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What Has Jerusalem to Do with Chicago (or Cambridge)? Why Economics Needs an Infusion of Religious Formulations

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Link to Abstract

"What indeed has Athens to do with Jerusalem?" asked the early church apologist Tertullian (1870), concerned about the influence of Greek philosophical preconceptions on the Christian faith in the third century. In keeping with the theme of the prologue to this symposium, one might invert the question and ask "What has Jerusalem to do with Chicago (or Cambridge)?" I affirm that more than a mere connection ought to be made between religious thinking and economics, for professional economics would benefit from an infusion of Christian formulations. Particular concepts derived from the Christian Scriptures, specifically the notions that all humans are made in God's image, and are fallen creatures, find beneficial infusion into economics. This infusing would lead economics to more openly recognize the role of moral reflection in economic thinking and enhance the way in which economics conceives of the use of knowledge in both the private and public sectors. I describe the benefits that might be realized in rethinking conceptions of entrepreneurship and competition as well as those beginning to be realized in analyzing opportunistic behavior. The essay closes with examples of the ways Christian values shape my research agenda as an economist.

Judaism and Christianity alike emphasize the importance of the concept of creation for understanding of economic behavior. Each form of theism empha-

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sizes the Scriptural notion of all humans being created in God's image (the *imago dei*). As Rabbi (and philosopher) Jonathan Sacks notes, what was new in this concept in the ancient Near East was not the notion of *a* human being made in the image of God "but that *every* human being is" (Sacks 2005, 92, emphasis in original). While theologians and Biblical commentators to some degree debate the precise meaning of the *imago dei*, virtually all agree that it includes the concept of humans being granted a certain dignity as God's representatives so that they are enabled to rule and organize resources in the created world to flourish under God's design (Waltke 2007, 218-221). From this notion it may be inferred that any barrier that inhibits the creative expression of this royal dignity in line with God's purpose for creation should be eliminated. The first few chapters of Genesis provide both instruction for human ordering of resources and examples of early efforts at 'civilizing' the social order toward the purpose of human flourishing under God's rule. From its origins, economic activity is purposeful and is grounded in moral reflection on achieving the ends given by the Creator (Halteman and Noell 2012).

Modern economics ostensibly aims to relegate thinking about the proper ends of economic action to the 'normative sphere' while seeing the practice of economic science as a value-free endeavor in the 'positive sphere.' Yet one finds that in discussions of economic theory and policy the moral ends of economic action are unavoidable. Economists as ideologically diverse as Ludwig von Mises and Amartya Sen affirm the desired end of economic activity to be the promotion of the longevity of life, health and well-being of individuals and their friends and family (Mises 1960, 38; Sen 1999, 3-7). Modern economics would benefit from explicit recognition that humans being made in God's image are invariably directed to moral reflection about the ends of economic activity. That reflection involves not merely information about resource availability, but also includes accumulated wisdom through the experience of social interaction and the tapping of one's instincts. Such formulations would suggest we address the flatness of the economics of information by speaking more broadly about human *knowledge* put to use to serve the ends of the Creator, including loving God and loving one's neighbor as one's self (Matthew 22).

Since humans are creatures, our knowledge is inherently limited. As population grows so does knowledge. Differing skills and abilities lead to specialized human capital as each person expresses his or her *imago dei* by realizing productivity, leading to trade. Individuals, groups, and nations find comparative advantages but still only operate with imperfect knowledge. Human plans to initiate ways to create wealth inherently face uncertainty. The Scriptures affirm God alone is omniscient; prospective demand and cost conditions are unknown. The wise steward or entrepreneur still must count the costs, as Jesus declares in Luke 14. Such accounting inherently involves a forecast of economic conditions offered under the constraint of creaturely limitations. Here, outside of mainstream economics, the Austrian contribution rightly emphasizes that any entrepreneur must make a calculation of costs that is prospective, anticipating costs associated with decisions, and not merely accounting for costs associated with events.

Drawing upon the significance of creation would lead to more complete recognition of the role of entrepreneurship and a more nuanced understanding of competition in much of professional economics. The entrepreneur made in God's image acts with a royal dignity about her or his creative enterprise that even Joseph Schumpeter (1942), for all of his insight into the passion and purposiveness of entrepreneurship, fails to capture. Entrepreneurial activity is an expression of creativity, yet it faces limits. Operating under human finitude in appraising returns, entrepreneurs find that profits don't often present themselves as known values, simply waiting to be plucked by risk-takers much like low-hanging fruit. Given that knowledge about specific technologies and market opportunities is uniquely held by particular individuals, it seems evident that profit opportunities are better thought of as 'uncaptured gains.' That is, they reflect unrealized opportunities that have to be discovered by an entrepreneur who acquires knowledge of them that is not yet reflected in the market price of the relevant resource or product. Individual entrepreneurs capture these profits by "acting upon the discrepancies that may exist between their own knowledge and the knowledge available in the marketplace" (Boettke 2012, 223). Entrepreneurs who fail to discern or act upon these opportunities wind up underestimating costs or overestimating revenues, and thus they face losses.

It is through the action of entrepreneurs in competition for these 'uncaptured gains' that prices direct resources to their most valued use. Prices do so because they convey otherwise tacit knowledge about trading opportunities and provide incentives to act on those opportunities (Boettke 2012). In contrast, government officials in regulatory agencies can't draw on this tacit knowledge in expending public resources, limiting entry into occupations, setting tariffs, and controlling prices. In addition, when acting upon this more severely constrained knowledge, they face a different set of incentives, for when they create social losses they often don't bear the burden directly.

The other concept shared by Judaism and Christianity is the consequences of rebellion by humans against God, identified in theological terms as 'the fall' into sin. The fall brings disharmony in relationships between God and man and among humans themselves as self-interest can become narrowed to selfishness. In the marketplace, the fall accentuates the problem of asymmetric knowledge by generating significant differences in interpretation held and conveyed by market participants. Indeed, some Christian economists suggest that unrestrained market activity occasions the pervasive presence of sin and economic disharmony, not the socially beneficial results of an invisible hand (Vickers 1976). Such disharmony is said to be remedied by governmental regulatory efforts.

Yet it is evident that such governmental efforts are not immune from the impact of the fall either. Regulators often act out of self-interested motives and their actions as civil servants are not checked by the forces of market competition. Medicines that could save lives are withheld for unnecessarily long periods by regulatory agencies desiring testing. Tariffs are imposed, discouraging innovations by firms as they are sheltered from foreign competition. Whether one thinks of agencies charged with oversight of price and wage levels, output, or production quality in particular industries, or of broader efforts aimed at managing national production levels, there are no guarantees that regulatory solutions are superior to market outcomes. The public choice literature is full of examples of the actions and inactions of elected officials and regulators failing to improve the economic well-being of the public. Some Christian economists thus point to the superiority of relying upon the price system in directing resources to their most highly valued uses. Flawed though it is due to the impact of the fall, the price system is better in this regard as compared to regulatory direction (Claar 2012; Klay and Lunn 2003; Hill 1987).[2]

The fall into sin mars God's image in humans but doesn't erase it. Even after the fall, we find examples of creative innovation, with the fashioning of tools, building of cities, and expression of music and the arts (Genesis 4). Economic growth proceeds. Nonetheless, it is evident that sin impacts economic transactions through choices driven by greed or envy.[3] Opportunistic behavior in the form of fraud or deceit can mar the performance of product, labor, and loanable funds markets. Mainstream economics assumes that individuals are self-interested, but often also, if only implicitly, honest. Individuals consent to a contractual arrangement that they presume each agent will fulfill their responsibility towards. As Gerald Brock puts it, in the mainstream view individuals are presumed to have "all carried out their contracts without coercion or arguments about what the contract required or what state of the world had occurred" (2002, 4). The recognition of fallen human nature leads one to surmise that individuals may "refuse to honor contracts for future services if changing conditions made it in their interest to

2. Certainly there are many further considerations here (not discussed for brevity's sake) including principal-agent relationships, intergenerational exchange, and the issues surrounding negative externalities and pecuniary externalities as addressed by property-rights based solutions, governmental taxation, or regulatory-based approaches.

3. Two studies deserve recognition for offering work on the economics of sin. Relying upon a rational choice model, Cameron (2002) offers a significant introduction and analysis of dimensions of sinful behavior; Sedlacek (2011) addresses debt and the forgiveness of sins.

renege on earlier promises" (ibid.). They engage in a form of opportunism that raises the transactions costs associated with market behavior. People are willing to take advantage of each other in both product markets, by failing to deliver goods or services, and labor markets, as when employees shirk or when employers break promises.

Here one finds evidence of at least implicit infusion of Christian thinking about the economic implications of the fall in economic research on opportunism, the phenomenon that occurs most often when there are unclear 'rules of the game.'[4] Individual citizens (and sometimes their government) take advantage of another person or group by misleading them or limiting their ability to fully bargain or compete. There is a legacy of Christian thinking going back to the Scholastics (and influencing Adam Smith) about the likely presence of economic compulsion in such arrangements found in labor markets (Noell 2006) and in other markets as well (Barrera 2005; 2013).

At this point it would perhaps be helpful to include some personal reflection on the impact on my work as an economist of Christian teaching on creation and the fall. Recognizing that the Bible is not in any manner a textbook on economics, along with other Christian economists I nonetheless am guided by Scriptural values that shape my scholarship. These priorities are manifested in chosen fields of economic research, formulation of research questions, and evaluation of particular policy proposals, as Christian economist Judy Dean (2005) suggests. We wish to consider ways to improve the well-being of those at the economic margin of society, among whom are the widow, orphan, sojourner and destitute poor depicted in the Scriptures. Christian economists also value 'creation care' and explore issues of environmental degradation. For example, my own research with fellow Christian economists (Noell, Smith, and Webb 2013) explores how the case for economic growth must be made on both economic and moral grounds in light of concerns about resource depletion and income inequality.

Jesus's teaching in the Gospels concerning wealth and poverty (Luke 12 and 19-20) and the condemnation of theft and deceit in the Decalogue (Exodus 20) are particularly relevant for questions of economic development. They lend focus to research on economic institutions such as property rights and exchange arrangements. For example, there is continuing research on the connections between the extent of poverty and the security of property rights in developing economies. Property rights are often insecure because the state randomly overrides them, or implements licensing barriers limiting entry into numerous occupations. For Christian economists, clear and stable property rights and open markets backed by consistent government rules are not merely about control over physical

4. Richardson (2014) reviews the literature on coercion and offers examples of prospective contributions.

items. They are also significantly linked to human dignity and ingenuity, being tied up with a person's "capacity to apply his intellect to matter and ideas, to look ahead, to plan and steward" the use of their possessions and human capital in the pursuit of entrepreneurial opportunities (Sirico 2012, 31). Policy prescriptions to raise the opportunities and incomes of the poorest societal members in a sustainable fashion would be evaluated in this light by Christian economists.

Likewise, Christian economists seek to address the private practice of coercion, which may be particularly acute in a developing economy. Here governments have a key role to play in enforcing contracts impartially when disputes arise. When government does not play this role, one finds that trust is eroded, raising transaction costs and inhibiting opportunities for mutually beneficial transactions. Christian economists would evaluate the degree to which government policies encourage transparency and accountability in exchange arrangements.

Given the constraints of this essay, I have confined my remarks to a few economic fields for application of a couple of central concepts to show the relevance of Jerusalem for Chicago and Cambridge. There are clearly other research areas, including monetary economics, labor economics, game theory, and public finance, where religious formulations from the Christian Scriptures and tradition are making contributions to economic thinking.[5] I encourage economists to recognize both the significant frontiers for application of these concepts and the humility we must have in making policy prescriptions regarding the policy issues involved.

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5. See recent issues of *Faith and Economics*, the bi-annual journal published by the Association of Christian Economists, for examples of such research. In addition, Hay (1989) and the articles by Hawtrey (2003) and Richardson (2003) are particularly helpful in reflecting on the implications for economics of the concept of redemption as well as creation and fall and offering wide-ranging applications. Oslington (2003, vol. I) provides numerous helpful essays tracing the historical relationships between Christianity and economics.

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