and to develop critical thinking.

One of the greatest challenges for further reflection is to come up with real alternatives for a global economy that has failed to fulfil the principle of the greatest benefit for the greatest number of people. The well known magazine *The Economist* showed clearly in one of its articles that socialist parties hardly benefit from the credit crisis because voters know that the parties may have offered a critique but that they have not presented a clear alternative. Condemning the neo-liberal economy becomes a repetitive process if no alternative is sought.

It cannot be expected of a global communion of churches such as the World Alliance of Reformed Churches wants to be, that it come out with a blueprint for how a just global economy should be built. However, a few steps can be made in this direction. The first step is to confirm how and why our commitment to seek economic justice is based upon careful biblical exegesis and systematic theological thinking. This is part of the work of a series of theological consultations in 2009 on the theme of “communion and justice”. Later this year, *Reformed World* will publish the results of these consultations. The second step is to continue developing within our constituency the economic expertise that will allow us to be clearer about the fundamental principles that have caused global economy to go astray. The next edition of *Reformed World* will be part of that second step.

For the current edition, with its theme of “Reflections in a Time of Crisis”, we have asked a number of authors, mainly economists, to write about the financial crisis. Their articles show first of all the causes of the crisis but also offer more. Throughout, the background of biblical and theological thinking is more or less explicitly present. All the articles together give inspiration for developing alternative economic thinking.

Exceptionally, one article - an interview with a French socialist politician - appears in French as we felt that translation might reduce its impact. We add an English summary for those who do not read French.

At the end of this edition you will find two news releases that make reference to the global economic situation. It is of great significance that nowadays political leaders expect ethical guidance in economic governance from religious leaders.

Reformed World is the publication of the World Alliance of Reformed Churches that should always seek to develop through its articles balanced and well founded views. The guiding principles however also here should be compassion and solidarity with ‘the least, the lost and the powerless’.

Douwe Visser

The Second Meltdown of the Ideology of Market Fundamentalism

Sampie Terreblanche

In order to understand the credit crisis it is important to look at the history and see the economic developments that have caused this crisis. The first part of this article will give this overview. The second part offers a systematic approach to the themes of the politico-economic system and analyses the current financial crisis.

1. Market fundamentalism: Mark I and Mark II

It was not only banks and large corporations that experienced meltdown in the USA in September-October 2008. What is perhaps more important is that the ideology of market fundamentalism (Mark II) has also collapsed. This was also called the ideology of neoliberal globalism and it was used over the past 30 years to legitimise the American controlled system of global capitalism (also called the American empire). The ideology of market fundamentalism was popularised since the early 1980s by the following slogans: “roll back the state”; “leave it to the market”; “the market knows better”. Its policy instruments were privatisation, deregulation, commoditisation, liberalisation and a further “enclosure of the commons”.

The meltdown of market fundamentalism in 2008 was the second meltdown of this ideology. The first meltdown took place in 1929, when the Wall Street Stock Exchange collapsed and the world was dragged into the Great Depression (1929-1933). Market fundamentalism Mark I was also called the ideology of laissez-faire capitalism (or economic liberalism) and was used from ±1850 until ±1918/31 to legitimise the British-controlled system of global capitalism (also called the British Empire). In this period the process of globalisation and free-market capitalism were driven by the conviction that the unrestrained market system was a self-regulating system and that government intervention into the system will cause more harm than good.

2. The social democratic consensus from 1950 until 1980

The period of laissez-faire capitalism ended in Europe during the First World War but not in the USA. During the 1920s the ideology of laissez-faire capitalism and the system of “rugged capitalism” reigned supreme in the USA. During the “roaring twenties” the Americans were convinced that unrestrained free-market capitalism was enabling them to dance to

the tune of the Charleston towards everlasting prosperity. President Coolidge captured the spirit of the period with his remark that “the business of America is business”.

The excessive speculation on Wall Street led to its collapse on 29 October 1929 and to the most severe depression the world has ever experienced. In 1933 the unemployment rates were 25% in the US, 30% in France and Britain and 40% in Germany.

President Roosevelt, with his New Deal policy of 1933, was in favour of a system of mixed-capitalism in which the state and the market should play complementary roles in relation to each other. John Maynard Keynes published his General Theory in 1936 in which he supplied the theoretical justification for a system of mixed-capitalism and for comprehensive government intervention in the economies of Western countries.

After the Second World War all the industrialised countries reached a remarkable degree of consensus about what the nature of the politico-economic system in the post-war period ought to be. They decided to institutionalise a system of social democratic capitalism, i.e. a system in which the democratically elected state would no longer play a subsidiary role to the capitalist system, as had been the case until then. The purpose of the social democratic consensus (ideology) was to include the working class (or the lower classes) – about 70% of the total population – in the advantages and privileges of the politico-economic system. This class was excluded from such advantages and privileges in the system of laissez-faire capitalism. The leaders of the post-war world realised that the working class had made such huge sacrifices as soldiers during the two world wars and had suffered so much hardship during the depression of the 1930s that they could not any longer be excluded from the advantages and privileges of a growing economy.

The post-war system of social democratic capitalism was based on the ideology of social democracy. The governments of industrialised countries committed themselves to building proper welfare states, to maintain full employment, to implement poverty-alleviation programmes and to maintain price and exchange rate stability as well as control over the international flow of capital within the framework of the Bretton Woods system.

The social democratic consensus was in place in all industrialised countries from ±1950 until ±1980. It attained almost all its aims: reasonably full employment, a high rate of economic growth, a more equal distribution of property and income, better education and health services for all, and price and exchange rate stability. The period became known as the Golden Age of Social Democratic Capitalism.

3. The Reagan/Thatcher “turn” towards neoliberalism and market fundamentalism

The 1970s were a problematic decade for the USA for several reasons: the Vietnam War was lost; the Watergate Affair undermined US prestige; the Egypt-Israel War (1973) was lost; OPEC was launched and the price of oil increased from \$3 a barrel to \$12; stagflation and tax revolts were experienced in the USA; and the Iranian Revolution (1979) precipitated a second oil crisis.

In the midst of these economic and political problems Margaret Thatcher (1979) and Ronald Reagan (1981) suspended their participation in the post-war social-democratic consensus. Both Thatcher and Reagan were taken in tow by the capitalist elite in their respective countries to restore the power of the capitalist class vis-à-vis the working class and vis-à-vis the democratic state. Both made a sharp “rightwards” turn on the ideological spectrum. By implementing their neoliberal policy approach of privatisation, deregulation and the retrenchment of the welfare state, the state again became the “servant” of capital, while labour became again systemically excluded and again put in a position of subordination to capital as was the case in the system of laissez-faire capitalism (1850-1918/31).

In all fairness it should be acknowledged that the politico-economic system institutionalised after the war had become somewhat clumsy by the 1970s. The rapid growth of the welfare state led to all kinds of bureaucratic inefficiencies and red tape as problems that needed to be addressed. The continental countries brought about moderate reform. Britain and the USA - and the capitalist elites in these countries - were not prepared to support moderate reform. They were adamant that the clock should be turned back to the laissez-faire “old order” of the nineteenth century. Through a massive propaganda campaign capital succeeded in regaining its position of power vis-à-vis labour and also succeeded in the British-American countries in “relegating” the state to the position of “servant” of capital instead of being a servant of capital and labour as was the case during the period of social democratic capitalism (1950-1980).

In all the British-American countries the share of GDP earned by labour declined from ±70% in 1980 to ±60% in 2008. The distribution of property and income had become somewhat more equally distributed in British/American countries from 1950 until 1980, but became much more unequally distributed after 1980.¹

¹ The share of wealth held by the top 1% of the American population was more than 40% in 1920. It declined to 20% during the mid-seventies and increased again to more than 40% in the early 1990s (see Thurow, 1996: 32). According to Newsweek (26 Jan 2009), the after-tax income in the USA grew from 1979 until 2004 by 9% for the bottom 20%, by 69% for the top 20% and by 176% for the top 1%. The top 20% of tax payers realised nearly three quarters of all income gains between 1979-2000.

The social democratic approach was perpetuated after 1980 in continental Europe. These countries, however, found it increasingly difficult to maintain their social democratic approach intact within the framework of the American-controlled system of neoliberal global capitalism. But income and property remain much more equally distributed in continental countries than in the British-American world (see Cornia, 2004: Chapter 2).

4. The doubtful justification for market fundamentalism

The ideology of market fundamentalism has been justified over the past ±200 years in the name of certain persons and/or schools of economic thought and by arguments about what the real purpose of the state and the capitalist economy is or should be. It is necessary to make a critical analysis of all these justifications.

4.1 Adam Smith's Invisible Hand

All the free marketeers - both in the period of laissez-faire capitalism and in the period of neoliberal global capitalism - have honoured Adam Smith as the father of capitalism for his (supposedly) brilliant insight that individuals in the pursuit of their self-interest will be led in a competitive market system by the Invisible Hand to promote not only their own self-interest, but also the general betterment of society at large. Although Adam Smith was a brilliant scholar, there is no justification to regard him as the father of capitalism. That "honour" belongs to David Ricardo, who in the early nineteenth century formulated the "convincing" argument - that is convincing for the emerging capitalist class and the British government - that the interest of the capitalist elite should always receive preference above the interests of the working class - i.e. that labour should always be subordinated to capital. Joseph Stiglitz (2003: 13-14, 272-75) acknowledges that "no idea had more power than that of Adam Smith's Invisible Hand". But, according to him, this idea attained its power not for the right reasons, but for the wrong ones. It is powerful as a myth not as a reality. Stiglitz's research convinced him "that one of the reasons that the Invisible Hand is invincible is that it is simply not there".

Adam Smith never claimed that the Invisible Hand existed. According to him, we can expect "ideal" economic results when very strict (but utopian) economic conditions are in place. Then - and only then - it would be "as if" an invisible hand were operational. But he acknowledged quite explicitly that these conditions were far too utopian to ever be in place:

To expect the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Ocean of Utopia should ever be established in [Britain]...

Monopolies have so much increased... that, like an overgrown standing army, they have become formidable to the government and on many occasions intimidated the legislature (Wealth of Nations, 1776: [1937], 437-448).

According to Stiglitz (2003: 13-14, 272-275, 308-309), the myth of the Invisible Hand is a great relief for many businessmen. They like to believe that “it told them [that] by doing well (for themselves) they [are] doing well (for society)... [and that they] should feel no guilt in greed, [but] should feel pride [in it]”. These businessmen are of the opinion that the Invisible Hand exonerates them from moral responsibilities. The alleged miraculous (or “god-like”) manner in which the myth of the Invisible Hand ensures that individuals - in the pursuit of their self-interest - will unintentionally promote the general betterment of the community creates for many businessmen a situation in which it is never necessary for them to ask what is the right thing to do, but only to ask what they want to do, what will make them rich and happy. This distorted “Smithian logic seemed to suggest that there [is] no role for morals [and] for virtues like loyalty and trust [in neoliberal capitalism]”. By interpreting this myth of the Invisible Hand in a skewed manner, business people like to believe that they are acting morally when they increase their profits and when they are obedient to the relentless discipline of the “bottom line”.

The obsession with the bottom line “put pressure ... [on] firms that might have believed in honest accounting... [to participate] in the race to the bottom”. Consequently “hidden theft had evidently been part of capitalism for a long time”. We have reached a point in neoliberal capitalism where “morality in both the private and the public sectors takes on a new meaning: increased profits... Unfortunately, as convenient as it would be, there is no basis for these Smithian beliefs... The captains of industry - the leaders to whom we were told to look up to - have, it turns out, acted in ways which benefited themselves at the expense of others. At least in retrospect their actions looked deeply immoral... The problem was not just a couple of bad apples... as time went on more and more apples seemed rotten”. Stiglitz made this critical evaluation of neoliberal capitalism after the bankruptcy of Enron and other large American corporations. After the meltdown of 2008, his criticism of neoliberal capitalism has a prophetic quality.

4.2 The new classical school of economists

The overwhelming majority of professional economists at universities and at research institutions in the Western world are neoclassical economists. The name of economics as an academic discipline was originally Political Economy. In the last quarter of the nineteenth century a new school of economist emerged - the neoclassical school. This school is of the

opinion that the free market economy (or the capitalist system) is a natural construct and that it is possible to formulate “economic” laws that will be as consistent and as predictable as the natural laws that are formulated by the scientists who study physics and the other natural sciences. The neoclassical economists then changed the name of Political Economy into Economics to imply that it was a natural science like Physics.

Joseph Stiglitz observes that economics has suffered “a triumph of ideology over science”. Instead of regarding their theories as tools in the pursuit of knowledge, neoclassical economists made them the required viewpoints from which to look at economic phenomena. As far as they are concerned, “reality” should adapt to their “theories” - not the other way around.

The neoclassical school not only regarded “the competitive free market system” as a natural construct that operates in accordance with certain discernable economic laws. They also claimed that this system is a self-regulating system in which the market price of every commodity will be determined by natural forces at the equilibrium level (where supply is equal to demand) and that, if all the individual markets (including the labour and the money markets) are in equilibrium, a macro-economic equilibrium would prevail. According to the ideology of free market capitalism, the great virtue of this system is that it will allocate scarce resources efficiently and will create conditions that will be conducive to capital accumulation and a high rate of economic growth. In this system all productive resources will be remunerated in accordance with their productivity. Therefore, everyone will benefit fairly from the advantages of the system. A huge gap exists between this theory and the hard reality.

Over the years very complicated mathematical and econometrical models were built by neo-classical economists in an attempt to bridge the huge “gap” between theory and reality. In all these attempts theory has maintained its ascendancy over reality. In spite of these attempts, the idea (or ideology) that the free market system is a self-regulating system and that government ought not to intervene with its (alleged) virtuous operations, has lived on to underpin not only laissez-faire capitalism in (1850-1931) but also neoliberal capitalism (1980-2008).

Unfortunately for the neoclassical economists, capitalism - in whatever version - is not a natural construct. It is a social construct. It is a man-made thing. It is a project always in the making. It has to be “remade” constantly. Like all other social constructs, it cannot be studied in isolation. It has to be studied as part and parcel of the political, social and legal reality of which it is a component. Consequently political economy is not and cannot be a natural science. It is a social or a human science. As is the case with all the other human

sciences, economics should be studied in a historical context, while the relevance of human unpredictabilities and “power constellations” should consistently be taken into account. The neoclassical economists are very much inclined to be ahistorical in their approach and often ignore power constellations².

The neoclassical school emerged in the last quarter of the nineteenth century. It praised the virtues of competitiveness and anti-statism at a time when the British fleet was waging war in almost every corner of the globe to protect the interests of the capitalists in Britain. After the Great Depression and amidst the growing influence of Keynesian economics, the neoclassical school fell into disrepute. But with the “turn” to neoliberalism in the early 1980s, this school of thought re-emerged to give ideological justification to the revival of market fundamentalism. Since the meltdown of 2008 neoclassical economists have been faced with the daunting task of rewriting their text books - hopefully within a different paradigm!

One of the propaganda gimmicks of the neoclassical school of economists is that contention that the “prices” determined by the market are the “correct” prices because they represent - thanks to the Invisible Hand - the “collective wisdom” of all the thousands of participants in the market. The impression is often created by neoclassical economists that the “market price” is a good enough indication of the true value of the relevant article. To suggest that market prices - given the manifold imperfections of all markets - offer a solution to the value problem in Political Economy is preposterous. The value problem is a moral problem that can in no circumstances be left to be solved by the vicissitudes of market forces!

Economists who succeed in questioning the “correctness” of market prices convincingly also succeed in questioning the legitimacy of capitalism. Amartya Sen (2006) is such an economist. He describes the believability or the “correctness” of market prices as follows:

There is an oddly common presumption that there is such a thing as “the market outcome”, no matter what rules of private operations, public initiatives and non-market institutions are combined with the existence of markets... This presumption is entirely mistaken. Use of the market economy is consistent with many different ownership patterns, resource availability and rules of operation... And depending on these conditions, the market economy itself would generate distinct sets of prices, terms of trade, income distributions and more generally, very different outcomes.

² Paul Samuelson's book *Economics* is the standard text book on neoclassical economics. Almost 20 editions have been published. It contains an index of 40 pages, printed very small. Almost every word in economics is listed in the index. The word “power” is conspicuous in its absence!

The neoclassical school acknowledges that markets are not perfect and that all kinds of “market failures” exist and that some government intervention to “correct” these “failures” can be justifiable. There is, however, a rather fundamental failure in the market system that is rarely acknowledged. In the above reference Sen refers to this systematic failure. This failure exists as a result of the very unequal distribution of property - both physical and personal property. Those market players that possess large quantities of marketable properties are generously compensated by the market, but those billions of people who possess very little marketable property (or no marketable property at all) are compensated very meagrely by the market or they are systemically excluded from participation by the market. As a result of this systemic market failure the inequalities and asymmetries that exist in countries - and especially in the global world - cannot and will not be solved by the market mechanism. These inequalities and asymmetries are perpetuated and entrenched by the market mechanism - especially in neoliberal capitalist countries. The market systemically benefits the rich (say 20% of the world population) to the detriment of the other 80%!

4.3 Anti-statism and the role of the capitalist elite

The attitude of the capitalist elite in neoliberal countries on matters concerning the role of the state in the economy is ambivalent. On the one hand, the capitalist elite expected of the state to do quite a lot of heavy lifting to enhance the class interest of this elite. On the other hand, its orientation is rather anti-statist as far as the interests of the working class are concerned and when it is only possible for the state to deliver social services to the working class by increasing taxation on the capitalist class. This ambivalence becomes evident when we take a historical overview of the history of capitalism and concentrate on the role the state has played in the development of capitalism over the past 700 years.

The roots of capitalism are to be found in the Italian city-states of the fourteenth and fifteenth centuries: Florence, Venice and Genoa. It was in these cities that the accumulation of capital was conceived as an end in itself independent of what the purpose of political authority in these cities may have been. In due course the capitalist class in these cities succeeded in organising themselves into capitalist oligarchies that took over the government of the city states. The capitalist oligarchies then used their “political” power for waging war and building empires, and to promote their sectional interests and their opportunities for accumulation and profit-making.

The development of capitalism could not have taken place over the past 700 years without the active involvement of the city-state and nation-state governments in matters concerning the creation of the institutional framework of the capitalist system. To put it in unequivocal terms, a market-orientated economy only becomes a capitalist system when important parts

of the business sector succeed in prescribing to the government how to protect and how to advance the business elite's interests. In this regard the governments of capitalist countries have played an indispensable role in creating and maintaining property rights and in supplying the legal framework necessary for property owners to define and to exercise their property rights. The same is true about other essential capitalist institutions such as the development of money, of banking and of market institutions. During the long period of capitalist development, the capitalist elite/class regularly pressurised the nation states - and is still pressurising them - to create circumstances conducive to capital accumulation and profit-making. The development of capitalism was, therefore, for many centuries closely intertwined with state building and war making and, ultimately, with empire building.

In the seventeenth century the Dutch capitalist oligarchy that in effect governed The Netherlands was responsible for the development of banking and financial institutions, and for waging continuous wars, and it succeeded in capital accumulation through empire building.

Britain fought six big mercantilist wars from 1689 to 1815. During this period Britain was a "fiscal military state" and in a position to finance its many wars better than its competitors by using its more developed taxation and loan systems. The British government's active involvement in the military industry, in building the navy, in conquering new colonies and in opening up new opportunities for accumulation for the emerging British capitalist class to a very large extent stimulated capitalist growth in the 18th century.

In the nineteenth century Britain became a "navy-industrial complex". Although a remarkable peace was maintained between the European countries from 1815 until 1914, Britain fought 50 fairly big colonial wars in the nineteenth century to protect the huge interests of its capitalist class in Britain's large territorial colonies in Asia and Africa.

In 1961 President Dwight Eisenhower warned that "we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex". Eisenhower was justifiably concerned about the way the military industry had restricted his abilities to take sound political decisions. Since 1961 successive US administrations have been pressurised to intervene regularly in the private sector economy of the USA to promote the interests of the capitalist elite. In the early 1980s Ronald Reagan succumbed to the pressure of corporate America when he took his "turn" to the right and accepted the neoliberal agenda. His policy measures of "rolling back the state, retrenching social security and deregulating the corporate sector" suited the corporate sector like a glove. What was at stake in the early 1980s was a realignment of the power relationship between capital and labour. Reagan's agenda restored the dominant position of capital over labour and restored

the situation that had been in place during the centuries before the post-war social democratic consensus.

It is rather ironic that the large role the US administration played during the period of neoliberal capitalism since 1980 to promote the interests of the corporate sector and to create conditions conducive to capital accumulation became so much bigger and so much more visible when the meltdown of 2008 took place. The “bailout” package of the Bush administration to salvage the banking system from bankruptcy represents the largest nationalisation of private property that ever took place in world history. The “bailout” package of a Republican president, George Bush, finally ended the ideological period of “anti-statism” introduced by another Republican president, Ronald Reagan. In less than 30 years the Republican Party moved from a (supposedly) anti-statist ideology towards a large-scale pro-state agenda - all on behalf of capital.

4.4 Growthmanship and the purpose of a politico-economic system

An important feature of the propaganda onslaught of the capitalist elite - in both laissez-faire and neoliberal capitalism - was that a high rate of economic growth is the panacea that will solve not only the problems of the capitalist class, but also of the population at large. Those that regard a high economic growth rate as a panacea and as the main (or only) purpose of an economic system are making themselves guilty of what is known as growthmanship. Kenneth Galbraith (1967: 164, 348) describes the belief in growthmanship in the USA sarcastically as follows:

“The belief that increased production is a worthy social goal is very nearly absolute. It is imposed by assumption, and this assumption the ordinary individual encounters, in the ordinary course of business, a thousand times a year. Things are better because production is up. There is exceptional improvement because it is up more than ever before. That social progress is identical with a rising standard of living has the aspect of faith. It is, per se, a good thing.”

C. Elliott (in Munby, 1966: 339-340) warns that those in favour of growthmanship are guilty of “making the rate of growth of income per head a fetish or a talisman [and with it] we are in danger of making it also the ultimate criterion by which everything else is judged... One may ask oneself whether economic growth... is not becoming a new golden calf. The hysterical fascination that the rate of growth of income per head exerts [in industrial countries] is infectious.

The rate of economic growth is not, and cannot be, the aim of a politico-economic system. The obsession with growthmanship is an inappropriate approach that can only be propagated by those who are of the opinion that an economic system (for example, the capitalist system) operates in isolation from other social systems, and that an economic system (capitalism) is per se a law unto itself.

The capitalist system cannot operate in a political vacuum. The appropriate question to ask is not what the aim of the economic system (capitalism) ought to be, but what the aim of the politico-economic system (democratic capitalism) ought to be. The aim that should be pursued by the joint politico-economic system of a country is to promote the general interest or the common good (or the bonum commune) or the social welfare of the society at large. Let us concentrate on social welfare in an attempt to give concrete meaning to these concepts.

The social welfare of a country depends on many factors and on the mutual relationship between these factors. It does not depend on economic growth alone, but also on the degree to which the democratic state and the capitalist economy succeed to promote jointly all the factors that are relevant to “social welfare”, while taking into account the relationships of complementarity and conflict that may exist between these factors and also having the mechanisms to make the trade-offs that are inevitable. From this broad perspective we can claim that the social welfare of a country depends mainly on four factors, outlined below.

4.4.1 Economic growth

Social welfare depends on how efficiently an economy operates and on the level of economic growth. To attain these things the government has to create a sound economic order and install and maintain a sound regulatory framework. The government must continuously create circumstances that will be conducive to economic growth. The capitalist system does not always operate efficiently and is often inclined towards “market failures” and to “market distortions” (by corporations that have too much power at their disposal). The government must try to correct these failures and distortions. We must be aware of the fact that the government sector is also inclined towards “bureaucratic failures”. Consequently, a huge responsibility rests on the shoulders of civil society to scrutinise the actions of both the capitalist economy and the democratic state. Democracy and capitalism must constantly be accountable for their deeds.

4.4.2 Stability and sustainability

Social welfare also depends on the stability and sustainability of the economic, political, social and ecological systems. The maintenance of high levels of employment and price and exchange rate stability are important from a narrow economic point of view. But all kinds of

conflict can emerge between economic growth and price stability, or between economic growth and ecological sustainability. In all such cases, it is the responsibility of the democratically elected government to “administer” the necessary trade-offs in such a manner that social welfare will be promoted - over the short term, but especially over the long term.

The instability created by the meltdown of 2008 can be blamed on the excessive deregulation of activities on the financial markets. Noam Chomsky (The Irish Times, 10 October 2008) is of the opinion that the deregulated financial markets deliberately “under-prices risk” and that these markets are “systemically inefficient”. The players on these markets know that the government cannot allow the financial markets to collapse. Consequently, they exploit these markets in a too risky manner to maximise their own short-term interests, but to the detriment of society at large.

With Reagan’s deregulation measures the money markets became - according to Chomsky - a “virtual parliament” that “disempowered” political authority in the USA from playing the role it ought to have played vis-à-vis the capitalist system. In the early 1930s governments did not do what it could to reverse the economic crisis and minimize its damage. It seems as if important lessons were learned from the mistakes of the 1930s. The recovery of the meltdown of 2008 will, nonetheless, be long and painful.

The implication of a high economic growth rate for ecological sustainability has become a very serious matter. During the period of neoliberal capitalism (1980-2008), the USA displayed a shocking lack of sensitivity towards the ecological implications of economic growth and high living standards. The US population is one twentieth of the world population, but it is responsible for almost one third of the carbon dioxide pollution. In spite of this dismal state of affairs, President Bush was not prepared to sign the Kyoto Protocol on global warming. The reason he did not sign it was that the capitalist elite regarded it as against the grain of its short-term economic growth interests!

4.4.3 On the distribution of property, income and opportunities

The social welfare of a country depends critically on how equally (or unequally) property, income and opportunities are distributed between the different groups or classes in society.

The government ought to be concerned with social justice, even if the steps to promote it lead to a lower economic growth rate. The free market system has a systemic tendency to distribute property and income “upwards”. The social democratic governments in continental Europe rectified this tendency with high levels of taxation on the rich and high social spending on the poor. The continental welfare state operates with much stronger unemployment than in America.

The neoliberal governments in British-American countries have turned a blind eye to the market's tendency to distribute property and income "upwards". It is, therefore, not surprising that property and income became much more unequally distributed in British-American countries since 1980 compared with what happened in continental Europe.³

4.4.4 On civilization and value considerations

The social welfare of countries depends in last resort - but very importantly - on considerations of civilization and values. It should be acknowledged that the term "civilization" is a "quicksilver" entity and that it is not easy to give a concrete definition to it. But the importance of maintaining and promoting civilization and adhering to certain moral and/or religious values cannot be underestimated. The government has to promote civilization and the chosen values that support it through its educational and legal systems and through other institutions. Non-government organisations often make an important contribution to the development of civilization.

We have reason to be sceptical, however, about the contribution neoliberal capitalism has made over the past 30 years towards promoting civilization in the true sense of the world. The capitalist elites have taken the government in tow during this period. The capitalist elites were powerful enough during this period to determine not only the economic agenda, but also the government's political, social and cultural agendas. It has indeed elevated economic growth and material wealth to a fetish and a talisman. The preference that was given to the wealth and the privileges of the top 20% to the detriment of the poorest 50% is indeed not a sign of civilization. The agenda of neoliberal capitalism fostered a rich man's cult and a tradition of hidden theft, it sponged on society with its avarice and greed; it legitimised "uncivilized" behaviour towards those living in poverty and destitution; it glorified unrestrained individual selfishness and created space for the transnational corporations to do as they liked globally. In the American neoliberal system the powerful transnational corporations cannot be called to accountability by either the government or by society at large.

The American per capita GDP is ±25% higher than that of Western European countries. But if we consider the fact that these countries give greater weight to the "non-economic

³ In the US the top 1% of American receives in 2005 21,8% of the national income - their largest share since 1929. The top 20% received 52,2%, the next 20% received 14,4%, the middle 20% received 20,9, the next lowest 20% received 9,1% and the lowest 20% only 4,2%. The lowest 40% received 13,3% compared to the 21,8% of the top 1% (see Irwin, 2008: 17).

aspects of life” to a higher degree than the USA in their social democratic approach, we have reasons to believe that the social welfare of the Western European countries is at a higher level than the social welfare of the USA.

5. Conclusion

President Barrack Obama said in his inaugural address that the meltdown “crisis has reminded us that without a watchful eye, the market spins out of control. The nation cannot prosper long when it favours only the prosperous”. He would have done better if he had stated unequivocally that the market had been spinning out of control during the past three decades. The big challenge facing the Obama administration is whether it is powerful enough vis-à-vis the capitalist elite and/or the corporate sector. Real power since 1980 was vested in New York and not in Washington. The Obama administration has the responsibility to shift enough power back to Washington. Will the meltdown crisis enable him to administer such a powershift? It is doubtful. Perhaps the meltdown crisis is not deep enough to enable him to administer a large enough powershift to enable him to restore a system of social democratic capitalism not only in the US, but also in the relation between the North and the South in global capitalism. The huge domestic inequalities in British American countries and the global inequalities between the North and the South ought to be addressed urgently to restore social justice in a shockingly divided world.

Amartya Sen writes in an article on “Capitalism Beyond the Crisis” (New York Review of Books, Vol 56/5, March 26, 2009), as follows about the attention the inequality problem ought to receive amidst the present economic crisis:

“Since the suffering of the most deprived people in each economy - and in the world - demands the most urgent attention, the role of supportive cooperation between business and government cannot stop only with mutually coordinated expansion of an economy. There is a critical need for paying special attention to the underdogs of society in planning a response to the current crisis, and in going beyond measures to produce general economic expansion.”

Bibliography

Cornia, C. A. (Ed.). (2004). *Inequality, Growth and Poverty*, Oxford University Press, Oxford.

Elliot, C. "Ethical issues in the dynamics of economic development", in: D. Munby. (1966), *Economic Growth in World Perspective*.

Galbraith, J. K. (1976). *The New Industrial State*. Hamish Hamilton, London.

Irvin, G. (2008). *Super Rich: the rise of inequality in Britain and the United States*, Polity Cambridge.

Sen, A. (2006). *Identity and Violence*, Norton & Co., New York.

Stiglitz, J. (2003). *The Roaring Nineties*, Allen Lane, London.

Thurow, L. C. (1996). *The Future of Capitalism*, Nicholas Brealey, London.

Prof. **Solomon Johannes (Sampie) Terreblanche** was borne on 17 April 1933; he is married and has five children. He earned his B.A., his M.A. and his Ph.D at University of Stellenbosch, South Africa. From 1957 to 1964 he was a Lecturer and Senior Lecturer at the University of the Free State, Bloemfontein, South Africa; from 1965-68 a Senior Lecturer at University of Stellenbosch; from 1968 to 1995 Professor of Economics at the same University; from 1996 to 2009 Emeritus Professor of Economics, University of Stellenbosch. He was also a member of the Theron Commission (Commission of Enquiry into matters concerning the Coloured Community) from 1973 to 1976 and a member of the Economic Advisory Board of the Prime Minister (State President) from 1979 to 1985.
Email: Sjt@sun.ac.za

A Reformed Perspective on the Global Economy

Edward Dommen

The bible has an understanding of how the economy works which is fuller and more realistic than what is taught in today's faculties of economics. Above all, it has a clear view of the purpose of the economy, an essential issue which modern economics ignores. Calvin was a particularly perspicacious commentator on what the bible has to say about these issues. He stressed that the question was not so much what to produce, but for whom. This article explains some of the essential gaps in present-day economic analysis before taking the example of world trade in labour and capital to illustrate how these authorities cast light on the problems of today's globalised economy.

1. Fornicating with all the kingdoms of the world

17. ...the LORD will visit Tyre, and she shall turn to her hire, and shall commit fornication with all the kingdoms of the world upon the face of the earth.

18. And her merchandise and her hire shall be holiness to the LORD: it shall not be treasured nor laid up; for her merchandise shall be for them that dwell before the LORD, to eat sufficiently, and for durable clothing. (Isaiah 23.17-18).

At the time of Isaiah, Tyre was an important centre of international trade. The attitude expressed in verse 17 reflects a view still widespread today among critics of globalisation. But the astonishing verse 18 answers the critics: the trade, even if it is the hire of a harlot, is justified by the purpose it serves, or as Calvin stresses more tellingly, by whom it serves. Calvin devotes a long commentary to verse 18:

The Prophet does not mean that the merchandise of Tyre will be consecrated to God while she continues to commit debauchery, but describes a time subsequent to her change and conversion. At that time she will not lay up riches for herself, will not amass them by illicit means, but will engage her efforts in the service of God, and will use the profits of her trade in relieving the needs of the faithful. In short, he describes the repentance of Tyre, who, having formerly been addicted to avarice, has been converted to Jesus Christ, and will no longer labour to amass riches, but will employ them in kind and generous actions; and this is the true fruit of repentance, as Paul admonishes, that he who stole should steal no more, but, on the contrary, should labour that he might relieve the needy (Ephesians 4:28). The inhabitants of Tyre, who formerly, through insatiable avarice, devoured everyone else's riches, will henceforth give of their riches to others. It is an evidence of brotherly love when we meet the needs of our neighbours, as

it is an evidence of cruelty if we leave them hungry, especially when we ourselves have more than we need.

For Calvin, the word 'communication' has particular significance. He insists on the essential role of conversing, exchanging, trading, passing things on to those who need them - all those activities are included in his meaning of that single word - in defining the very humanity of humanity. The passage below casts light on the passage above by focussing on it the perspective of 'communicating'. Together, the pair of passages determines the manner in which we should assess how far trade is meeting its proper purpose. They set the stage for the arguments which make up the rest of this article.

Let us realize that as God has thus joined us together, that each of us is obliged to his neighbours. If God had wanted to keep each of us apart, well then, we would not have the necessity that compels us to mix with each other. Whatever people may wish, they have to communicate with each other. So this is what we must come back to: we have to know, in fact, that God wanted to make us like members of one body. And just as the eye cannot do without the foot, the hand without the ear and the mouth without the stomach¹, likewise great and small cannot rest content each with their own person but we must be united and have a mutual bond, as it were, of fraternity. When we have that outlook, everyone will then conclude, 'I see my neighbour needing me and if I were in the same position I would want to be helped, so I must do likewise'. In short, this communication of which St Paul speaks here is the brotherly love that comes from the outlook we have when God has joined us together and linked us as if in one body, wishing that each one of us should busy himself for his neighbours and no-one should be devoted to himself alone but together we should serve everyone.²

2. Some basic principles of economics

We must surely recognise that the purpose of any economy is that which Calvin described, echoing Isaiah and Paul: it is an evidence of brotherly love when we meet the needs of our neighbours, as it is an evidence of cruelty if we leave them hungry. For once, Calvin is moderate in his expression: the Magnificat is more outspoken:

My soul doth magnify the Lord.

¹ This of course recalls an image which Paul often used: cf. 1 Cor. 12.

² Calvin, Sermon on 1 Timothy 6, 17-19.

Charge them that are rich in this world, that they be not highminded, nor trust in uncertain riches, but in the living God, who giveth us richly all things to enjoy; that they do good, that they be rich in good works, ready to distribute, willing to communicate. (1 Tim. 6, 17-18).

He hath shewed strength with his arm; he hath scattered the proud in the imagination of their hearts.

He hath put down the mighty from their seats, and exalted them of low degree.

He hath filled the hungry with good things; and the rich he hath sent empty away³.

The neo-liberal model of the economy exists in the imagination of the hearts of the proud, but not in the real world as the following paragraphs will strive to show.

3. To them that have shall be given...

The neo-liberal model on which rest international trade in general and the World Trade Organisation in particular⁴ assumes that the normal state of an economy is a stable equilibrium. Any disturbance can only be fleeting; everything will quickly and spontaneously settle down again (With an astonishing degree of psychological elasticity those who hold this view of the economy as fundamentally static are nonetheless able to combine it with a vision of it as endlessly growing).

The bible on the contrary sees the economy in unstable equilibrium. For unto every one that hath shall be given, and he shall have abundance to excess; but from him that hath not shall be taken away even that which he hath⁵. The aphorism sums up in a single phrase the whole dynamic which explains the jubilee, which in turn underlies both Testaments⁶. Anyone who has not been dazzled by academic economics will spot the process of cumulative causation⁷ at work everywhere in the economy, including the international economy. Thus, to give two examples among countless others, the average income in the ten richest countries in 1970 was 23.4 times greater than that of the ten poorest; by 1999 the ratio was 37.5; or the head of the transnational pharmaceutical firm Novartis earned 361 times as much as the least well-paid of the firm's employees in 2003 and 747 times as much in 2008.⁸

In this dynamic kind of relationship the rich are willy-nilly the cause of the poor: both are inseparable consequences of the single process of cumulative causation. Gregory the Great (c. 540-604) put it simply: "If you have a second pair of shoes and a poor person is barefoot, your responsibility is not to give them to him but to return them to him."

³ Luke 1, 46.51-53.

⁴ WTO succeeded GATT in 1994.

⁵ Matthew 25.29. This dictum, which was popular at the time, appears several times in the New Testament.

⁶ Cf. Trocmé 1961.

⁷ This is the name given to the process by Gunnar Myrdal, who shared the 1974 Nobel Prize in economics for describing it (cf. Myrdal 1957).

⁸ *Tribune de Genève*, 25 February 2009, p. 11.

Every economic process must incorporate this requirement if it is to be fair. The jubilee presented in Leviticus 25 emphasises this obligation in melodramatic style but in utter earnestness.⁹

It is not enough to leave the process to private charity, because that leaves the burden on the shoulders of the particularly generous or those who suffer from strong guilt feelings. Neither of those categories is more responsible for the workings of the system than anyone else. Nor is it sufficient to shunt the burden onto marginal processes regarded as charity, as many market ideologues consider social security, not to mention development aid. A disorder which is an essential characteristic of the workings of the economy - of every economy - must be corrected by a mechanism built into the workings of system itself. As William Penn said, "Christians should keep the helm and guide the vessel to its port; not meanly steal out at the stern of the world and leave those that are in it without a pilot..."¹⁰

4. When I became a man, I put away childish things

The liberal market economy has been described as a gentlemen's club. Its actors are all assumed to be healthy independent adults in their age of vigour. They have nothing to learn - indeed, according to many purists of market theory, among themselves they enjoy perfect knowledge¹¹, they know everything; maybe therefore they are not merely gentlemen, they are like gods (cf. Gen. 3.5).

Just as the market is perfectly static it is somehow free from the contingencies of human life. It is timeless, even though it mysteriously incorporates a disincarnate form of perpetual adult growth. The playing field (an appropriate place, incidentally, for vigorous young men) is to be level. No-one present on the field is entitled to particular protection. The game is not golf, which is played on undulating ground and in which the players are given a handicap in relation to their skill; it is not even football, where players play in different leagues according to their ability.

Yet, to every thing there is a season (Eccl. 3.1). Children are born and grow up. When I was a child, says Paul, I spake as a child, I understood as a child, I thought as a child: but when I became a man, I put away childish things (1 Cor. 13.11). For example, says

⁹ Cf. Bonvin 1999.

¹⁰ William Penn, *No Cross, No Crown*, 2d edition 1682, part 1 chap 5 §12.

¹¹ According to efficient-market theory, asset prices accurately reflect all available information: cf. *The Economist*, 7 March 2009, p. 69

Calvin in his commentary on this verse, learning is necessary in childhood: it does not go with the virile age¹².

Young economies need to learn the skills they need if they are to become fully qualified players, otherwise they will be constantly defeated or sidelined. In the days of GATT¹³, the infant industry argument was a standard implement in the toolbox of international economic policy. Countries could practice new skills behind protective barriers until they were adept enough to put away childish things and affront the adults. WTO has abolished all that.

5. There are three parties to almost every transaction

Let us look not only to the private convenience of the person with whom we are dealing, but let us also consider what is expedient for the public. For it is perfectly obvious that the interest the trader pays is a public allowance; thus one must properly determine that the contract is of service to the community rather than harmful¹⁴.

Calvin is referring here, in an essay on interest payments, to a constant feature of economic transactions which modern economics tend to ignore: they are hardly ever a private affair between a buyer and a seller, they normally affect other people. In more technical terms, economic transactions normally include externalities. These may take the form of either costs or benefits. An external benefit occurs when the transaction generates a pleasant consequence for someone who was not a willing party to it. If someone buys flowers to put on their balcony, that is a transaction between the buyer and the florist, yet all the passers-by in the street will share in the pleasure of their beauty at no cost to themselves. If a smoker buys a packet of cigarettes to smoke in a café, the act damages the health of the other customers: that is an external cost.

Buyers and sellers actually share an interest in externalizing costs to the greatest extent possible. Why pay yourself if you can make other people pay instead? Furthermore, whereas economic transactions normally take place between a limited number of identifiable partners, externalities may affect a large number of people more difficult to identify. If those affected are scattered and perhaps unaware of what is happening to them, they are more likely to have to carry the external costs or forgo the external benefits. Externalities often bring into

¹² I hope readers have noticed how Calvin falls prey to the shortcoming for which Paul is so often reproached, of taking 'man' in its gender-specific sense. As it happens, it is singularly appropriate to the neo-liberal vision of the economy described in this section.

¹³ *General Agreement on Tariffs and Trade*. It regulated much of world trade from 1947 to 1994.

¹⁴ Calvin, *Letter to Claude de Sachin* (cf. Dommen 2003a).

play relationships between the strong and well organized on the one hand and the weak or poorly organized on the other.¹⁵

Collective organization or official intervention is normally required to rectify externalities. Calvin's dictum applies here: one can recognise a just and well-regulated government in that it will do justice to the afflicted and needy¹⁶. It is worth recalling verses 3 and 4 of the Psalm on which he is commenting:

Defend the poor and fatherless: do justice to the afflicted and needy.

Deliver the poor and needy: rid them out of the hand of the wicked.

The bible, unlike the neo-liberal economists, recognizes that the distress of the afflicted and needy is not a state of nature but a consequence of the actions of people who could have decided otherwise: that is why they are described as wicked.

6. Production and trade

The bulk of human needs are met through production. To produce anything, a number of factors need to be combined, including different kinds of labour and capital as well as a variety of natural resources like sunlight, water or minerals. Since the factors of production are not evenly distributed over the face of the earth, some of them usually have to be moved to a different place to be combined with the others. Some of them cannot be moved, like particular rhythms of daylight and darkness or seasons, or mineral resources which have not yet been extracted from the earth. Others are clearly mobile, like labour and capital. These therefore feature prominently in international trade. The rest of this article will not explore the countless pathways of trade in consumer goods and services, but concentrate on international trade in labour and capital.

The world is peopled by both rich and poor. Championing the cause of the poor is God's very function. Thus Calvin paraphrases Psalm 140.12. We have had ample occasion to recall that the bible constantly and in the strongest terms insists on the obligation to give priority to the needs of the poor. The Protestant ethic realised during the industrial revolution that in this regard it was particularly useful to make sure that the poor had work.

Work may meet the needs of the household directly, without passing through the market,

¹⁵ The foregoing passage is based on Dommen 2003b, pp. 11-12 and 42-43.

¹⁶ Calvin, Commentary on the Psalms, Ps. 82.3.

and that kind of work, which statisticians and economists all too often ignore, is as dignified, worthy and useful as the other kinds:

Work takes a variety of forms. For whoever helps human society and brings profit to it through their industry, whether in governing their family or administering public or private affairs, or advising or teaching others or by whatever means, cannot be counted among the idle¹⁷.

None the less, a large part of production is traded for money. One way in which those who have the means can provide work is by buying goods and services produced by others. That does not of course mean that one should buy just anything in order to make work, but that stinginess can be a vice: Those who deprive themselves, and others along with themselves, of the use of a bit of money deserve no praise¹⁸.

7. International trade in labour

Humankind was created to employ themselves in doing something and not to be lazy and idle¹⁹, Calvin wrote in his usual hectoring manner. Psalm 128.2 had said the same thing in a cheerier way: *For thou shalt eat the labour of thine hands: happy shalt thou be, and it shall be well with thee.* The converse is equally true, as Calvin stresses:

For craftsmen and workers, their whole income is in their capacity to earn their living... As God has placed their life in their own hands, i.e. in the work they do, if one deprives them of the necessary means it is like cutting their throat²⁰.

Labour is a factor of production like iron or electricity. But it has a further characteristic which is fundamental: labour is people, and people are our neighbour whom we are enjoined to love like ourselves. To treat it only as a means, as a mere input like a lump of iron, is to fail in this essential respect, to be less than human not only to the workers but to ourselves.

To ensure that everyone who needs work has access to it, there are two main possibilities: to move jobs - through delocalisation - to where there are people looking for work, or to move the people looking for work to where there are jobs.

¹⁷ Calvin, Commentary on 2 Thessalonians 3.10.

¹⁸ Calvin, Commentary on Mark 10.20.

¹⁹ Calvin, Commentary on Gen. 1.15.

²⁰ Calvin, Sermon 137 on Deuteronomy 24.1-6.

There are powerful arguments in favour of the first option. Firstly, people who are rooted in their community, among their friends and relatives, their parents and children, have full scope to contribute to the life of their community in any number of ways as well as by through their employment, for instance by governing their family or participating in the life of their community or advising or teaching others. Delocalisation is normally from a richer to a poorer country. In that respect it is a way of achieving what Catholic social teaching calls the preferential option for the poor.²¹ In so far as delocalisation removes jobs from richer countries, the poorer countries have more means at their disposal, including more capital. By the same token, by employing cheaper labour to do the same job the richer countries have freed resources at home which they can use to provide new jobs to replace the ones which have been moved elsewhere.

The other main possibility is to bring the worker to the job. In this direction too it is not just labour that moves, but people. For them it can be a wrench, as God summed it up when he despatched Abram on his travels: Get thee out of thy country, and from thy kindred, and from thy father's house (Gen. 12.1). It is also a loss for the society they leave behind, all the more so that it is the more adventurous and daring who tend to depart and those qualities are valuable to the community.

If someone plunders a person's field or reaps his meadow and seizes everything, everybody will "cry blue murder"²². Yet that is what those who attract migrants are doing: the host society gets its labour cheap in that it does not have to meet the costs of bringing the workers up and educating them; conversely the society which educated them is deprived of the return on its investment.

8. International trade in capital

Labour can produce nothing on its own. It needs raw materials, tools, equipment and know-how, in a word it needs capital.

One word, but two distinct meanings. On the one hand it covers finance, which is a form of command over goods and services, over whatever can be bought for money. We shall call this 'finance'. On the other hand it covers tools and machines, know-how and social order, all of them real things indispensable to the productive process. We shall call this 'capital'.

²¹ Encyclical *Sollicitudo rei socialis* §42.

²² Calvin, Sermon 140 on Deut. 24.14-18.

9. Finance

Finance is highly mobile. It can move from one end of the earth to another at the click of a button. When it spots an opportunity for profit it can swoop down in an instant. It can fly away just as quickly. Indeed in Latin America it has been nicknamed 'swallow capital' (Capital golondrina). The name is picturesque, but perhaps 'starling capital' would correspond better: it travels in a flock; it swoops down and gobbles up the local opportunities; then it rushes away leaving desolation behind. Depending on its scale, this kind of clustered movement disrupts the local economy both coming and going, as any Icelander will confirm.

We are accustomed to looking first to where we can place money safely. But we should rather have helped the poor towards whom money is in danger, said Calvin²³, but in recent years those disposing of financial capital have not only turned their backs on the poor, but have chosen to place it with the rich where it was even more in danger, thus failing to achieve either of the objectives Calvin mentions.

It is common knowledge that the poor are scrupulous in striving to repay their debts: microfinance institutions achieve repayment rates of 95-98 per cent. It is however excessively costly to discover from London or New York who is the poor peasant woman in a village in Bangladesh who can sensibly be entrusted with a 200 dollar loan. Lending to the poor is essentially a local activity appropriate among neighbours. It is in contradiction with the anonymity of capital on which today's globalised capitalism rests, but utterly in tune with Christian love for one's neighbour. The economy of globalised financial speculation and euphoria is now deservedly becoming discredited. Maybe now we can have our cake and eat it: place our money safely for a change, and do that by putting it at the disposal of the poor.

Maintaining the human community, and even maintaining the conditions in which the market can work effectively, requires public services, and these in turn are best paid for by taxation which distributes the burden fairly among the members of the community. One of the motors of international finance is the movement of capital by firms and wealthy individuals to places where it can hide from its obligation to contribute its fair share to the common good, to avoid paying for the services from which the owners of the capital benefit like everyone else. One of the happy consequences of the current financial crisis and the economic recession it has provoked is that people and governments are increasingly unwilling to tolerate that kind of behaviour. Tax havens at least and at last are on the defensive.

²³ Calvin, *Letter to Claude de Sachin*. Cf. Dommen 2003a.

10. Capital

Investment capital may be footloose, but unlike finance it has to settle for a time and fit itself into the workings of its host economy. Capital can be bulky and awkward to move, the more so the more intricately it is plugged into its local setting. Social order, which economists tended to ignore as a form of capital until recently, is particularly difficult to displace because its connections are so multifarious.

Financial capital fornicates with all the kingdoms of the world. All it wants is a passing transaction to satisfy itself. Investment requires a more lasting commitment, even if like many a modern marriage it ends in divorce.

11. Labour and capital in the wrong places

Surveying the world from the stony heart of the Alps²⁴, we see courageous young people who have left their family and community to seek work, often at the risk of their lives, in order to support those they have left behind. They are struggling to get into the richer countries of the world, however unwelcome they are made to feel there. They are not completely unwelcome however: employers are keen to exploit the migrants' vulnerability and desperation by offering them work in disgraceful conditions. Meanwhile the financial capital of the rich is wheeling about cyberspace looking for golden morsels to gobble up, ignoring the poor who could build a better world if only they could get hold of some of the crumbs which never fall from the table. But Father Abraham said to the rich man: *"Son, remember that thou in thy lifetime receivedst thy good things, and likewise Lazarus evil things... And beside all this, between us and you there is a great gulf fixed: so that they which would pass from here to you cannot; neither can they pass to here, that would come from thence... [The rich man's brothers] have Moses and the prophets; let them hear them... If they hear not Moses and the prophets, neither will they be persuaded, though one rose from the dead"* (cf. Luke 16.19-31).

The rich want the fruit of the labour of the poor, but they don't want to see the poor people themselves within their gates. The alternative is for the rich to send them the capital they need if they are to be productive, but the rich don't want to do that either. They don't even want to let the capital in the poor countries remain there to work with the talents and resources of the local community. On the contrary, they entice the people in the poor

²⁴ The author lives in Geneva.

countries who have accumulated wealth to send it away to the rich countries which fare sumptuously on it or send it on into cyberspace with the rest.

12. The last word to Calvin

God gives abundantly to his own people the means to aid others, but the wicked are always so ravenous that their want leads them to have recourse to fraud and rapine. Although the ungodly have wealth in plenty, their covetousness is so insatiable that they plunder right and left like pirates, and are never satisfied. Yet God bestows upon his own people not only what is needed to meet their own ordinary needs, but also to enable them to aid others²⁵.

Bibliography

- Biéler, André. (2005). *Calvin's Economic and Social Thought*, Geneva, World Alliance of Reformed Churches. Most of the quotations from Calvin have been drawn from this book, but the wording of their translation has been revised.
- Bonvin, Jean-Michel (1999). *Debt and the Jubilee*, special issue of *Finance & the Common Good*.
- Dommen, Edward. (2003a). "Calvin et le prêt à intérêt", in: *Finance & the Common Good*, no. 16. (2003b). *How Just is the Market Economy?*, Geneva, World Council of Churches Publications.
- Myrdal, Gunnar. (1957). *Economic Theory and Under-developed Regions*, London, Duckworth.
- Trocme, André. (1961). *Jésus-Christ et la révolution non violente*, Geneva, Labor et Fides.

Prof. **Edward Dommen** is a specialist in economic ethics. He spent most of his career as an economist with UNCTAD (United Nations Conference on Trade and Development). He has been president of Geneva's Ecumenical Theology Workshop. He was responsible for the English translation of André Biéler's book on Calvin's Economic and Social Thought (2005) and for the new edition of the original French (2008). He is the author of several books and articles, including *How Just is the Market Economy?* (World Council of Churches publications).
Email: edommen1@worldcom.ch

²⁵ Calvin, Commentary on the Psalms, Psalm 37:21

Financial Crisis and the Culture of Risk

John P. Tiemstra

The current financial crisis can be attributed in large part to a change in cultural attitudes toward risk since the 1950s. In the Christian tradition, risk was a moral problem that characterized a fallen world. In the new cultural view, risk is a commodity that can be bought and sold, a source of fun and entertainment, and a basic feature of a growing economy. Avoiding future financial collapses will require returning to a more nuanced theological view of risk.

Ben Bernanke, the Chairman of the Federal Reserve System (the central bank of the U.S.) listed the causes of the credit boom that led to the current financial breakdown in the Josiah Stamp Memorial Lecture at the London School of Economics on January 13, 2009: "...widespread declines in underwriting standards, breakdowns in lending oversight by investors and rating agencies, increased reliance on complex and opaque credit instruments that proved fragile under stress, and unusually low compensation for risk-taking."

This is not moral language, but rather the language of the scientific economist looking for explanations rather than judgments. What Bernanke described was the behaviour of many important actors in the financial system. That behaviour had a moral dimension, and it can only be described as irresponsible at best. (Sir Josiah, in his 1938 book *Christianity and Economics*, talked about "the reign of law, decency, honour, industry and thrift in which alone a complex industrial system can work." (p. 189). But I am not looking only to pass judgment. In order to understand the roots of our financial crisis we must examine how risk changed from being a morally fraught but unavoidable problem of human existence to being a commodity traded on markets like wheat or copper. The neglect of the moral reality of risk is a recent phenomenon that lies at the bottom of our problems.

The Christian church and the western cultural heritage traditionally considered risk to be a problem that was a consequence of sin in the world. In a sinful world, things can go wrong, and often do go wrong, but the Christian trusts that God will make sure that everything works out for good. The Christian would not take unnecessary risks, because that would be to tempt God. The Christian would not try to lay risk off onto other people, because that would be to shirk moral responsibility for one's own decisions, and cause problems for others for whom we are supposed to show love. The biblical prohibition of usury can be understood in this light: borrowing at fixed interest lays the borrower's risk of failure off on the lender. Better to form partnerships where all parties share in decision-making and risk.

Christians long viewed insurance with suspicion, especially life insurance, and instead formed “burial societies” in which church members for a small subscription would share the burden of funeral costs. Widows would be supported by church benevolence funds. Christians especially opposed gambling in all its forms as the unnecessary taking of risks, with no possible benefits for family or community, and in most Christian countries gambling was forbidden or strictly regulated. Though the usury prohibition was not observed after the Reformation, many of these attitudes and practices survived well into the twentieth century, and were reinforced for many by the experience of the Depression.

Practices in the world of banking and finance also reflected this cautious attitude towards risk. Most lending was done through the banking system (rather than through investment banks or the bond market), and bankers practiced “relationship banking.” They took a lot of trouble to know who their borrowers were, and do a lot of business with regular customers over a long period of time, so that they understood the business, and the character and practices of the managers, very well. Regulatory limits on branching in the U.S. meant that banking was always a local affair. Bankers stayed away from making loans in industries they did not understand, even if they were the fashionable, new, high-tech, “hot” areas of the economy.

In the 1950s and 1960s all of this began to change. The development of Las Vegas as a successful resort city based on a combination of casino gambling and glamorous entertainment led cities and states all over the U.S. to rethink their opposition to recreational gambling. Virtually all the states began to allow limited casino development, and Native American tribes looked to casinos as an important source of revenue. State governments found a new source of revenue in state-sponsored lotteries, supported by heavy advertising. Compulsive gambling was treated as a problem limited to a few people, in the same category as alcoholism, and not a reason to prohibit gambling. Gambling became just another form of entertainment, with no particular moral baggage.

At the same time economists were developing the modern theory of finance. One major result of this research was the finding that the riskiness of a portfolio of loans or securities could be reduced (to a point) by diversification, and this finding gave a real boost to the mutual fund industry. The stock market did very well in this period, as more ordinary people put part of their savings into stocks, confident that the mutual fund portfolios they held had diversified away any systematic risk. As economists began to understand risk better, they developed mathematical models that allowed the calculation of an “efficient” or “rational” price for risky assets of all descriptions, as long as the probability distribution of possible outcomes was known. Since risk could be priced rationally, it could be packaged, marketed,

and sold in an infinite variety of forms, especially since the coming of cheap computers had made complex calculations easy. People were seduced into assuming things about risky assets that they didn't really know. Even if they knew nothing about the borrower or the market, they bought financial instruments in the confidence that the assets had been priced appropriately by a competent computer program.

With the coming of the Reagan administration in the U.S., there also developed a popular ideology that idealized the risk-taking entrepreneur. This way of thinking suggested that the main source of economic growth and new jobs was the taking of risks by small entrepreneurs creating new businesses, based on new technology, or at least new insight into the wants of consumers. Big corporations could also create new jobs to the extent that they could cultivate this entrepreneurial spirit, or at least imitate the more successful new businesses. Therefore to encourage growth, the returns to risk-taking had to be increased, preferably by reducing the taxation of income from capital to zero. Reagan sharply reduced income tax rates for high-income people, and reduced capital gains taxes. This period also saw the introduction of the "Roth Individual Retirement Account" and the Section 529 education savings account, both of which exempted dividends, interest, and capital gains from any taxation. President George W. Bush took this further, exempting most stock dividends from taxation and sharply reducing the estate (inheritance) tax. Of course, this ideology stands the Christian tradition on its head. Where the usury principle favoured income from work and was suspicious of income from capital, the new ideology favoured capital income and tried to shift the bulk of the tax burden onto wages and salaries.

The policy environment produced by the new ideology increased the degree of inequality in the income distribution. As high-net-worth families saw their standard of living increase, middle- and lower-income families saw their living standards fail to keep up with what they were assured was a growing economy. To make up for this shortfall, many families reduced their saving, and made greater use of debt that was made available to them with very few questions asked. This pile-up of household debt reduced the stability of the system in the face of a shock to asset prices, especially the prices of households' biggest assets, their homes.

The new theory of efficient capital markets and the new ideology of job creation led American and other developed country policy-makers to advocate an integrated global capital market. This was part of what came to be called the "Washington Consensus" on globalisation. By allocating capital to the most promising opportunities for job creation and growth around the world, and by further diversifying risk, such a market would lead to global growth, the reduction of poverty in the global South, and generous profits for the providers of capital in

the global North. It was only required that all countries should adopt institutions and business practices modelled after those in the successful developed countries, most notably the United States, so that the new global market would have a “level playing field.”

The new technology for marketing risk led to a separation between the underwriting and pricing of risk, and the actual assumption of risk by the lender. This was the major problem with the “subprime” and “Alt-A” mortgages, but was a problem with other kinds of loans as well. Lenders relied on loan originators, servicers, and packagers to assess the risk, service the loans, put together a diversified package of risky assets and price it appropriately. For this, the servicer receives a fee. The risk is borne by the lender, who has done no investigation or “due diligence,” and does not really understand the risk. This kind of behaviour by lenders is imprudent at best, but the gambling culture that has grown in our society leads lenders to view this as a game, not a serious enterprise. The new tax structure encourages it. The investment banks and mortgage companies that underwrite and price these financial instruments, and the agencies that rate them, presumably have some interest in protecting their reputations, but since they bear little risk themselves, there is an overwhelming temptation to make as many loans as possible and sell them on as quickly as possible, with little attention to controlling risk. This is also imprudent and irresponsible, but nevertheless was a very profitable business until the most recent financial collapse.

The collapse brought to the surface the systemic risk inherent in these practices. Once an unexpectedly large number of loans begin to default, it becomes obvious that many of these loans are riskier than they appeared, and may not be priced appropriately because optimistic assumptions were made about the distribution of outcomes. Calculations of the efficient prices tend to be based on the assumption that financial crises almost never happen, even though we have now had four such crises in the last 25 years. With a crisis, uncertainty enters the picture. Uncertainty is different from risk. Uncertainty is the situation where the parties to the contract do not know the probability distribution of the outcomes. Under uncertainty, an efficient price for the loan cannot be determined. Investors hate uncertainty, and flee it at any opportunity. Once investors believe that they cannot know the risk involved in any loan, or determine its appropriate price, they refuse to make loans or buy risky financial assets at all. This leads to a collapse in the prices of risky financial instruments, and lending activity freezes up. The consequence for the real economy is that purchases by businesses and consumers cannot be financed, and so economic activity collapses.

Fundamentally this is a moral issue. I don't mean this only to say that clearly dishonest and fraudulent activity took place, though it surely did. Bernard Madoff and people like him took advantage of this atmosphere of optimism and trust to cheat people out of billions of

dollars. Mortgage originators conspired with clients to falsify loan applications, and connived with appraisers to inflate house values. Rating agencies paid too much attention to the wishes of their clients, and too little attention to their public duties. Investment banks and other businesses hid liabilities in off-balance-sheet entities to conceal from the investing public the degree of leverage they had taken on. Hedge funds refused to reveal anything about their investment strategies on the grounds that they were private entities open only to the super-rich, but then marketed themselves to the public through “funds of funds.” There must and will be legal consequences for those involved in these activities, and new regulations designed to reduce the amount of risk in the system.

But besides this straightforwardly illegal activity, there was a lack of the kind of prudent attention that is called for by the biblical idea of stewardship. The managers of financial institutions, investment advisors, and ordinary individuals failed to take the most basic steps. Questions about borrowers and risk were not asked. Ratings were taken at face value, so independent risk assessment was not done. Investment banks, insurance companies, and hedge funds ran up too much leverage, and households borrowed too much money. A premium was placed on innovation, so new, risky derivative instruments were invented that had no real business purpose. Brokers were so concerned about selling products that they forgot about their fiduciary duties to their clients.

As we have seen, taking risks with our money, which is really God’s money, is not generally a good thing to do, whether it involves borrowing for a risky venture, investing in risky financial assets, or buying too little (or too much) insurance. It calls into question our willingness to be responsible for our own behaviour, our concern about the welfare of others, and our faith in God’s providence. It is acceptable to take risks if it is likely that the community as a whole will benefit, so taking good business risks is acceptable. Since the Reformation, Christians have accepted that lending money at interest is a business practice that can be useful and beneficial to all people. But there must be prudence. There must be due diligence. Lending money is not a game we play for thrills, nor is it simply an easy way to make money without working; it is a serious expression of our responsibility before God. Our problem is that we have not taken it seriously enough.

The church needs to reassert moral leadership on the topic of risk. We need to stop caving in to the prevailing cultural pressures, and assert what the Bible, our moral tradition, and our experience teach us to be true. First, we must begin to preach against gambling again, not only describing it as sin, but explaining to people why it is inconsistent with God’s will. We also need to bring back the moral tradition that excessive debt is not a healthy thing for households or for businesses. Yes, there are good reasons to take on a prudent amount of

debt to buy a house or expand a business, but debt is not a game, and it is not right to take on debt just to look for a tax break or to fend off a corporate takeover. Nor should we be financing everyday expenditures by borrowing.

The church needs to emphasize that in lending or investing, there needs to be prudence, due diligence, and a full regard for the effect of our actions on the larger community. It is not just bad business to take on risks that we don't understand. It is immoral. It puts our whole economy at risk for our lack of prudence. In our age of instant information about everything on the internet, there is also no excuse for not investigating where our money is going. If the person soliciting your money can't answer all your questions, don't invest with them.

The church also has a witness in the area of public policy. We need to point out the dangers inherent in financial globalisation. Crises spread easily from one country to another in a world of closely linked markets. Investing at a distance makes it harder to do due diligence, and makes investors more inclined to judge projects by quick summary measures, like profits, and not look into the effects on communities. We Americans also end up imposing our business practices on people whose cultures, religions, and values we don't always understand very well. This creates resentment of our power.

There are also dangers in public policies that increase income inequality and disadvantage work. Let income from work and income from capital be taxed at the same rates. This is just. Let the benefits of economic growth bless both workers and investors, because both contribute to that growth and both bear the risks of change in a dynamic economy.

Many people thought that after the lessons learned in financial crisis of the 1930's, no such disaster could ever happen again. (The post-Keynesian financial economist Hyman Minsky called one of his books *Can "It" Happen Again?* (1982). Now the disaster has happened again. There is no guarantee that once the current crisis is over, we will be done with financial catastrophe forever. But the church can stand resolute for honest and prudent behaviour, consistent with God's will for society, and maybe we can avoid such problems for a long time to come.

Prof. **John P. Tiemstra** has taught economics at Calvin College since 1975. He earned his Ph.D. at the Massachusetts Institute of Technology, where his mentor was the late, distinguished economic historian Charles P. Kindleberger. His articles have appeared in *International Journal of Social Economics*, *Cross Currents*, *Business and Society Review*, *Challenge Magazine*, *Journal of Income Distribution*, *Forum for Social Economics*, and *Christian Scholars' Review* among others. He served on the Working Group on Ethics and the Earth of the Reformed Church in America. In 2007 he served as President of the Association for Social Economics.
Email: Tmst@clavin.edu

Hope in the Perfect Storm

Bill Phipps

The current economic crisis gives faith communities an opportunity to offer an alternative set of principles for a sustainable economic system. Recognizing that the economic crisis represents a spiritual crisis, we can make the connection among ecumenism, economics and ecology. There is hope. Two examples which can be used by faith communities are The Earth Charter and Child Honouring.

Some people would call it *the perfect storm*. Just when scientists and activists had convinced most politicians that climate change was real and that it begged to be addressed NOW, the global economic meltdown strikes. The paper economy, hollow to its roots, imploded. Major banks around the world fell. Major manufacturing giants who had gripped the world with their ingenuity and power, became paper tigers demanding billions in bailout money. Housing markets, stock markets, financial markets were left blowing the wind. The lives of billions are now touched in one way or another by the swift and bewildering crash of complex global financial systems. The full-steam-ahead-and-damn-the-consequences-economy has taken us over the cliff of sustainability and common sense.

Many factors are in play - greed, neo-liberal, laissez-faire economy practices, corruption, invincibility, a sort of Titanic global economic system deregulated of any sensible controls. It makes for a perfect storm in that the global economic crisis joins other global crises in a volcanic configuration unique to human experience. Some climate change scientists confess to underestimating the timeline required to reduce greenhouse gases before the tipping point of global catastrophe strikes. Depletion of fresh water sources, destruction of ocean and earth habitat for thousands of species, clear cutting boreal and rain forests combined with air, water and soil pollution do not paint a pretty picture of humankind's stewardship of Mother Earth. We are murdering our earthly home.

And the fact is: all issues are global. We live in a totally interconnected biosphere - economically, genetically, politically, biologically, culturally. We have become a multi-everything global community living on a beautiful, awesome, mysterious ball of life orbiting through the vast darkness of space. So the realities of poverty, disease, terrorism, violence, climate change, misogyny, obscene wealth - every aspect of life on earth is interconnected and global in scope.

Furthermore, the economic, political and cultural systems that have led us to this point are bankrupt - not only financially, but morally, ethically and intellectually as well. The Emperor

has no clothes, ideas, visions, nor credibility. The neo-liberal ideology of the last 30 years has brought us to the point where tinkering with its bankrupt system will be futile. Unregulated markets do not distribute wealth. Violence does not bring peace. Absence of government does not guarantee justice, health and prosperity. These powers of empire - political, economic, military - have lost credibility and should not be propped up.

For faith communities, this *Kairos* moment is a rare opportunity. The global perfect storm in which we find ourselves is fundamentally a spiritual crisis. Yes, it is a political, economic, cultural and intellectual moment of truth. But beneath it all lie spiritual, ethical, and moral values and choices. I believe the spiritual questions of our time are:

- What are human beings for?
- How are we to live together?
- How are we to live together in and with the earth?

Faith communities now have a unique window of opportunity to reconnect the Common Good with principles and values of a shared social ethic, rooted in ancient wisdom. From Aboriginal wisdom through the biblical story to other sacred sources, the faith traditions of the world share a common social ethic. Most traditions speak eloquently of respect for creation, care for the afflicted, economic justice for all, the dignity of life as a sacred trust, and the mystery of life itself which defies any one definition.

I believe that the spiritual hunger evident in personal lives is connected to a hunger to understand our collective purpose, and know we are to live in harmony with each other and Earth. Spiritual hunger leads to community, not escape from the troubles of our times. In fact, Micah's succinct trinity of spiritual imperatives encompasses the holistic nature of biblical social ethics: do justice, love tenderly, and walk humbly with God.

There are many angles from which to address the current global crises. I believe they all must begin with humility. Just as those espousing neo-liberal economic ideology have had their arrogance stripped away, so must we all climb down from the human pedestal of arrogant self-righteousness. Humankind is neither the centre nor the pinnacle of creation. We distort imaginative creation myths to embellish our self-importance. Thankfully we are learning that we are part of creation, not master over it. We are kin with all creatures, interdependent and bound together in ways beyond imagining. And so any approach we take to addressing the current situation begins with humility.

Another gift that religious communities may offer is our understanding and experience of ecumenism. Recognizing that ecumenism, economy and ecology are rooted in the notion of household, may help us understand that way forward. Economics and ecology can no longer be seen separately. A strong economy can only be based upon respect and care for ecological

integrity. Who cares how much “stuff” we manufacture if our earthly home is plundered and destroyed in the process? Thankfully, there are thousands of people, organizations and companies who understand how to grow, create and build the necessities of life in harmony with Earth’s eco-systems. The problem is they have not been in charge.

Furthermore, the notion of household evokes family and managing resources faithfully and responsibly. Ecumenism draws humankind together as a vast global family taking responsibility together for an economic system that is inclusive and respectful of all life, that is just and equitable, and that honours Earth with ecological integrity.

With all this in mind, I suggest several angles from which we are able to address the economic and ecological crisis we face. The first is the Earth Charter, initiated in 1987 and formally launched in 2000 at The Hague. In clear and evocative language it recognizes the intricate web of life at the heart of any public policy dealing with economics and development. In part, the Preamble states:

“We stand at a critical moment in Earth’s history, a time when humanity must choose its future... We must join together to bring forth a sustainable global society founded on respect for nature, universal human rights, economic justice and a culture of peace. Towards this end, it is imperative that we, the peoples of Earth, declare our responsibility to one another, of the greater community of life, and to future generations.”

The Earth Charter names four principles:

1. Respect and love for the community of life

This principle links human activity and responsibility to respect for the mysterious diversity of life on earth. It affirms the abundance Earth provides now and for future generations.

2. Ecological integrity

This principle gives special attention to biological diversity and the complex natural processes that sustain life. It names the “prevent harm” principle of environmental protection while mentioning specifically water, soil, forests. Environmental protection is a first priority when considering any human activity.

3. Social and economic justice

The eradication of poverty is seen as an ethical, social and environmental imperative. Clean air, water, food, shelter and sanitation are linked with human economic development. Gender and racial equality, among other human rights, are named as integral to economic justice.

4. Democracy, non-violence and peace

Underpinning the previous three principles is the call for democratic, transparent and

accountable governance. Dignity, respect, understanding, non-violence are cornerstones of a sustainable economy that is inclusive of all people, while honouring Earth and its health.

I believe that the Earth Charter provides a comprehensive set of principles upon which a sustainable and just economic system can be built. If one takes seriously the detail fleshing out each principle, there is enormous scope for healthy, productive, and sustainable employment for all who want it. All it takes is imagination and a mindset different from plundering Earth for private gain.

The Earth Charter is an integrating document, recognizing that life and public policy can no longer be conducted in “silos” competing with each other. It provides a holistic framework upon which a sustainable economic system can be built. I believe also that it reflects spiritual and ethical tenets of most faith traditions. It is rooted in ancient wisdom, yet articulated in twenty-first century terms. In programmatic terms, it reflects the profound spiritual questions of our times.

KAIROS, Canadian Ecumenical Justice Initiatives, is a coalition of major Christian denominations in Canada working together on issues of social justice, environment, human rights, corporate social responsibility, and peace. In a letter to Canada’s prime minister and premiers of provinces and territories, KAIROS addresses the current financial crisis: “Worldwide, governments seem prepared to spend trillions of dollars to recreate the old destructive model, while refusing to deal directly with the causes of the devastation. We must change course and invest meaningfully in a new economic framework that will combat poverty, ill health and climate change.”

In the letter, KAIROS outlines at least four ethical principles of eco-justice that should guide economic recovery policy:

- Solidarity calls for “standing with” all people and creatures as companions in one earth community.
- Sustainability “requires us to adopt environmentally fitting habits of living and work” that are viable far into the future.
- Sufficiency implies criteria to establish both floors and ceilings for equitable and fair compensation. The earth’s abundance provides for everyone’s need, not greed, as Gandhi said.
- Lastly, equity refers to “fairness in decision-making as well as outcomes”. It includes those who have been marginalized on account of poverty, race, gender and other factors. Decision-making, power and results must be shared.

This initiative is one of many throughout the world from faith communities, NGOs, and other people concerned about the Common Good.

American author David Korten's two most recent books, *The Great Turning: from Empire to Earth Community*, and *Agenda for a New Economy*¹ are compelling calls to action. Again, Korten sees clearly the connection between ecology and economy, pleading for a holistic approach that is the only way forward. He also understands that the soul of humankind is at stake in the choices we make. This crisis gives us an opportunity to do things differently.

Yet another angle of vision is offered by Raffi Cavoukian², the renowned Canadian children's entertainer and troubadour who has become children's advocate. Concerned that we are leaving a broken, wounded and sick planetary home to future generations, Cavoukian coined the term, "Child Honouring" to address future public policy. His effort is found in his new initiative called "Spirit of One." Quite simply, it asks this question: What if all the decisions we made as a society were premised upon how these decisions will affect children? If we asked seriously this question, we would probably make sound economic, ecological and sustainable decisions.

In my book *Cause for Hope: Humanity at the Crossroads*³, I make the case that humankind is always living a narrative, a story that both reflects who we think we are and provides a framework for living into the future. I believe the Old Story of domination, competition, patriarchy, individualism, greed, entitlement and violence, among other characteristics, has led us to this precipice. We need a New Story, rooted in ancient wisdom, whose characteristics include partnership, co-operation, compassion, community well-being, sharing, humility and non-violence.

The faith traditions of the world, at their best, rehearse such a story every week in their prayers, liturgies, sermons, songs and meditations. Now is the time to come forward boldly to offer those alternative approaches to building a just and sustainable world. Do we dare echo Barack Obama's "Yes, we can!"?

The Very Reverend **Bill Phipps** of Calgary, Alberta, Canada, served as Moderator of the United Church of Canada 1997 - 2000. He served as an international president of The World Conference of Religions for Peace, 1997 - 2007. He is co-founder of Faith and the Common Good network (www.faith-commongood.net) and serves on the Peace Consortium of the University of Calgary. (www.ucalgary.ca/~peaceuc/peace_campus.htm)
Email: Bfhipps@shaw.ca

¹ www.davidkorten.org

² www.raffinews.com

³ www.woodlakebooks.com.

What has happened to us? France's former prime minister Michel Rocard analyses the socio-ethical roots of the financial crisis

Interview by Jean-Luc Mouton and
Frédéric Casadesus - English summary
by Kristine Greenaway

Michel Rocard was prime minister of France from 1988 to 1991. Now retired, he gave an interview to the French church magazine *Réforme* in which he talks about his Protestant education and his analysis of the current financial crisis.

My father came from a middle-class Catholic military family. My mother's father was an open-minded Catholic teacher. While in high school in Annecy, France, my mother converted to Protestantism. When the family moved to Paris, I was the only Protestant among Catholics but people pretty much forgave me for this "spiritual oddity" which they blamed on my father's marriage. However, when I became a socialist that was unforgivable.

I was active as a leader in the Protestant youth movement for years. My responsibilities included Christian education which meant I had to read the Bible more than most of my contemporaries. This early training had a big impact on me. Today, my political path and my spiritual paths are intertwined.

I encountered Calvin through the education I received in the Reformed Church of France and was for a long time wary of him because I knew the tragic story of Michel Servet. Calvin certainly was heavy-handed and authoritarian but he did preach the importance of secular authority. It's that element of Calvin that I have held onto.

Autopsy of a crisis

In talking about the problems in the banking system, let's be clear. This financial crisis is purely and simply the result of immorality. It was first signaled by problems with the famous "sub-prime mortgages" in the United States of America. This system of lending money to people to buy houses who couldn't afford them was rooted in the belief that everyone in the

country should have the right to be a home owner. This led banks to lend money not based on an individual's ability to repay but rather on the value of the property. When people began to default on mortgages, banks engaged in the practice of hiding bad debts amongst redeemable debts. I call hiding bad debts a form of robbery. It is not the system but rather a particular mindset and unethical behaviour in combination with an absence of regulation which provoked this crisis.

The macroeconomic worldview of Milton Friedman which has dominated world markets for decades insists that in order for market forces to prevail, there must be no regulation. The situation today shows that everything has changed. The only thing certain is that the old rules must change.

Debt is a key component of the current problems. Following the election of Ronald Reagan as President of the United States in the late 20th century, the American economy fuelled its growth on debt. It now owes 39 trillion US dollars of which 95% has been borrowed from China. This has led to very significant political consequences.

The third key element of the financial crisis is “derivative products” or a way of financing commerce based on expectations of the future value of a commodity. In 1971, when American debt exceeded the country's ability to repay, a new financial product was developed based on predictions of the future value of a commodity. This led to prices for primary resources which did not represent their true current value but rather their expected future value. The full impact of this overvaluing has yet to be felt.

The final element is what has happened to mass consumption which was once the foundation of the capitalist system. For example, at first it was consumption of cars that financed the auto industry. The founder of the Ford motor company, Henry Ford said, “I pay my workers so that they can buy my cars.” Now, however, the auto industry and other major businesses depend on pension funds, investment funds and hedge funds for their financing. This explains why one quarter of all working age people are unemployed or poor. In turn, the weakening of the salaried economy has reduced consumption.

This leads me to propose this simple aphorism: there will be no revival of the financial system without renewed vitality in the economy. Saving banks with multi-billion dollar bail-out plans will avoid bankruptcies but will not restore public confidence because that confidence is built on what is happening in the real economy. To do that, a balance must be created between salaries and profits and that will have to be regulated by public authorities. That marks a major change that is highly political and totally international.

There is my view of the situation.

Ce qui nous est arrivé: Autopsie d'une crise

**Michel Rocard interviewé pour Réforme
par Jean-Luc Mouton et Frédérick Casadesus**

Pour l'ancien Premier ministre français, l'essentiel est de poser un juste diagnostic sur la crise. Assez loin de la refonte du capitalisme, c'est d'intelligence de la situation dont nous avons besoin.

Dès 2007, j'avais prévenu - et dans Réforme même - que la crise allait éclater. Sauf qu'à la différence des crises asiatiques de 1997, de la grande crise financière de 1992 qui avait sorti du système monétaire européen la livre sterling, la peseta et la lire italienne ou celle de la bulle Internet en 1999 - crises internes au système dont les causes étaient repérables -, la catastrophe que nous connaissons échappe à tous ces diagnostic connus. Il n'y a dans la partie bancaire et financière de la crise actuelle rien de systémique et de cyclique, rien qui pourrait être lié à des déséquilibres structurels qu'il aurait fallu corriger. Les journaux sont remplis d'analyses consacrées à la crise financière, mais il n'y a quasiment rien sur la situation macroéconomique. Tout se passe comme si la science économique était silencieuse, donc impuissante à définir ce qui nous arrive. Pourtant, la première attitude quand on est face à une telle crise, c'est de tenter de la comprendre. La première condition pour en sortir est de comprendre ce qui est train de se passer. Il faut qu'un accord au moins théorique se fasse entre toutes les parties prenantes sur le diagnostic.

Délinquance et immoralité

Sur l'affaire bancaire, disons-le clairement, le diagnostic est que cette crise financière est purement et simplement le produit de l'immoralité. Elle est marquée d'abord par les fameux « subprimes », qui sont pour moi l'horrible durcissement social cynique d'une pratique bancaire. Cette crise des subprimes produit en tout cas le drame de l'année 2007. Tout commence sur le seul territoire des États-Unis.

La raison accidentelle est le changement de comportement du crédit américain vis-à-vis du logement. La société américaine vivait dans l'expansion formidable du capitalisme d'après la guerre, un rêve de la réunification nationale sans lutte des classes et la chance ouverte à tous de s'enrichir, d'accéder à la bourse et à la propriété. Le dernier mot d'ordre au tournant

du millénaire était celui d'une nation de propriétaires. D'où l'idée de prêter à tout le monde. Auparavant, les règles voulaient que l'on ne prête qu'à ceux qui avaient les moyens de rembourser, en maintenant une référence au goût de l'effort, les banques n'acceptaient pas de prêter la totalité du montant des achats.

A partir du moment où vient la norme du « tous propriétaires », le système bancaire est poussé à prêter à tout le monde la totalité des sommes et sans s'occuper des revenus des personnes auxquelles il prête. Cela a transformé la philosophie des banquiers: leur ressource n'est plus fondée sur la ponctualité des emprunteurs, mais sur la valeur des maisons. Comme sur le long terme, le prix du logement augmente, cela peut marcher. D'autant que si les emprunteurs ne peuvent rembourser, le recours à l'expropriation est toujours ouvert.

Pour équilibrer leurs comptes, les banques américaines font exproprier un million sept cent mille familles en 2007. Comme il s'agit en grande partie de représentants de minorités ethniques, Latinos et Afro-Américains, il y a beaucoup d'enfants. Le problème social est gigantesque. Quand la masse des expropriations atteint un tel niveau, les policiers eux-mêmes refusent de faire le travail de répression, les juges se mettent à traîner, puis les élus se rebellent, et l'opinion se mobilise... D'où un net recul des expropriations et, tout au bout du processus, la faillite des banques américaines. Pour équilibrer complètement le système bancaire, il eût fallu cette année là exproprier 3 millions et demi de propriétaires! Le système avait pris de l'ampleur dans ce grand pays! Résultat, toutes les banques sont entrées en crise, grandes comme petites. Hélas, à l'époque, personne n'a rien voulu voir venir. Les banques, au lieu de provisionner le risque et de demander la validation de leurs comptes après provisions, ont caché cette grave évolution de leur situation. Les Islandais et les Irlandais ont plongé dans ce grand bain de tentation. L'Angleterre est également très atteinte parce que la City a beaucoup poussé à ce genre de pratique. Nous le sommes moins parce que nous avons été plus prudents.

La crise est alors comptable et financière. Mais, pour échapper à leurs difficultés, les banques ont recours à une pratique qui, elle, relève de la délinquance. Elles se servent alors de la technique dite de la titrisation - méthode par laquelle une banque qui a prêté de l'argent transforme le prêt en un titre financier anonyme ou à contracter quelque part avec une société de recouvrement de créances. Pour le reste, il demeure une créance qui devient un titre anonyme vendable et qui peut figurer comme titre financier. Elles ont également regroupé ces créances par paquet. Et elles se sont mises à noyer quelques créances hypothécaires pourries - c'est-à-dire non fiables - au milieu de créances réelles. La théorie bancaire veut que les défauts de paiements - il y aura toujours des mauvais payeurs - impliquent une dilution des risques. C'était l'objectif de cette technique. Mais quand il s'agit de cacher des

créances malsaines dans des créances saines, j'appelle ça du vol qualifié. Dans le choix de ce mot, il n'y a chez moi aucune volonté d'insulter la profession bancaire, mais un souci juridique: on ne peut poursuivre devant les tribunaux que ce qui est identifié comme pénalement coupable. Il faut nommer. L'exercice de clarification est nécessaire pour qu'on s'en sorte. Et il faudra bien que tout cela finisse un jour devant des cours de justice. Les quelques centaines de milliards de dollars évaporés - et dont quelques-uns carrément volés - méritent que l'on s'y arrête quelque peu! Les mots comptent. Pour la science financière, le fait de diagnostiquer que c'est une dérive vers l'immoralité qui est au cœur de la crise ne met pas en cause l'organisation du système, mais une façon de penser, un comportement éthique. Et des absences de contrôle.

Tout cela ne concerne que la finance. Car, sur le fond, la crise n'est pas seulement bancaire et financière, mais principalement macroéconomique.

Milton Friedman et le libéralisme

Ce qui meurt, c'est l'article fondateur de la théorie de Milton Friedman: l'équilibre du marché est optimal. Si l'équilibre du marché atteint ne vous plaît pas, pour des raisons sociales ou environnementales par exemple, et que vous tentiez de le corriger avec de la régulation, des taxes ou des impôts, la théorie démontre que vous ferez plus de perdants que de gagnants. Il faut donc s'abstenir de toute régulation. Et réduire l'intervention de la puissance publique pour atteindre l'équilibre optimal des marchés. Dans cette dérive, la profession bancaire est donc largement coupable d'une insuffisance de surveillance des intellectuels sur leur production et de contrôle de l'Etat. La suppression de toute règle s'est étendue subrepticement et progressivement de la zone de la régulation à la zone du contrôle. Du coup, cette philosophie a érodé et dilué l'idée même du contrôle des mouvements.

Ceci est important parce que sur les trois ou quatre cent cinquante auteurs qui ont écrit des ouvrages sur les mille et une manières de lutter contre la misère humaine, on n'en connaît que deux qui aient influé l'opinion publique et la marche du monde. Le premier est Karl Marx, le second est Milton Friedman. Lui va faire un tabac mondial! Ses travaux datent de la fin des années 60, son prix Nobel remonte à 1976. Par rapport à la tradition libérale dont il est issu, il va proposer un franchissement de ligne majeur. Rappelons que le libéralisme est une philosophie née au XVIIIe siècle qui ne concerne pas, de loin, que l'économie. Le libéralisme commence avec la nécessité du suffrage universel, les droits de l'homme, le respect de la vie humaine... Sont libéraux ceux qui mettent en priorité le respect de la liberté, celle de circuler, de penser, mais pas celle de voler, de tuer. Il y faut une police qui chasse les délinquants, mais aussi une justice qui dise le droit, et surtout que le droit soit

écrit. Le libéralisme revendique l'exercice maximal de la liberté dans le cadre de lois qui en fixent des limites. Le libéralisme économique s'inspire aussi de cette orientation: Adam Smith et Ricardo, Malthus sont avant tout des moralistes. Malthus est même pasteur. Leur bataille en Angleterre s'articule sur une demande de loi pour réprimer la fraude, les tromperies sur la marchandise, et aussi ce qui est socialement peu recommandable, l'alcool... Mais quand un auteur comme Milton Friedman se met à écrire que dans l'ordre économique l'équilibre du marché est optimal, il gomme l'idée d'une régulation par un fournisseur neutre de normes. Donc, la nécessité de l'intervention de la puissance publique. En Angleterre ou aux États-Unis, les libéraux sont les hommes de gauche. Ils agissent et combattent au profit de l'organisation de la liberté. En France - par un abus de langage ou par inculture -, les libéraux sont assimilés à ceux qui réfutent l'intervention de l'État. D'où l'impossibilité de tenir un vrai débat sur ces questions dans notre pays. Mais Milton Friedman ne relève pas de cette vision libérale-là.

Au milieu de tout cela, pour revenir sur le sens de la crise, notons que le sens de ce mot est une importation dans le champ de l'économie, venant de la médecine. C'est la pointe forte de la maladie, à l'issue de laquelle le malade meurt ou guérit. L'emploi du mot dans le contexte économique implique l'hypothèse de santé normale. Or ce n'est pas ce qui se passe. Nous sommes dans une situation où tout change à la fois et où la seule chose certaine est que nous ne pourrions pas revenir à la situation antérieure, à nos règles traditionnelles. Nous sommes en crise pour une dizaine d'années et nous n'en sortirons que petit à petit, si, d'étape en étape, le G20, qui se réunira tous les six mois, élargit le champ de ses investigations. Le G20 s'est d'abord attelé à la question financière et personne ne peut l'en blâmer mais il n'a pas encore touché à la macroéconomie, ce qui est indispensable. En plus, on parle au singulier de « la » crise, alors qu'il s'agit de groupes de phénomènes différents qui ne sont pas connectés entre eux mais qui s'aggravent les uns les autres.

L'endettement

La crise financière, la plus visible et la plus commentée, n'est pas pour moi le cœur de l'affaire. Dans le drame financier que nous traversons il y a deux composantes: la crise des « subprimes » que je viens de commenter et la folie croissante de l'endettement. Rappelons simplement qu'il y a quarante ans pour un dollar commercial il s'échangeait aussi un dollar financier. Nous avons atteint un pour soixante ou quatre-vingt. La masse de liquidité représente six à sept fois le produit brut mondial. Depuis l'élection de Reagan, les États-Unis financent leur croissance par de l'endettement. La dette publique américaine doit

approcher deux ou trois fois le PNB et l'endettement total américain en août 2007 atteignait 39 trillions de dollars. Le millier de milliards de dollars est devenu l'unité monétaire de travail des experts. C'est évidemment une somme qui ne sera jamais remboursée. Cela crée une situation de déséquilibre énorme, d'autant plus que les deux milliards et demi de dollars par jour nécessaires à l'économie américaine sont prêtés à 95 % par l'Asie, dont plus de la moitié par la seule Banque centrale chinoise. Autrement dit, l'endettement américain dépend de considérations politiques à un très haut degré. La Chine joue là un rôle de solidarité absolue avec les États-Unis pour que le système en son entier tienne debout. Simplement, elle ne peut pas laisser ses propres actifs s'effriter et voir le cours du dollar s'effondrer sans réagir. Ce déséquilibre du trop fort endettement américain était lourd de menaces en période de calme absolu, aujourd'hui la catastrophe est là. Une catastrophe d'une telle ampleur que personne ne sait réellement comment régler la situation.

Produits dérivés

Cette crise a cependant déjà commencé depuis plusieurs années. Quand les banques ont pris conscience de l'étendue de la situation, elles ont cessé de se faire confiance les unes aux autres. C'est ce frein interbancaire qui a organisé la récession, qui a frappé les économies développées depuis octobre 2008. Pas avant. Or nous étions déjà entrés dans une sérieuse crise économique.

Depuis 2003 on a observé une augmentation vertigineuse du prix du pétrole et de nombreuses ressources, minérales, et aussi du blé, du soja, du maïs, du riz et du lait. Pourtant, sur aucun marché mondial on ne pouvait noter le moindre manque physique de l'offre qui, seule, justifie l'augmentation du prix. Certes la consommation chinoise et indienne augmentait mais pas à ce point. Le mouvement de hausse a donc été anticipé par les fameux produits dérivés. Explications.

De 1945 à 1971, la croissance de tous les pays développés était rapide, régulière, dénuée de crise financière et marquée par le plein emploi. Tout cela reposait sur un système international donnant accès au marché pour tous à la condition de payer dans l'une des trois monnaies reconnues: le dollar, la livre et l'or. La seule condition pour que cela fonctionne était la fixité des parités monétaires. La livre est cependant sortie du système par la faiblesse de l'économie de la Grande-Bretagne. Les Américains se retrouvent alors maîtres de la seule monnaie d'échange. Ils reconnaissent toujours la convertibilité du dollar en or, mais ils se laissent aller à des déficits croissants. Ils lancent des programmes de constructions généreux mais le coût de la guerre du Vietnam pèse aussi sur leurs finances. En 1971, les États-Unis découvrent qu'ils ne peuvent pas payer une demande allemande de rembourser en or

quelques dizaines de milliards de dollars. Nixon est alors président. Parmi ses conseillers, c'est le fameux Dick Cheney, qui - déjà - propose une funeste solution. Sur ses conseils, les États-Unis rompent avec le système de Bretton Woods, et décrochent le dollar de l'or. A partir de là tout le système de change mondial devient volatile. Les changes deviennent alors flottants. Conséquence, à long terme, les économies ne se développent pas au même rythme les unes que les autres, les gains de productivité ne sont plus les mêmes partout. La variation des taux de change est inévitable mais lente et progressive.

A court terme, les déséquilibres d'offres et de demandes provoquent des doublages de prix en peu de temps. Le décrochage du dollar de l'or devient donc une entrave au commerce mondial. Les marchands réclament alors aux banquiers et aux assureurs un système qui les protège des pointes à la hausse ou à la baisse. On va inventer des produits qui font qu'on paye à moyen ou long terme, par exemple, à un an et demi et à un prix convenu à l'avance. Manière de stabiliser tout le système. Tout ceci prendra le nom de produits dérivés. Mais, nouvelle découverte, ces produits dérivés, ces promesses de ventes ou d'achats qui sont associées à des matières premières, peuvent aussi s'échanger entre eux. On peut échanger des promesses de vente ou d'achat à un prix déterminé. C'est le marché propre des produits dérivés qui fait qu'on est passé de un pour un, un dollar financier par rapport à un dollar commercial, à 60 ou 80 dollars financiers, pour un dollar commercial. D'où circule aujourd'hui, grâce à ces produits, six ou sept fois le PIB mondial.

Ces produits dérivés sont à la source de la hausse vertigineuse des matières premières. Il y a là une cause essentielle de récession. Ce phénomène s'est fait sentir dès 2007, mais a été stoppé fin 2008 en raison de la crise bancaire, mais nous n'avons pas encore digéré toutes ses conséquences.

Salaires et profits

Dernier élément, pour expliquer la crise actuelle, la révolution structurelle intracapitaliste qui a changé la donne.

Dans les années de plein emploi, entre 1945 et 1975, l'actionnaire était isolé, il laissait faire ce qu'il voulait aux chefs d'entreprise. Le capitalisme est un génial système de production de masse, mais il ne peut fonctionner que s'il y a consommation de masse. C'est l'intuition du constructeur automobile Ford, « je paye mes ouvriers pour qu'ils puissent acheter mes voitures ». Mais aujourd'hui, et c'est le changement structurel déterminant, le regroupement des actionnaires en fonds de pension, fonds d'investissements et fonds d'arbitrage dits hedge funds a pris le pouvoir dans toutes les entreprises. C'est ce qui explique qu'un quart de la population d'âge actif soit aujourd'hui au chômage, pauvre ou bien encore précaire.

Cet affaissement de la paye salariale a affaibli la consommation. Pour cette raison, nos économies développées s'échinent à retrouver une partie de la croissance précédente... sans réel succès. Nos économies sont ainsi malades de toutes ces évolutions financières mais aussi et surtout économiques. Je propose cet aphorisme assez simple: il n'y a pas de résurrection de la sphère financière possible, si on ne retrouve pas le dynamisme dans la sphère proprement économique. Les sauvetages de banques à coups de milliards budgétaires vont éviter les faillites, mais ne vont pas contribuer à retrouver la confiance générale parce que ce phénomène-là passe par l'économie réelle. Pour cela, il faut d'abord rétablir l'équilibre entre les salaires et les profits économiques. Et cela doit être objet d'une régulation de puissance publique. C'est une énorme novation, c'est le partage de notre activité de tous les jours, et donc hautement politique. Et c'est totalement international. Voilà le paysage.

Sortie de crise?

Face à cela la France peut-elle agir seule? Réponse: non. Ce que fait actuellement le gouvernement français traduit beaucoup de bon sens et beaucoup d'utilité. Il faut bien ouvrir des pistes et tenter de répondre à la crise. Le gouvernement agit correctement dans le domaine financier. Mais la condition de la réussite, c'est que tout le monde fasse pareil en même temps. La clé est mondiale. Or, il n'existe pas de pouvoir mondial.

Quand les gens critiquent le président Sarkozy pour son protectionnisme à l'égard des constructeurs automobiles, je réponds que l'on ne peut pas ne rien faire et laisser tout en faillite. Mais c'est politiquement intolérable. Si tous les gouvernants font de l'aide budgétaire à leur industrie automobile dans les mêmes proportions au même moment, ce n'est plus du protectionnisme, mais un plan concerté de relance. Bruxelles, au lieu de veiller jalousement sur cette question, se devrait d'obtenir que les autres pays fassent de même.

Dans notre malheur, deux chances nous ont été offertes. D'abord le fait que Bush ait été politiquement, donc idéologiquement vaincu au moment de l'effondrement de Lehman Brothers. Il a donc tout avalé et signé. A cela s'ajoute la présidence française de l'Union qui, par hasard, est à la tête de l'Europe à ce moment-là. Par nature, la France a une puissance d'entraînement. Elle a un président de droite, dont la formation est gaulliste et la culture paragaulliste mais déjà déviant et proche des libéraux, lui qui avait repris l'antienne libérale d'un pays de propriétaires. L'avantage est que son caractère est dominé par deux traits: il n'a aucun dogmatisme et il est intelligent. Il ne lui a pas fallu une semaine pour renoncer à l'ultralibéralisme qui était sa philosophie d'origine. Il ne l'a pas dit, mais il a agi d'une façon contraire. Gordon Brown, économiste, anglais et intelligent, a lui aussi joué un rôle de premier plan. D'éducation keynésienne, social-démocrate, il était estomaqué par la brutale

efficacité du capitalisme financier. Il a entraîné la Grande-Bretagne dans le crédit hypothécaire. Mais il avait lu Marx qui expliquait que le capitalisme est un mécanisme de production génial, efficace, mais terriblement instable et qui possède deux grandes propensions: une attitude géographique à envahir le monde et une technique, voir la finance prendre le commandement sur la macroéconomie. Gordon Brown sait tout cela. Il a donc fait de la régulation en 24 heures. Non seulement, il décide d'aider les banques, mais il y place des représentants de l'État pour assurer que les décisions soient conformes à l'intérêt national. Il fait mieux qu'en France où nous ne sommes pas tout à fait débarrassés de l'idée que l'État n'est pas pertinent dans l'ordre économique. Et surtout Gordon Brown l'Euroseptique, l'anti Euro a décidé de jouer avec la zone Euro pour atteindre la puissance maximale.

Nous partons donc mieux qu'en 1929 où l'imbécilité des puissances publiques a tout aggravé. Le problème est de savoir si, quand nous retrouverons un peu de croissance, on remettra en cause le dogme de Milton Friedman: l'équilibre physique des marchés n'est pas optimal. La voie de sortie de crise est aussi d'indexer enfin les salaires sur la productivité. Aussi longtemps que l'on n'aura pas installé un tel système, on n'aura pas d'équilibre satisfaisant. De léger, oui, mais pas d'équilibre satisfaisant. Et des rechutes. Et toujours le risque de retomber dans la cupidité actionnariale. L'Europe n'a pas assez d'unité pour répondre à la crise. Madame Merkel a, de son côté, joué un rôle négatif parce qu'elle considère que l'intervention de l'État rappelle trop nettement le communisme. Pour elle, le retour de l'État est un crime absolu. Elle a commencé par refuser l'implication des fonds publics. Ce sont les marchés allemands qui l'ont convaincue de la nécessité d'intervenir. Nous allons donc tâtonner pendant quelques années. Il faut pour l'instant éviter de nouvelles faillites bancaires. Mais aussi longtemps que nous n'aurons pas mis en place une véritable régulation, il y aura des rechutes.

Michel Rocard en quelques dates

23 août 1930: naissance à Courbevoie

1967: secrétaire général du parti socialiste unifié

1969: candidat à l'élection présidentielle

1975: rejoint le parti socialiste

1981-1985: ministre du Plan, puis de l'Agriculture

1988-1991: Premier ministre

1993-1994: premier secrétaire du parti socialiste

Depuis 1994: député européen

2008: président du conseil d'orientation scientifique de la fondation Terra Nova

Article publié avec l'autorisation du magazine hebdomadaire protestant "Réforme". Tous droits réservés©.
<http://www.reforme.net/>

This article has been reprinted by permission of "Réforme", a French protestant weekly magazine. All rights reserved©.

Christian Manufacturers at the Crossroads

Shirley J. Roels

*What is the vocational calling of the Christian manufacturer in an era of economic restructuring? After reviewing the recent history of economic globalization, the author explores biblical and theological foundations for considering Christian social justice as a goal inherently embedded in the production of global goods. Since biblical shalom involved both the creation and distribution of economic benefits, she asserts that economic and social justice are woven together in this process. Thus, Christian manufacturers have responsibilities for justice as they make decisions about the structure and pace of global economic change. Such economic decision-makers have specific Christian duties to individual customers, employees and societies, particularly at the forefront of economic change. This article is a chapter reprinted from the book, *Global Neighbors: Christian Faith and Moral Obligation in Today's Economy*, edited by Douglas A. Hicks and Mark Valeri, and published by William B. Eerdmans Publishing Company in 2008.*

Introduction

On Saturday the manufacturer read of Bono's plea and the Gates Foundation's attack on "stupid" world-wide poverty;¹ and on Sunday this leader was moved by a sermon on the global nature of Christian neighbourliness. Now it's Monday in the everyday life of this Christian business leader, living at the crossroads of global need, imperfect market systems and changing occupational structures. To some degree, lesser or greater, the manufacturing leader knows that Christian beliefs and free-market systems are not perfect overlaps. Furthermore, the personal sense of one's neighbour is more palpable among those in the same economic circle than for those living in grinding poverty thousands of miles away. On the one hand, this is an era in which growth, hope, poverty and pain are all more closely intertwined; and on the other, the more depersonalized global economy detaches us from any neighbour's economic experiences. At times some of these collisions are more obvious than others. Still, market activity is the time-bound means available through which this manufacturing leader can express Christian neighbourliness. If we make progress in framing this bellwether crossroads, it can guide us in other choices still ahead. Hopefully what we learn can provide light for the path, as we move into a new and different economic era.

¹ "Persons of the Year: The Good Samaritans", *Time*, December 26, 2005, p. 38-88.

So now the question: how do Christian manufacturing leaders, given their particular positions in the greater economic constellation, live and choose on Monday? The world is re-sorting the places and the processes through which goods are produced and distributed. To great wonder and delight, the civic, familial, political and religious cultures that encourage economic productivity are being discovered in many global pockets. Benefits are beginning to flow for diverse global groups that have rights and access to raw resources, productive technology, financial capital and pools of able employees. Yet all this change causes struggle in balancing economic opportunity, costs of production and existing commitments to real people in real communities. In this era of great economic transformation, what is the Christian calling of the manufacturer, for that part of the economy on the current cusp of economic change and globalization?

Change in the U.S. manufacturing environment is a real and pressing economic problem. According to Al Frink, U.S. Assistant Secretary of Commerce for manufacturing and services, manufacturing makes up 15.8% of the U.S. economy's annual output; but when one considers its ripple effects, it represents 50% of the gross domestic product.² Further evidence arose during the January 2005 hearings for the New U.S. Secretary of Commerce, Carlos Guttierrez, when members of Congressional committees noted that in the four prior years, U.S. manufacturing companies had shed 2.7 million jobs.³ As a case in point, between June of 2000 and August of 2005, the number of manufacturing jobs in the state of Michigan alone declined by 26%, a loss of 234,300 positions.⁴ These are losses with substantial effects.

The evidence of this economic change also cuts across many industries. In Lynn, Massachusetts, a city of 80,000 people, three of every five workers were once employed in shoe manufacturing. But the last of Lynn's shoe factories closed over five years ago. Since then the sale of Massachusetts-based Reebok shoes to Adidas (a German-based company) is triggering more questions about potential shifts in the remaining shoe design and marketing jobs from New England to India.⁵ In Michigan the plants that produce automotive parts, bowling balls and refrigerators are being replaced by Mexican operations. These Mexican plants welcome that work because it fills abandoned capacity as businesses shift operations to mainland China. For North Carolina-based manufacturers of home furnishings, raw woods

² "Czar wants respect for manufacturing", *Grand Rapids Press*, October 6, 2004.

³ "About trade deficit... Senators pepper former Kellogg chief with questions about unfair competition", *Grand Rapids Press*, January 6, 2005, C3.

⁴ "Economy struggles to pick up steam", *Grand Rapids Press*, August 22, 2005, B4. The article notes that while that shift is dramatic, the national decline in manufacturing jobs during the same period was 18%, not far behind in terms of percentages.

⁵ "Reebok-Adidas deal another blow to New England", *Grand Rapids Press*, August 10, 2005, C6.

are now containerized, shipped east, tooled by Chinese wood carvers and returned to the U.S. as finished furniture products.⁶ While furniture prices are declining, so is the manufacturing value those in North Carolina can add. Change in production strategies is pervasive.

Meanwhile, we live in this tumbling turbulence that mixes emerging markets with mature ones, new manufacturing strategies with older plants, and new communities of need with older communities of commitment. Perhaps it is an era in which Dickens' observation, about "the best of times, the worst of times"⁷ applies once again. But given this muddle, what is the claim of Christian social justice on the vocation of the manufacturer? In light of the Christian witness what is required of those who are the leaders, employees, and shareholders in U.S.-based manufacturing? How do we frame our Christian calling as economic participants so that we make appropriate decisions in a time of great economic change?

To respond to these concerns we need to investigate three questions more specifically:

1. What are the underlying dynamics of manufacturing's economic globalization?
2. In light of them, should and can social justice be a primary and direct goal for the individual manufacturing firm?
3. If manufacturing firms can and should make a contribution to social justice, in what ways can they best contribute?

We need knowledge and wisdom in several areas to tackle this topic. First, we must understand more about the globalization of manufacturing. Second, we must consider the meaning of "social justice" as a frame for our decisions. Finally, we must determine practical ways in which the individual firm can contribute, balancing prior obligations with the press of change. Through this discussion we hope to create a bridge between the call for greater Christian social justice and specific steps that a Christian manufacturing leader may take toward its fulfillment.

The globalization of manufacturing

There is an upside associated with this redistribution of productive resources. According to Peter Singer, "The 1997 *Human Development Report* struck a positive note, indicating that

⁶ Information based on personal conversation with Mr. Robert Israel, President of Israel's Designs for Living, a major furniture supplier for West Michigan residents and international hotel chains, Grand Rapids, MI, Spring 2005.

⁷ Dickens, Charles, *Tale of Two Cities*, Republished in London: Penguin Books, 1997.

poverty has fallen more in the past fifty years than in the previous 500...over a quarter of a century, but taking into account the growth in world population during this period,...the proportion of people who are undernourished has fallen from 37 percent to 18 percent". Between 1960 and 1993 the Human Development Index (HDI) scores for developing countries have risen consistently, "suggesting that the world's poorer people have become better off overall in terms of income, life-expectancy, and the amount of education they receive."⁸ According to the 2005 Human Development Report, "extreme income poverty has been falling... Average per capita income growth in developing counties in the 1990s was 1.5%, almost three times the rate in the 1980s. Since 2000, average per capita income growth in developing countries has increased to 3.4%-double the average for high-income countries."⁹ That 2005 report also notes that when health and education variables are added to this income indicator, "over the last decade the HDI has been rising across all developing regions." While we all desire even more progress in reducing global poverty, real strides are being made during this time of economic change. God's good earth has the needed resources to provide a better life when we employ human creativity in making them productive and distribute them well.

Perhaps the correlation between the growth of a global market system and increases in global quality of life is not a tight causal relationship. Yet, in the aggregate, the growing market system and the redistribution of manufacturing seem to be powerfully associated with greater global welfare. Global market performance, despite its many limitations and inadequacies, is producing economic wellbeing at a more rapid rate than was the case in any prior economic era.¹⁰ For many, it is bringing the promise of greater economic power to manage the forces of nature that can leave them hungry and dying. For example, with new sources of production-based employment, current Chinese and East Indian life is much less

⁸ Singer, Peter, *One World: The Ethics of Globalization*, second edition, New Haven, CT: Yale University Press, 2004, p. 85-87.

⁹ Human Development Report 2005, 20 and 21. Retrieved on September 16, 2005 from <http://www.hdr.undp.org>.

¹⁰ Singer, Peter, *One World: The Ethics of Globalization*, second edition, New Haven, CT: Yale University Press, 2004, 85. Despite these aggregate global gains, some regions have lost economic ground. Globally, as Singer notes, from 1965 to 1998, while average global wellbeing increased, 16 of the world's poorer countries, including 12 in sub-Saharan Africa, had falling per capita income. According to the Human Development Report 2005, 21, retrieved on September 16, 2005 from <http://www.hdr.undp.org>, by 2005 such equalities were still serious if not more severe in some cases. The multiple and complex reasons for the most severe inequalities extend far beyond the focus of this chapter. Some would argue that these are failings inherent in a global market system. Others suggest that these challenges are the results of governmental protection in developed nations that thwart the capacities of free global markets to function, particularly in areas such as agriculture. Still others believe that, on balance, the most severe economic failures are less the fault of a global market system and more the outcomes of ineffective leadership in real situations. All of these possible reasons may be compounded by the heavy global debt loads of very poor countries, harsh and shifting environmental conditions and entrenched cultural patterns.

grim than in the past; and for those in Eastern Europe and Russia, new capital investments are bringing an increase in the freedom to determine the course of their own lives.¹¹ There is a growing global consensus about the broad outlines of preferable economic patterns that support human growth and development. Economist Charles Lindblom writes, “A society without any market system at all is not worth considering for our futures”¹²; and economist Rebecca Blank notes, “The market has many problems...But there is no viable alternative to the market as an organizing principle for an economic system in a complex society.”¹³ The global market system and its spread of productive capacity are now deemed necessary to provide economic fruits for those who most need them.

Yet this affirmation of a global market system, for all its benefits, comes with a price. There is trauma associated with structural economic change. Silicon Valley entrepreneurs experience frantic demand for their next generation of microprocessors and live unbalanced lives. Simultaneously, as the global economy moves from desktops to laptops and from corporate offices to the office-where-you-are, Steelcase Corporation, the leading U.S. producer of office furnishings, sheds 58% of its hometown employees.¹⁴

During such a best-and-worst time it is difficult to find a frame through which to analyze the dynamics of change. Often we find ourselves in the middle of the maelstrom. We know what is happening but may not know why it is occurring or where it will lead. A review of seismic economic shifts in the past two decades will give us better lenses for truly seeing these economic changes.

Some aspects of economic change parallel those of prior periods. There have always been competing forces, simultaneously pushing and resisting such shifts. In this regard there is nothing new in the early twenty-first century. Some have always been adopters of new products with new cultural paradigms; and others have always thought that emerging change could not alter the markets in which they were embedded. Even while consumers bought their first cars, American buggy whip manufacturers held on to their production shops, convinced that voluminous demand for their product would continue.¹⁵ They continued to believe that recalcitrant autos couldn't possibly replace reliable animals.

¹¹ Wolterstorff, Nicholas, *Until Justice and Peace Embrace*, Grand Rapids, MI: Eerdmans, 1983, p. 38-39.

¹² Lindblom, Charles, *The Market System*, New Haven, CT: Yale University Press, 2001, p. 276.

¹³ Rebecca M. Blank and William McGurn, *Is the Market Moral? A Dialogue on Religion, Economics and Justice*, Washington, D.C.: Brookings Institution Press, 2004, p. 12.

¹⁴ Retrieved on September 16, 2005 from http://www.freep.com/money/business/steelcase14e_20050414.htm. 9/1/05. Steelcase trimmed employment in the Grand Rapids, Michigan area from 10,800 to 4,500 employees over the course of the four previous years. In the process it is phasing out production during the next two years at both of its Grand Rapids plants and a factory in neighboring Kentwood, eliminating 600 jobs.

¹⁵ Levitt, Theodore, “Marketing Myopia”, *Harvard Business Review*, September/October, 1975, 26-44 and 173-177. This is a reprint of the Levitt article as originally published in 1960.

Border-crossing economic change is not new either. For example, the effect of Gutenberg's printing press radiated far beyond Germany to shape the literacy and life of Western people. That press created the possibility of mass market demand for Bibles, biographies, newspapers and novels in Europe, the Americas and across colonial empires. Over the next couple hundred years it put producers of traditional manuscripts, no matter where they were located, at a significant economic disadvantage. Economic change has not been bounded by national borders for a long time.

We should understand such changes as inherent in market systems. Over fifty years ago, in his well-known commentary on capitalism, economist Joseph Schumpeter eloquently expressed this, by saying,

“Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action;...Nor is this evolutionary character due to a quasi-automatic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates...that incessantly revolutionizes the economic structure from *within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.”¹⁶

What Schumpeter then called capitalism, we now identify as the market economy; but we still recognize the continuing change he described as part of the market system itself.

The challenge, of course, is that now we humans have built that creative destruction into the inherent structure of an entire **global** economy; and our ready acceptance of such creative change, almost with a sense of economic determinism, allows room for negative as well as positive aspects of this destruction. Not only can such change be fuelled by the healthy creativity of the marketplace; but the resulting flames can also be fanned by greed, short-sightedness and corruption. Then, because of trade agreements, new technology and global communications, the time frame in which we allow such changes to occur is a

¹⁶ Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, Third edition, New York: Harper Colophon Books, 1950, p. 82-83.

compressed one. We have changed the speed with which underlying economic paradigms and structures are reconfigured; and that change in pace adds a significant new dimension to our human situation. We have made choices over the past few decades that place Schumpeter's picture of creative destruction in a much different frame, one that threatens to be more twisted and abstract than Schumpeter ever imagined. It is a picture less bounded by Judeo-Christian neighbourliness, one in which perhaps we presume a global economy that hurtles forward with little human consensus on any common moral frame.

Consider the global economic structure in 1985. The world was still divided into two types of economic systems, the one market-based and the other centrally directed. Cold War empires lined up their politics along that economic divide, competing on a country by country basis to provide the paradigms for less developed nations. While the Soviets were determined to influence the Horn of Africa, the United States was just as bull-headed about Central America. In terms of trade, imports and exports were occurring on a more frequent basis than in the past; but regional economic treaties, removing broad tariff and trade barriers, were still limited. Each round of GATT talks led to another but progress was on a product by product basis.¹⁷ "Made in America" was still a label of American pride on clothing, autos and household equipment. Technologically, the IBM-PC was four years old and the MAC was not even a toddler. Communication beyond one's home region was by telephone, and fax usage was still being introduced. There were no answering machines and no World-Wide web.¹⁸

What was the world's economic shape just a decade later? By 1995, Eastern European economies had all collapsed into various states of disrepair. With an economy ravaged by inflation and a highly devalued currency, Russia had retreated from influence on international economic development. The evidence that such state-run economic systems were untenable models for development was substantial. Even China, in a quest to be more self-sufficient, had now developed limited forms of a private market economy among its farmers. Trade-wise, the North American Free Trade Agreement was brand new, having been approved by the U.S. Congress and the legislatures of Canada and Mexico in 1994. It smoothed the path for production and transport of raw materials and finished goods across the continent; but, economically, very little had yet changed. In 1995 the Uruguay round of trade negotiations gave birth to a fledgling, the World Trade Organization. The personal computer was now widely used but the answering machine and the internet had just made their public debut.

¹⁷ GATT is an acronym for General Agreement on Tariffs and Trade that was first signed in 1947 to provide an international forum to encourage free trade and reduce tariffs. The World Trade Organization is its successor organization that was begun in 1995 out of the Uruguay round of GATT negotiations. Retrieved on September 16, 2005 from <http://www.ciesin.org/TG/PI/TRADE/gatt.html>

¹⁸ Information retrieved on September 7, 2005 from <http://www.inventors.about.com/library/weekly>.

The landscape in 2005, just another ten years later, looked remarkably different from that of 1995. Sharp divides among nations were replaced by the challenge of fluid but amorphous networks of global terrorists. Simultaneously over the prior decade, market economies, with some variations by region, had become the norm. China now surpassed the U.S. to become the country receiving the largest amount of foreign direct investment in the world. Trade-wise, China's eight-year-old auto company, Chery Automobile, planned to enter the North American auto market in 2007.¹⁹ NAFTA had lead to CAFTA-DR, the Central American Free Trade Agreement, that made national borders more permeable from Costa Rica to Maine. This was the next step in a strategy that could eventually extend a free trade zone from Canada's Baffin Bay to Argentina's Patagonia.²⁰ Developing nations, with a few exceptions, were leapfrogging the decades of desktop computers and communication landlines to embrace laptops and cell phones. A robust global information infrastructure allowed facile global identification and communication regarding raw and productive resources on a minute-by-minute basis. Products could be imagined, designed, produced and marketed in a multitude of world regions, each with its own economic advantages. Outsourcing and off shoring became normal words in the business vocabulary. Perhaps by 2005, as Thomas Friedman observed, this interconnected world was now flat.²¹

The next phase of the market's creative reconstruction is pushing an even bigger wave of structural changes, particularly in manufacturing. In the 1980s and 1990s U.S. manufacturing firms had already begun to implement better systems for quality assurance, efficient assembly and healthier supplier relationships. But now, they are entering an era where the frame for manufacturing is being even more fundamentally restructured. We are in the process of creating a de-vertical future in which entire industries will be redefined by multiple collaborations among many global partners. The new industrial revolution will be one of networked relationships among trading and producing partners, each of whom provides its special contribution to a product or service. For example, Chery Automobile of China, a new de-vertical manufacturer,

¹⁹ "The New Industrial Revolution: De-verticalization on a Global Scale", *Research on Strategic Change*, August 2005, N.Y., N.Y.: Alliance Bernstein, 4.

²⁰ CAFTA-DR is new trade legislation that was approved by the U.S. Congress in July 2005 and signed by the U.S. President in August 2005. As of September 15, 2005, it had also been approved by the legislatures of the Dominican Republic, El Salvador, Guatemala and Honduras, with consideration pending in Costa Rica and Nicaragua. When implemented, this agreement will eliminate 80% of tariffs on U.S. exports to participating countries while honoring existing reductions in U.S. import duties for those other countries' goods and improving their U.S. access for textiles and sugar exported from those countries. Remaining tariffs would be phased out over the subsequent ten years. Because of its provisions related to intellectual property rights, antidumping rules, environmental protection and labor standards, in some circles CAFTA-DR is already beginning to be regarded as a model trade agreement for the future. Retrieved on September 15, 2005 from <http://en.wikipedia.org/wiki/CAFTA>.

²¹ Friedman, Thomas, *The World is Flat*, New York: Farrar, Straus and Giroux, 2005.

“has formed a joint venture with U.S. based Visionary Vehicles, a sales and marketing firm. It has also commissioned Italy’s Pininfarina and Bertone to design the auto bodies. Lotus Engineering of the UK, Mitsubishi Automotive Engineering of Japan and Austria’s AVL are assisting with the engines and drivetrains. A variety of less well-known, mostly Chinese manufacturers will make most of the other auto parts. Chery’s main task will be assembling vehicles.”²²

Such a future promises lower barriers to economic entry but the great pain of retooling vertically-organized manufacturing firms. As economies of scale in manufacturing shift from a *company* basis to an *industry* basis, what could be further from the integrated manufacturing structures that have dominated the histories of General Motors and the Ford Motor Company?²³ Business leaders in developed economies that are heavily invested in mass vertical manufacturing processes will be required to make hard choices about their business configurations involving plant closings, offshoring, supplier spin-offs and tight constraints on operational costs. These decisions will affect communities where vast numbers of blue collar and professional workers have dedicated themselves to particular companies. They will alter regional tax bases and the related economic foundations for public goods.

This new phase of the market’s creative reconstruction will also be one of significant upheaval in other global labour markets. “Rapidly growing number of college graduates hungry for jobs and willing to work long hours at relatively low wages” provides comparative economic advantage for India, China and Eastern Europe. That will add fuel to the fire of the current offshoring strategies. For about one-tenth of the wage in developing countries, college graduates in such nations are eager to work; and those labour markets of college graduates are expanding at 5% per year versus 1% in developed countries.²⁴ Even those who have felt their employment futures were less vulnerable will experience new challenges.

All of the economic choices we have recently made and all of these global market dynamics are creating a future in which human winners and losers will be unevenly redistributed across the globe and within a given nation. Global labour markets will now swing so quickly that there will be few advantages on which a given person can count over an adult lifetime. In twenty years, at most a quarter of one North American’s typical lifetime, the economic paradigm will change radically. What began as a promising occupation in college may quickly

²² “The New Industrial Revolution: De-verticalization on a Global Scale”, *Research on Strategic Change*, Alliance Bernstein, August 2005, N.Y., N.Y., p. 1.

²³ “The New Industrial Revolution: De-verticalization on a Global Scale”, *Research on Strategic Change*, Alliance Bernstein, August 2005, N.Y., N.Y., p. 3.

²⁴ “The New Industrial Revolution: De-verticalization on a Global Scale”, *Research on Strategic Change*, August 2005, N.Y., N.Y., Alliance Bernstein, p. 14.

disappear in a given country. For example, in the 1980s computer programmers were believed to have some of the most secure occupational futures available in the United States; but demand for such labour in the U.S. has shifted because of new software developments and job outsourcing to other countries. Such economic change is no longer limited to generational adjustments, allowing time for children to envision and prepare for a different future than their parents. The pace of economic change will now require any given person to realize that in one adult lifetime, there will likely be significant swings in occupational opportunity, earning power and household sufficiency, all within a few short years.

All this will bode well for fulfilment among those positioned to take entrepreneurial risk; but it will not help those with less capacity, environmental or personal, for such risk.²⁵ The market will reward those who will be able to take advantage of industrial de-verticalization because they have the family heritage, educational access, geographic locus, cultural capital and economic networks to secure those advantages. Perhaps the downward pressure on the wages of some educated young people in developed nations will be offset by the contribution that their advanced education makes to higher productivity. Yet at a minimum these structural changes eliminate promise for those who possess only a high school diploma or are at an age where reinvestment in education has few years to provide a job-related return. The plight of manufacturing assembly workers, often males with less education and less stable family backgrounds, is already grim;²⁶ and for any who lack inherited advantages, the future will be less secure.

The market does not resolve this unevenness in personal attributes or effects of such labour market changes over time. The restlessness of the global market will reward many; but it will not match the hopes of others. As in prior economic transitions, along with aggregate economic gain, there will be specific economic pain. But now, given the quickened pace of change, future pain may be swifter, more targeted and more massive than in the past.

The manufacturer and social justice

In such a time, a time when change brings aggregate improvements that benefit a great number but more volatility in the unevenness of individual effects, can and should social justice be a manufacturer's responsibility? The answer depends on the understanding of social justice.

²⁵ "The New Industrial Revolution: De-verticalization on a Global Scale", *Research on Strategic Change*, August 2005, N.Y., N.Y., Alliance Bernstein, p. 16.

²⁶ Blank, Rebecca M., *It Takes a Nation: A New Agenda for Fighting Poverty*, New York: Russell Sage Foundation and Princeton, N.J.: Princeton University Press, 1997, Section 2.3, p. 60-61.

While Christians affirm the idea of social justice, justice has a variety of definitions that can inform an understanding of manufacturers' responsibilities. Often the difficulty with these frameworks is that they seem to focus on common benefits without taking into account what is economically required to create the possibility of such justice. Neither Catholic nor Protestant definitions of justice seems to consider whether the creation of underlying economic value involves justice issues²⁷, something that David Krueger notes as part and parcel of "productive justice." Krueger argues that expansion of the global economic pie through the creation of global wealth, while not sufficient by itself, is a necessary part of pursuing social justice. He writes,

"From a Christian theological perspective, if we are to affirm the enduring legacy and applicability of the common good for a market-based society in a global economy, then we must be able to define and support the respects in which the economic practices of creating wealth, exchanging goods and services in markets, working for business corporations, and making profits are consistent with and practically supportive of a common good of society that stands beyond private goods and interests."²⁸

Krueger recognizes that the segregation of economic production from social justice is problematic. For social justice to be possible, economic value must have been created.

Given this divide in such typical Christian constructions, the manufacturer can find a more helpful understanding of social justice embedded in a framework proposed by philosopher Nicholas Wolterstorff. Instead of beginning with the concept of justice, Wolterstorff begins with the Biblical idea of *shalom* as the ultimate goal for God's world. This framework, first

²⁷Lebacqz, Karen, *Six Theories of Justice*, Minneapolis, MN: Augsburg, 1986. Karen Lebacqz describes some of these multiple understandings of justice. According to her, the Catholic justice tradition, particularly in the U.S. National Conference of Catholic Bishops 1985 *Pastoral Letter on Catholic Social Teaching and the U.S. Economy*, encompasses *commutative justice*, namely fairness in agreements and exchanges between private parties, *distributive justice*, namely the allocation of social goods to insure a minimum level of participation, and *social justice*, namely the creation of the common good. However, in Lebacqz's view, these Catholic understandings of social justice appear to segregate them from other areas of justice that have more direct links to the creation of wealth. Social justice, understood as the common good, is limited in its particular content related to business firms; and many of its attendant responsibilities are therefore assigned to government. Lebacqz then describes the Protestant tradition, as exemplified by the theology of Reinhold Niebuhr. It also endorses the creation of the common good as a goal but tends to emphasize justice as a matter of social claims that compete with each other because of the ubiquity of sin. Attempts to create the common good can always be thwarted by the ill-founded rationality of individuals and institutions. Institutional efforts must be bounded to prevent the imposition of worse conditions on individuals. Similarly then, in Niebuhr's discussion of justice, Lebacqz is convinced that the links created between the theological vision and economic practice are insufficient. Thus, in Lebacqz's analysis, while social justice involves the creation of the common good in both of these major North American Christian traditions, the responsibility for connecting the required economic growth to that common good is not clearly articulated.

²⁸ Krueger, David, *The Business Corporation and Productive Justice*, Nashville, TN: Abingdon Press, 1997, p. 40.

described in the Old Testament Scriptures and more fully developed in the New Testament, describes *shalom* as “the human being dwelling at peace in all his or her relationships: with God, with self, with fellows, with nature.”²⁹ It is the peace described in the book of Revelation in which not only are humans in right relationship but they are also enjoying those relationships to the fullest. Shalom results in universal flourishing where a human can hope “to enjoy living before God, to enjoy living in one’s physical surroundings, to enjoy living with one’s fellows, to enjoy living with oneself.”³⁰

If shalom is so understood, then both the proper development and the proper care of the creation, as mandated in Genesis 1 and 2, are needed to create the context in which humanity can flourish and respond to the Creator.³¹ Such an understanding provides a framework in which the cultivation of shalom involves **both** the creation of economic value **and** its contribution to the common good.

As Wolterstorff notes, “shalom at its highest is *enjoyment* in one’s relationships” that requires not only the love of God but “right harmonious relationships to other *human beings* and delight in human community.”³² The building of shalom therefore requires an ethical community where individuals provide for the rights and needs of others. These are rights for everyone to sustenance, including “food, clothing, and shelter that are adequate for sustaining health and making it possible to contribute to society.”³³ They also include individual rights to both freedom of mastery, namely greater control over nature’s evil possibilities, and freedom of self-direction, namely a personal voice in determining one’s own life course.

In Wolterstorff’s framework then, justice is not separated from human sustenance, rights and development, the substance of Biblical neighbourliness. Instead it is intertwined as each person enjoys his or her rights in the creation of universal flourishing. Shalom is the governing ideal within which rights are shaped and lead to peace between God, self, fellows and nature. Shalom is also the bigger house in which social justice is part of the basic frame.

²⁹ Wolterstorff, Nicholas, *Until Justice and Peace Embrace*, Grand Rapids, MI: Eerdmans, 1983, p. 69.

³⁰ Wolterstorff, Nicholas, *Until Justice and Peace Embrace*, Grand Rapids, MI: Eerdmans, 1983, p. 70.

³¹ The original Hebrew text of these Scriptures more clearly conveys simultaneous responsibility for development and care. “Radah” is the Hebrew word translated as “rule” in Genesis 1:28. As part of God’s blessing to the earth creature, Adam, the word conveys a ruling that insures the well-being of the subjects being ruled, stewardship instead of exploitation. In Genesis 2:15 the Hebrew words “abad” and “shamar”, often translated as “work” and “care”, also respectively connote the service to and preservation of the created world.

³² Wolterstorff, Nicholas, *Until Justice and Peace Embrace*, Grand Rapids: Eerdmans, 1983, p. 69 and 70.

³³ Wolterstorff, Nicholas, *Until Justice and Peace Embrace*, Grand Rapids: Eerdmans, 1983, p. 85.

At this juncture in his thinking Wolterstorff does not explore explicit links between the Biblical vision of shalom and economic decisions. But, in that regard, his vision still has significant advantages over some other frameworks. If one begins with Wolterstorff's understanding of shalom, there is room under the same Biblical umbrella for both the creation of economic value and the just distribution of economic wealth. Both are needed for the universal flourishing that God intends for creatures and the world. For the human being to be at peace, to experience shalom, requires concern for both the creation and distribution of economic wealth. Social justice, as an intricate part of shalom, is woven through **both** activities to result in right relationship among all human neighbours.

Wolterstorff's framework has profound implications for manufacturers. Many producers presume that business is principally responsible for the creation of economic wealth and government is principally responsible for its just allocation through tax and transfer systems. This framework assumes that one can segregate the concern for social justice from the creation of economic value. Such an understanding separates the achievement of social justice from the core mission of the business and often presumes that the core mission of business is restricted to profitability that creates shareholder value. Such a framework fits the neoclassical economic presumption that shareholders are the principal ones to whom a return on investment is due. For the publicly-traded company, it assumes that shareholders control the business directly and that return on shareholder investment is the foremost and ultimate goal.

However, if one accepts Wolterstorff's framework, that each Christian must strive to develop shalom, in which universal flourishing and justice are intimately intertwined, then the goals of the business firm take quite a different shape. No economic actor, including the manufacturer, is excused from responsibility for social justice in both the creation and distribution of economic benefits. Every economic actor is charged with a dual mandate in creation to both "work it and take care of it".³⁴ No economic actor is excused from responsibility for right relationships, not only with God, but with the whole host of global business stakeholders including customers, suppliers, employees, local communities and future generations as well as shareholders.

This has significant implications for the calling of the manufacturer in a time of turbulent change. Such businesses cannot presume that social justice, as part of achieving shalom, is solely the responsibility of other entities in society. The manufacturer should not say that a shareholder theory of the firm limits the company's obligations to a small group of investors

³⁴ Genesis 2:15, *The Bible*, New International Version.

for whom the creation of wealth is the only priority. Instead “the value created is the sum of the contributions of all...stakeholders. In return, each stakeholder deserves a portion of the value created.”³⁵ Stakeholders are not always legal “owners”, but that does not prevent them from having legitimate interests and rights related to the activity of a business firm.

Granted, a commitment to multiple stakeholders has different challenges for the publicly-traded company than the private-held firm. Legally, because the CEO of a publicly-traded firm works for the shareholder-owners, what is possible will be more dependent on the values of those shareholders. Those owners can relieve a CEO of responsibility at any time if they are unhappy with the financial outcomes. They might embrace, tolerate or rebuff the CEO’s attempt to balance multiple stakeholders. In such an environment the CEO must be ready and able to explain, on pragmatic grounds, how honoring various stakeholders contributes to the long-term economic well-being of the firm, perhaps through lower employee turnover, better public image, healthy media relations, less governmental intervention and greater customer loyalty. By contrast, the private firm without the public pressures of quarterly performance for ever-observant shareholders may have more flexibility in balancing diverse stakeholders.

Yet if shalom, the bigger house embedded with social justice, is the foundation for a stakeholder theory of the business firm, then regardless of the legal ownership structure, Christians in manufacturing cannot and should not reasonably separate the goals of economic return from responsibilities for social justice. It is possible that for a given firm there may be disagreement about the relative balance at any given point between economic return and justice in the process. But, if a Christian framework for shalom is foundational, every manufacturing leader should have a social justice interest because each is responsible for nurturing shalom.

Claiming that the manufacturing firm has a social justice *responsibility* does not lead to the conclusion that its social justice *role* is identical to that of governments. Governments are positioned to level the competitive playing field of business through legislation and regulation. They are instruments for the intergovernmental cooperation that are needed to control tariffs, influence capital flows through fiscal and monetary policy, and create rules for currency exchange. Sometimes, because of their concern for fairness among economic competitors, governments also play a coordinative role that gives CEOs a “cover” to do the right thing. When the interests of some stakeholders are part of public policy, CEOs may have more room to manoeuvre in the quest for social justice.

³⁵ Dennis Bakke, *Joy at Work*, Seattle, Washington: PVG, 2005, p. 157-158.

Yet, in the global economy previously described, governments and the intergovernmental regulatory bodies that they have created are insufficient to the tasks of social justice for at least two reasons. First, the power and influence of global regulatory bodies is still underdeveloped. There is only a limited consensus on the authority of entities such as the World Trade Organization, in part because they are young organizations on the global scene. Second, in an era where market effects are direct, decentral and varied, those effects will frequently run ahead of or outside the boundary lines that are established through governmental regulation. Governments and their agents are often reactive parties. They can't be close enough and quick enough in their responses to address market mutations that raise new social justice questions.

So, on a practical level, arguing that government has a specific role related to social responsibility for the global economy does not absolve business of its responsibilities in this regard. The vocation of the Christian in manufacturing remains that of creating greater shalom, greater universal flourishing in the human and natural world. To do so requires active agency for the common good on the part of the manufacturer.

Achieving shalom should be embedded in the manufacturing firm's decisions, in its ongoing choices about customers, products, employees, suppliers, shareholders, communities and the natural environment. The business decision-making frame is no longer limited solely to economic profitability; instead it is a frame in which universal flourishing and social justice are deeply intertwined.

What should the manufacturer do?

If one accepts the idea that social justice is inherent in the individual manufacturer's vocation, what should those involved in manufacturing businesses do during a time of great economic change? At the ground level, what decisions should an individual business leader make in ordering this social institution?

On a practical level, it may be difficult, perhaps virtually impossible, for the individual firm to resist the creative destruction that is inherent in the market system. If change is built into a market system and, in the longer run, has the potential to provide aggregate benefits, pursuing social justice may not result in the manufacturer's opposition to structural shifts and changes. Instead of holding on to existing economic paradigms, manufacturers must be more actively involved in managing the pace and process of change. Effective management of change is indeed a matter of social justice that contributes to the goal of shalom.

In fact, the manufacturer may well be required to work at the forefront of change to create the breathing space and time to accommodate it with civility. Breathing room is most easily

created as businesses grow. When there is business growth, the manufacturer is in the best position to influence both the creation of economic value and the justice that should come in its process. As those who develop new products for new markets are well aware, it is at the forefront of change that employers have the most latitude to do good. Where demographics are growing, needs are shifting and products are changing, before any of these reach market maturity, the manufacturer is able to work with a higher margin of return. Competitors have not yet narrowed operating margins through product substitutes or severe price competition. It is at the forefront of new market opportunities that manufacturers are positioned to provide the economic growth needed to increase basic sustenance and more options for millions of people.

What might Christian manufacturing leaders then do to invest in managing the forefront of global change? They will need to work smarter and harder at both pace and process as they go the second and the third mile in their vocational responsibilities. Overall, Christian manufacturers must develop a vision that is bigger than national boundaries. They must become producers who see the needs and potential of a whole globe in which universal flourishing is needed. Doing so will require manufacturers, whether large or small, to:

1. Research and plan for their businesses more carefully.
2. Multiply knowledge of governmental and international policy bodies.
3. Reframe customer identity, supplier relations, and production processes.
4. Reinvent the covenant between employers and employees.
5. Reconsider legal ownership structures for the firm.
6. Model Christian virtues and values through everyday business behavior.

For manufacturers who attend to these challenges, becoming more global will enhance their ability to contribute to shalom. The first three tasks contribute to human flourishing through more effective economic growth while the last three more directly address the distribution of economic justice.

A special but essential part of the manufacturer's contribution involves economic productivity in relationship to resources. While God's provision of natural resources and human talent is sufficient to our needs, they need careful cultivation in a complex economy to create the capacities that help people to flourish. Part of the manufacturer's responsibility must attend to the creation of frameworks for human opportunities and connections that foster effective economic exchange. This requires that business research, planning, strategy and operational refinements are a central part of the manufacturer's calling in a time of change.

The manufacturer will need to pay closer attention to the shifting global economic realities and gain knowledge of the critical influences that are fostering change. Manufacturers must dig deeper into global business dynamics and determine the implications for their business plans. For example, in the mid 1990s Unocal, a California-based oil exploration and distribution company, recognized that its future within the U.S. energy economy was limited. Its smaller size and regional location created constraints that larger U.S.-based competitors did not face. Instead of throwing up its hands in despair, the company realized that the energy needs of Southeast Asia were significant. There were few firms willing to tackle the transformation required to become the full service energy producers and distributors that were needed in Thailand, Myanmar and like locations. Yet because Unocal leaders did their homework, they knew the company could provide significant benefits there. They took the risk. In the process, over the next decade, Unocal developed new innovative oil drilling technologies, new networks of trust and the blessings of leaders from a host of countries. Unocal became a company of global contribution, significant employment and stronger economic return, not one limited by U.S.-based competitors or one national frame. The firm became an attractive energy production and distribution partner to both U.S. and Chinese companies.³⁶

Similarly, Alticor Corporation, a U.S.-based producer and marketer of personal and household care products, recognized that their original face-to-face distribution and promotion strategy was losing appeal in the United States and Western Europe. As it received warning signals of decline, Alticor launched a parallel but global internet-based sales and marketing company named Quixtar. This web-based strategy could create greater global economic value while penetrating both developed and emerging market economies. Alticor leaders developed this new business structure before eliminating some of their older approaches. Because these leaders actively managed for change, they were able to build more of the future before more of the past was destroyed. Again, good research and careful business planning were essential to human flourishing.

Those who lead in manufacturing will also need to become more knowledgeable about national governments that collaborate on trade conventions as well as the roles of the World Bank, the International Monetary Fund and the World Trade Organization. These major entities significantly affect the direction and pace of change in the global economy with which the manufacturer intersects. By learning more about their roles and decisions,

³⁶ Unocal case as written in Daft, Richard L. and Marcic, Dorothy, *Understanding Management, Fourth Edition*, Mason, Ohio: South-western, Thomson Learning, 2004, 107-108. Subsequent to the case write-up, during the summer of 2005, Unocal was purchased by Chevron Corporation for \$17.7 billion, as noted in "Cnooc Drops Offer for Unocal, Exposing U.S.-Chinese Tensions", *Wall Street Journal*, August 3, 2005, 1A.

the manufacturer can discern the direction of economic change, consider its potential pace and manage the emerging pockets of need and opportunity to which they can best contribute.

There are many places in the world where people would be well-served by certain products and have the emerging capacity to purchase them. Based on multiple factors businesses can still pick which regional and local markets to pursue. But, as national and international bodies create new access, firms with valuable products that enhance the quality of life, that contribute to shalom, can find places to serve. For example, when Roger Sant and Dennis Bakke founded AES (Applied Energy Systems) in the early 1980s, they recognized the gradual but global movement by national governments toward deregulation of electricity. This provided both need and opportunity. They believed they could develop something of economic value, whether people lived in Argentina, Georgia, Pakistan or Uganda. So, together these two men built a company with a global vision for filling customer electrical energy needs.³⁷ This example is not meant to suggest that all people can afford the goods and services that they need. But, by paying attention to the strategies of national and international organizations, companies can find many customers with demand who are able to fund some variation of their product lines.

Manufacturers must also reconsider their supplier relations. For example, a manufacturer for whom wood is a raw material needs to spend time learning about the back and forth U.S./Canadian conversations regarding tariffs on softwoods to determine the more logical source of wood in any given year.³⁸ Producers must learn to plan more carefully regarding the source of such resources in relationship to their costs. They must structure flexibility into supply chains instead of relying on one channel of raw materials. Creating such flexibility may require outsourcing certain components of the manufacturer's operation as part of the de-verticalization of industry.

Greater knowledge about the relationship of plant layout to production costs, the ongoing management of operational costs and newer information-based operational systems that control costs will also be critical. Careful control of inventories in collaboration with suppliers and product distributors is essential as is the use of robotics for routine tasks. In such decisions social justice also requires recognition of short-lived economic phenomena,

³⁷ Dennis Bakke, *Joy at Work*, Seattle, Washington: PVG, 2005, p. 22.

³⁸ The softwood import tariff is a matter of ongoing disagreement between the U.S. and Canadian governments which shifts supplier cost structures. In 2002 the U.S. Department of Commerce imposed a duty of 19.34% on such softwood lumber after deciding that the Canadian government unfairly subsidized the softwood industry. However this allegation is disputed by both Canadians and some U.S. producers of softwoods such as Weyerhaeuser. It has been under continuous review, and there is currently evidence that the U.S. tariff may be repealed, particularly because lumber needs in the aftermath of Hurricane Katrina. Retrieved on January 31, 2006 from http://www.safnet.org/archive/502_canada.cfm and from http://forestalk.com/index.php/2005/09/13/will_katrina_lower_softwood_tariffs

generated by fad and fashion, so that plant capacity is not overdeveloped when demand turns lean. Manufacturers must check their sense of hubris about what is bigger and better with a sense of what is sustainable. They must then pay close attention to regular preventative maintenance and plant updating. Investing in their physical plants will mean that the portion of funds available for personnel must be more carefully planned than in the past. While adequate wages that provide basic sustenance are a matter of social justice, the balance between investment in compensation and physical plant must be wisely constructed.

All of these strategies may simply seem like good business. But the Christian's drive for greater productivity can also be a heightened sense of global resource stewardship in relation to human need. This drive in manufacturing is an essential part of creating shalom.

A second part of shalom involves the distribution of wealth and opportunity over which the manufacturer has some control. Care in compensation decisions is one aspect of a much bigger covenant that must be made with employees. But it is here that manufacturers can make some of their greater contributions to social justice, by managing the pace and process of employee development. Manufacturing industries have a history of exchanging compensation for the completion of boring production jobs that provide little learning and little company ownership for those who do them. They reflect an era in which labour specialization and departmentalism complemented growth in mass national economies; and there was a presumption that money was the principal motivator for people at work. It was assumed that labour brawn created economic power. Often it was the abuse of labourers that contributed to the development of employee unions; and the price of abuse was the substantially higher compensation that manufacturers gradually paid. This cannot be a model for the future.

Instead social justice for employees, contributing to their universal flourishing, requires a different paradigm for those at work in the manufacturing firm. The exchange of effort for results should be based on different assumptions about people at work, assumptions that respect and honour them as images of God with abilities and ideas. Work must engage people's minds and beings as well as their bodies. At a minimum, social justice requires that the manufacturing firm provide education and training in transferable knowledge and skills. Even in the best of companies, given the ebb and flow of global demand, there will need to be some flexibility in their human labour capacity. However, an investment in the education and training of employees provides them with resources that cannot be taken away, even as particular tasks or company identities change. Transferable knowledge and skills are investments in employee futures that provide greater promise in an era of economic turbulence.

For many whose families and schooling have provided only a minimal floor of human development, the need to address such knowledge and skill deficiencies is substantial. Getting a degree, particularly the advanced higher education degree more readily needed in manufacturing, is closely correlated with having parents who went to college.³⁹ For many families who have traditionally associated themselves with manufacturing, the need for such advanced learning is not part of their inherited mindset; and the family finances to pursue it are limited. The needed mindset and the financial access must be cultivated not only by elementary and secondary schools but also by employers.

Beyond that, however, not all of the learning required is found in formal higher education. As Ruby Payne describes in *A Framework for Understanding Poverty*, much of the required learning is in understanding how middle class people have developed their personal capacities through different assumptions and habits.⁴⁰ Cascade Engineering, a manufacturer of engineered plastic systems and components, provides an example of a company that has taken Payne's analysis seriously. In their employee development programs, typically for ethnic minorities who have recently left welfare rolls, they provide ongoing employee training programs about personal accountability in the workplace, how to balance paid work and household demands, employer expectations and appropriate styles of workplace communication. As their participants gain a greater understanding of the social codes and norms needed for self-sufficiency and workplace acceptance, they receive increased wages and opportunities for advancement. This more informal social learning has given a future to hundreds of their employees, even those who may not be stationed at this same company a decade later.⁴¹

A different covenant with the people of the firm may also require that the firm's structure for decision-making be revisited to include production personnel with other decision-makers in the company. Involvement in decision-making builds a broader understanding of business enterprise. It necessarily involves the processing of financial and operational information beyond disconnected data points to their connected implications; and knowledge of economic implications shapes frameworks for the business judgments needed in any economic context. For example, when, through open decision-making, potentially vulnerable employees have learned more about a firm's systems for finances, budgets, inventory controls, and production planning, they have developed transferable knowledge that could benefit another employer.

³⁹ "As Economy Shifts, A New Generation rights to Keep Up", *Wall Street Journal*, June 22, 2005, A1.

⁴⁰ Payne, Ruby K., *A Framework for Understanding Poverty*, Highlands, Texas: aha! Process, 2001.

⁴¹ From "Triple Bottom Line Report" Grand Rapids, MI: Cascade Engineering, 2005 and from a classroom lecture by Mr. Ron Jimmerson, Human Resources Manager-Community Diversity, Cascade Engineering on May 3, 2005. It should also be noted that such social investment in employees is not a completely new phenomenon. From the 1920s through the 1950s Henry Ford identified promising youth who had lost at least one parent and provided

Opening up the decision-making processes of a firm is one of the greatest gifts that a manufacturer can give to employees. It is a commitment to their continued learning and development.⁴²

For some firms such investments in employee decision making should lead them to consider different forms of firm ownership, forms that blunt the sharp divide between the owner and manager preferences felt in publicly traded companies. Other forms of firm ownership, either private or employee-based, may have more potential for encouraging the convergence of owner and manager interests. Private ownership allows more latitude in balancing stakeholder interests over the long term, away from the pressures of short-term stock performance. When appropriately structured, employee ownership can also provide workers with a different vantage point from which to understand the goals and needs of the manufacturing firm. As partial owners of the enterprise, an option now readily feasible under U.S. law, employee vantage points are then stretched to consider the needs of all stakeholders in the firm. Employee ownership is not a panacea. But in many situations it can help employees understand the business in a broader way because they now hold multiple stakeholder roles themselves.

There will continue to be times in which a given employer cannot sustain all the employees they have hired. While tragic, this is a reality of the new global economy. If, however, instead of long-term jobs, employers promise opportunities to build knowledge, skill and productive

them with both technical skills, a high school education and social understanding at the Henry Ford School. Almost 3000 students, all males, were organized into three cohorts. Each cohort rotated between two weeks of manufacturing equipment repair in the school's workshop and experiential coursework in science and engineering. Chemistry students, for example, were given bars of steel and told to determine the composition of their bars, using library and lab resources. In English classes students corresponded with world-wide inquirers about the nature of the Henry Ford School. Invited experts lectured students on the sayings of Ben Franklin. Students could be expelled for smoking, chewing tobacco or swearing. Students who did well in Ford's school received small but consistent raises in their workshop wages; and if a young student put \$2.00 per report card in the bank, Henry Ford would match it. These teenagers could also work at Henry Ford's farm a couple weeks each year so, without charge, their families could harvest vegetables grown at the farm. Some of the best students combined this education with night school in the local public school system to prepare for college. A few then enrolled in professional programs in fields such as law so they could become part of the executive team at Ford Motor Company. Sadly, during the 1960s the school declined because of a clash about the preferred route to technical licenses between union apprenticeship systems and the alternate Ford School system for accumulating such credits. These comments are based on personal conversation (1/2/06) with Carl Anderson, retired attorney for Ford Motor Company, a student at Henry Ford's School in the late 1930s and early 1940s. Cascade Engineering's approach might be seen as a contemporary attempt in a different legal and social environment to accomplish some of the same social ends.

⁴² The Lincoln Electric Company, an arc welding firm based in Cleveland, Ohio is one good example of a firm that has such open information sharing. This is part of the legacy of James Lincoln who developed some of these ideas from his Christian principles during the 1940s. For further information about Lincoln Electric, see *Lincoln Electric: Venturing Abroad*, Harvard Business School case #9-398-095, last revised on April 22, 1998.

habits, they are creating more rather than less justice. Employers can then provide strong support in the out-placement process. Out-placement advisors can help released younger employees assess their personal finances and consider the value of further knowledge and skills education. They can assist the 50 year-olds in presenting their daily life stability as an asset to a new employer or in planning a new business start-up. Counsellors can support those who are even older in considering a phased retirement into modest part-time employment along with volunteer work. Not all people can adapt to change at the same rate. The ability to learn new ideas, shift one's paradigms for living, and deal with the stress of transitions is not evenly spread among personalities or family histories. Some will struggle, feeling rejected and discouraged. Yet employer support can ease the strain of such transitions. Overall, by providing carefully crafted promises, ample communication and transition support, employers may not be able to eliminate the economic pain of change but they can limit its damage.

Finally, employers influence the future through the ethical standards that they foster. Their ability to build a global manufacturing economy must presume and must model compassion, diligence, honesty, fairness and stewardship if they aspire to provide a healthy global foundation for the future. Individual manufacturing firms may become the foundational models of ethics that are taught and learned by the specific communities, customers, employees, suppliers and shareholders with whom they intersect across the globe. In that regard Christian leaders in manufacturing firms are positioned to publicly acknowledge that providing a more sustainable daily life for others in the world may well require sacrifices from those who have controlled resources and wealth in the past. When such leaders communicate that Christian neighborliness involves sacrifice for the greater good of the whole global family, it is a powerful reminder of the Christian moral frame for all economic decisions. What these businesses do, how they do it, and how leaders interpret such decisions affects the global civil society that we are building together.

Granted, the voice of an individual firm, while potentially powerful within a certain range, is still bounded in the global conversation about change. Manufacturers must create partnerships with others. It is more likely that employers can positively affect policies regarding imports and exports, the pacing of tariff reductions, environmental safeguards and needed infrastructure through trade groups or employer associations such as the National Association of Manufacturers. Employers can raise employee skill and knowledge levels; but governments and other not-for-profit groups, though imperfect, are still important actors. Such groups sustain those with severe physical, emotional or mental challenges who cannot become qualified for jobs in the new economy. They dignify fellow humans who cannot develop the more sophisticated skills, capacities and knowledge required to participate in the global

platform for paid employment. To achieve greater shalom Christians involved in manufacturing must share responsibility for social justice with such organizations.

Yet other partners do not replace what manufacturers themselves must contribute to social justice. The efforts by single firms to manage the process and pace of change are hard but needed work. They require substantial new learning on the part of manufacturing leaders about global geography, politics, economics and new business tools. Frameworks for employer/employee relations and business ownership structures must be rethought. The challenge of measuring and balancing value for each stakeholder group is immense and requires wise judgment as well as a sharing in the pain of change. This is new work that challenges comfortable patterns and exposes decision makers to new unknowns. However, it is necessary work by manufacturers to create the economic space and control the pace that social justice requires.

Conclusion

For manufacturers who live within the market system on Monday morning, who strive to do what Christian faith requires, I've tried to provide another angle of vision on business responsibilities for our neighbours near and far.

The Christian manufacturer's vocation should not be segregated from the responsibility of each believer for developing the shalom that the Scriptures envision, that is simultaneously a "banquet of rich fare for all the people" and a mandate to "set the oppressed free and break every yoke".⁴³ Each decision-maker in this environment is responsible for such flourishing in relationship to God, others and nature. For the manufacturer, that flourishing will inherently involve intertwined responsibility to produce economic value and attend to social justice in the process. For Christian reasons both must be woven into the fabric of everyday business decision-making by those who produce and market products and services. While those directly involved in manufacturing make insufficient progress alone, the manufacturers' responsibility for global social justice is inherent in their calling before the face of God.

Manufacturers must then understand that for them social justice is not achieved by stopping economic change. Instead, they may well make their best contributions by rising to the forefront of global restructuring. At the cutting edge manufacturers are best positioned to control the pace and process of change for the sake of global society.

⁴³ Isaiah 25:6a and 58:6b, *The Bible*, New International Version.

Yet the pursuit of social justice is a temporal, partial and dynamic process. It is always limited because of distortions in our ability to reason and the effects of sin. As Reinhold Niebuhr once noted, every attempt at justice is coupled with a perversion of justice.⁴⁴ We will always struggle between visions for shalom and particular historical situations in which we find ourselves.⁴⁵ Balancing the needs of all our global neighbourhoods is a daunting challenge; and the global market system will always be an imperfect means for doing so. Ethicists and economic theorists rightly recommend global policies to address challenges that the market is not positioned to consider.

Even within their realm of responsibility manufacturing leaders who care about justice will not always rightly determine what their priorities should be. Some of the best efforts will have unforeseen adverse effects; and other serendipitous business choices will have stunning benefits over the longer run. Before the Second Coming the Christian producer will often sense that the manufacturing life is in both the best and worst of times.

But as we move from the Genesis garden to the promised city in the Book of Revelation, we know that God works for good through those who love the Creator. Christian efforts at social justice in the manufacturing environment, be they partial and rough, will still matter for the shalom, the universal flourishing, that we should promote and the future that is already promised through Christ. People of faith have often been placed in turbulent and uncertain environments in sorting their neighbourly obligations. But in the midst of great uncertainty some people made morally-imaginative choices that helped others flourish for the sake of God's global kingdom. Perhaps that is now the Monday calling of the Christian manufacturer.

Shirley Roels, *Christian Manufacturers at the Crossroads*© 2008. Reprinted by permission of Wm. B. Eerdmans Publishing Company, Grand Rapids, Michigan. All rights reserved.

Dr. **Shirley J. Roels** is a professor of management at Calvin College in the United States of America. Currently she directs the college's grant project exploring Christian vocations as well as the Van Lunen Center for Executive Management in Christian Schools. She is an active member of the Christian Reformed Church of North America.
Email: Roel@calvin.edu or Roels@Vanlunencenter.org

⁴⁴ Lebacqz, *Six Theories of Justice*, Minneapolis, MN: Augsburg Press, 1986, p. 84-88.

⁴⁵ Lebacqz, *Six Theories of Justice*, Minneapolis, MN: Augsburg Press, 1986, p. 94, reflecting on Gordon Harland's ideas about justice.

Brussels, 11 May 2009

EU Presidents discuss ethical contributions for global economic governance with European faith leaders

Today around twenty high-level representatives of Christianity, Judaism and Islam in Europe gathered at the Commission headquarters at the invitation of the President of the European Commission, José Manuel Barroso, for an informal dialogue with the EU. The meeting was co-chaired by Barroso and the President of the European Parliament, Hans-Gert Pöttering. This year's meeting focused on a major... challenge: The economic and financial crisis and ethical contributions for European and global economic governance.

This was the fifth annual meeting of the heads of EU institutions with religious leaders. The initiative was launched by President Barroso in 2005.

This year, discussions centred around the *“Economic and financial crisis: ethical contributions for European and global economic governance”*. President Barroso declared: “As the financial and economic crisis progresses, it becomes increasingly clear that the moment has come to reconcile economic governance with our fundamental ethical values on which the European project has been based over the last 50 years. The Commission has taken important initiatives in this regard, notably in financial market regulation, with a view to strengthening the sense of responsibility and sustainability in our economies.”

The President of the European Parliament, Hans-Gert Pöttering, underlined: “These are extremely challenging economic times for the citizens of the EU. It is at times like these that Europe as a community founded on values, and the underlying EU principle of solidarity, needs to be brought to the fore. The common solutions we are seeking must be anchored in human dignity and ensure that all parts of our society are cared for. The contribution of religions and churches is crucial to this. Very often they are engaged in working for the most vulnerable members of our societies.”

Participants at the meeting encouraged the EU's efforts to coordinate, stimulate and guide action to strengthen financial regulation, revive the economy and act on employment... They also underlined the need to ensure that social justice remains at the forefront of policy making and recalled that in a moment when unemployment and poverty keep rising to very worrying levels, our societies should be able to act together in developing and implementing concrete measures to contain the effects of the crisis on citizens. They finally underlined their commitment to help reviving the sense of solidarity among Europeans of all creeds and convictions and inspiring more ethics in the behaviour of financial and economic operators.

World Council of Churches - News Release 12/05/2009

Message of the Presidents of the WCC at Pentecost 2009

"Brothers and sisters, what should we do?" (Acts 2:37b)

The year 2009 began with grave concern about the catastrophic economic situation of the world of wealth. Towards the end of 2008, in the midst of a life that to many was apparently without problems, disastrous financial and economic difficulties suddenly came to light.

It was reminiscent of the first Pentecost of the Christian era when everything seemed to be going well for believers of the time. Many had made the customary pilgrimage to Jerusalem to mark the festival. They came in large numbers with good intentions of worshipping as usual. Then, when like a mighty rushing wind the Holy Spirit came upon the disciples, filling them and leading them "to speak in other languages, as the Spirit gave them ability", the pilgrims were astonished and amazed: "How is it that we hear, each of us, in our own native language?" (Acts 2:1-13)

This was an extraordinary and overwhelming experience for these pilgrims from all over the world. Peter, completely transformed and courageous, offered clear responses to their questions in the form of an invitation to a change of heart and behaviour. (Acts 2:14-36)

Following Peter's stirring speech the pilgrims' hearts were deeply moved, and they asked: "Brothers and sisters, what should we do?" This response was the beginning of repentance, of "*metanoia*", that profound transformation of a person which leads to a new way of acting. Peter responded to their questions by saying, "Repent, and be baptized every one of you in the name of Jesus Christ so that your sins may be forgiven; and you will receive the gift of the Holy Spirit." (Acts 2:38)

Repentance can come only after recognizing wrongdoing and wrong behaviour. Many of those in charge in today's world have to recognize that they have been insensitive in managing the resources of our planet: the rich always get a bit richer, to the detriment of the poor who live in acute poverty; the impoverished have no power, given their condition, to say no to what is imposed upon them.

Be it in Africa or in Asia or in any other continent, the situation is everywhere the same. Faced with this, the most pressing question today is still, "Brothers and sisters, what should we do?"

And once more God's word gives us a better response than anything else: "Repent!"

Repentance in today's world will involve:

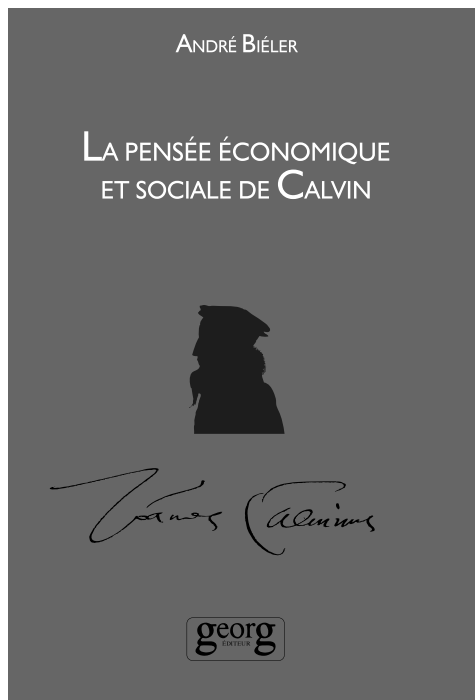
- Corporate managers recognizing their errors, publicly confessing them and making reparation.
- All of us who are responsible for the degradation of the ecosystem mending our ways and making efforts to reduce all forms of pollution.
- Those who instigate violence being encouraged to become gentle and tolerant, consistent with our prayer that the ecumenical "Decade to Overcome Violence" which is drawing to a close will not have taken place without having some impact upon us.

The repentance proclaimed by Christ and strongly restated at Pentecost is a force for spiritual transformation, for change and for renewal. Human beings must seek to be reconciled with themselves, with one another, and with their environment, and churches too must go on seeking reconciliation. This is the challenge of our gospel of reconciliation, and it is raised again this year in the United Nation's International Year of Reconciliation, 2009.

May we all find the strength and the will to give new meaning to the claim, "Yes, we can!" Anything is possible for those who believe.

May the Lord bless all of us, and we wish a very joyful feast of Pentecost to everyone.

The Presidents of the World Council of Churches



La Pensée Économique et Sociale de Calvin

André Biéler

L'auteur, André Biéler, expose la pensée de Calvin sur la propriété, le travail, le salaire, le commerce, l'argent, le prêt à intérêt, la banque et la spéculation. Il analyse également le rôle que Calvin attribue à l'Etat et comment il envisage la production, l'acquisition, la distribution et l'usage des richesses. Avec une préface de Michel Rocard.

The author, André Biéler, exposes Calvin's thought on property, work, salary, trade, money, loans, banking and speculation. He analyses the role played by the State in Calvin's theory, as well as how he envisions production, purchase, distribution and the use of wealth. Preface by Michel Rocard

CHF 65.00

Versions: Français, English

Pour commander / to order: www.warc.ch

Subscription Rates - 2009

	USD	EURO	CHF	GBP
Reformed World (published four times a year) in English only. The volume number in 2009 is 59.				
1 year	20.00	13.00	20.00	10.00
2 years	37.00	24.00	37.00	19.00
3 years	54.00	35.00	54.00	27.00
Update (published four times a year) in English & French. The volume number in 2009 is 19.				
1 year	17.00	11.00	17.00	9.00
2 years	31.00	20.00	31.00	16.00
3 years	46.00	30.00	46.00	23.00
Combined subscription to Reformed World and Update				
1 year	35.00	23.00	35.00	18.00
2 years	64.00	42.00	64.00	32.00
3 years	95.00	62.00	95.00	48.00

All prices include the cost of surface mailing.

Payment may be made through the website www.warc.ch under "Publications and Subscriptions" or by cheque sent to the WARC office or by bank transfer (banking details are available on www.warc.ch under "Finance & Fundraising").

Orders may also be placed through our authorized agents in the following countries:

- EBSCO Subscription Services P.O. Box 1943 Birmingham, AL 35201-1943 **U.S.A.**
- Swets Information Services B.V. P.O. Box 830,2160 SZ Lisse **The Netherlands**
- Church Stores NZ Ltd. P.O. Box 11061 Ellerslie, Auckland 1131 **New Zealand**
- DA Info Services Pty Ltd. 648 Whitehorse Road, Mitcham Victoria 3132 **Australia**
- Committee of Ecumenical Relations 2-2 Yoshida, Kawagoe City 350-0807 **JAPAN**

Back issues, books and other publications are available from:

*World Alliance of Reformed Churches, 150 route de Ferney,
PO Box 2100, 1211 Geneva 2, Switzerland.*

Tel 0041 22 791 62 40 Fax 0041 22 791 65 05

e-mail: warc@warc.ch web: www.warc.ch

Editor: Douwe Visser

Assistant: Veronika Darras

Layout and cover: emblema - São Paulo, Brazil - marcos.gianelli@gmail.com

Published by the World Alliance of Reformed Churches

150 route de Ferney, PO Box 2100, 1211 Geneva 2, Switzerland

REFORMED WORLD

Volume 59 (1) • January 2009



World Communion of Reformed Churches

The World Alliance of Reformed Churches and the Reformed Ecumenical Council will unite to form a new body: the World Communion of Reformed Churches (WCRC). The Uniting General Council will take place in Grand Rapids, Michigan, USA, in June 2010. The theme of this historic event will be: "Unity of the Spirit in the Bond of Peace". The ground of the uniting assembly will be prepared by a series of theological consultations sponsored by the Geneva *Fondation pour l'Aide au Protestantisme réformé* on "Communion and Justice"; these will take place in 2009 in Switzerland (Europe), Lebanon (Middle East), Brazil (Latin America), Indonesia (South East Asia), Ghana (Africa), Pittsburgh, USA (North America and Caribbean), New Zealand (Pacific) and Korea (North East Asia).

More information: warc@warc.ch

ISSN 0034-3056

WORLD
ALLIANCE OF
REFORMED
CHURCHES