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Beyond Capitalism: Towards a Relational economy

by Michael Schluter

It appears that the fall of the Berlin Wall in 1989 may not have been the crushing victory for free-market capitalism that it seemed at the time – particularly after events of the last 12 months.

Doug Miller, Chairman of polling firm Globescan, November 2009

We have no more idea of what the economic orthodoxy of the next half-century will look like than of what will supplant Coke, denim or hamburgers

Heather Stewart¹

New wine must be poured into new wineskins...

Luke 5:38

Summary

Western societies face economic decline and political instability due in significant part to the five moral flaws of Capitalism and their severe social consequences.² A radical new economic vision is urgently needed. This paper proposes a way forward through five strategies: embed relational values, strengthen household balance sheets, empower extended families, engage capital providers and entrust welfare to local communities. These changes are mutually reinforcing because they all reform economic life so as to strengthen personal bonds in the local and wider communities. They point towards the Christian vision of a 'Relational economy'.

Introduction

In January 2010, Cadbury, founded in Birmingham 180 years ago, was sold to Kraft, an American conglomerate, as if it were, well, a bar of chocolate. Although many of the personal and institutional shareholders were British, and a British bank financed the deal using taxpayers' money, the primary consideration was whether 'the price was right'. Those who made the decision to sell the company had no obligation and little incentive to consider the future of families and communities in Birmingham.³

This small example helps to explain why there is such widespread discontent with Capitalism so soon after the pundits had concluded, with the fall of the Berlin wall, that Capitalism had 'won'. Society seems to have lost control over the economic forces which have generated prosperity. The big banks now operate with impunity, knowing that no government can risk the economic and political fallout if they fail. Widening pay differentials across the corporate world, but especially in banks, make a mockery of the belief that 'all men were created equal'.⁴ Use of derivatives and other new financial instruments has meant that the 'financial economy' often dominates the real economy in which goods and services are produced, delivered and exchanged. This doesn't seem right. The complexity of the largest corporates, such as Enron, leads to a loss of transparency which puts their top executives beyond accountability.

The problems are not just in the private sector. The giant public sector has overreached itself in most Western economies. Governments have promised more than they can now afford to deliver. For the UK what seemed feasible in 1971 when the old age support ratio was 3.6 to 1 will be infeasible when that ratio falls to 2.0 to 1 by 2051 (as it is expected to do unless the retirement age is increased).⁵ Accelerating family breakdown is adding huge pressure to government budgets. State funding of public services is heading into meltdown.

What is striking about the current crisis is the absence of credible alternatives. Some look to more regulation, but each new regulation is like stopping the leak in a pipe, only for another to appear because the whole pipe is rusty. Regulation cannot deal with the fundamental flaws of Capitalism identified in the previous paper, nor their pervasive social consequences. An alternative vision is needed; this paper seeks to sketch such a vision.

1 Heather Stewart, *The Guardian*, 22 February 2010, p.30.

2 Michael Schluter, 'Is Capitalism morally bankrupt?', *Cambridge Papers*, Vol. 18, No. 3, Sept 2009.

3 In the 1980s Rowntree, a similar large chocolate manufacturer based in York, was sold to Nestlé; today there is no chocolate manufactured in York.

4 The average remuneration of FTSE 100 chief executives has risen by 295 per cent over the past decade, while the typical pay of a British employee has increased by 44 per cent (BBC website, Peston's Picks, 9 June 2009).

5 Office of National Statistics, *Pension Trends*, June 2008, ch. 2.

The relational mandate

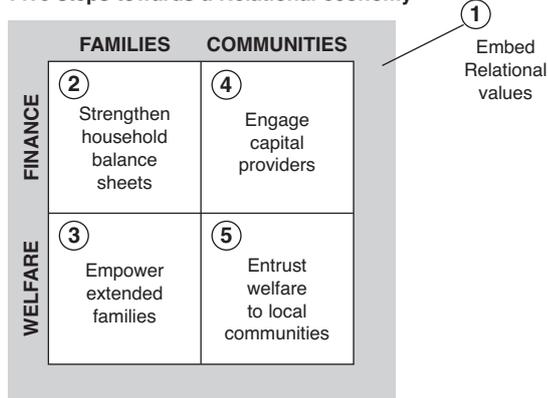
The heart of the Christian faith is a relational understanding of all of reality. God himself is three persons in relationship; human beings are made in the image of this relational God, with the capacity to relate to him and to each other. Jesus came, not just to demonstrate a perfectly relational human life, but to resolve the deepest problems of humanity – relationship breakdown between human beings and their Creator, and between people at personal, ethnic and national levels. Jesus through his death and resurrection established a new community which is intended not just to proclaim to all the message of a new relationship with God through Christ, but also to model to the world a truly relational community.

Hence, quality of relationships is the basis of God's assessment of nations as well as individuals.⁶ Many biblical passages define what behaviour constitutes right relationships, both generally and in the context of specific roles such as parent, child, husband, wife, employer, pastor and owner of capital. God has a particular concern for the relationally and financially disadvantaged, such as widows, orphans and foreigners.⁷

In biblical law, in a specific geographical and historical context, God teaches his people how to ensure close, fair and lasting interpersonal relationships. In part this involves financial arrangements, organisational structures and their working practices which, now as then, impact on the way people relate to God and each other. Biblical teaching about the economy seeks to ensure free markets for exchange of goods and services, but puts constraints on markets for exchange of capital, land and labour.⁸ Jesus summarises the goals of this Israelite legislation as 'love God and love neighbour';⁹ love is a quality of relationship.

To transfer this worldview into the economic system involves five steps, as shown in the diagram below:

Five steps towards a Relational economy



First and foremost, there has to be a change in worldview, where the dominant values of individualism and materialism are replaced by those of 'Relational Thinking' (step 1). Unless people learn to think differently, and prioritise relationships over wealth for example, other changes will be cosmetic. The diagram does not show any reform of central government agencies or departments because the direction of change is to reduce the role of central government; rather the emphasis is gradually to empower families and communities to take over the financing and welfare responsibilities of central government.

To rebuild a sense of common purpose in extended families, their capacity to provide welfare and undertake productive activity has to be restored. This involves strengthening household balance sheets by reducing debt and increasing their asset base (step 2), as well as formalising and empowering extended family welfare activities by encouraging them to 'incorporate' as Family Associations (step 3). This facilitates them having formal dealings with one another, with companies and with government agencies.

At a regional and community level, there is the same need to increase the capacity for shared activity by encouraging people in a region or locality to recognise their responsibility to be involved

financially with local companies (step 4), and also to provide a safety net for individuals in dysfunctional families (step 5). Central or regional government still has a welfare role, but now only to intervene on behalf of those who are not cared for adequately by their communities, and to set minimum national standards.

Relational reform of the economy

Western economies are not intentionally unrelational. The challenge is to move the economy, and the whole of society, in the direction of greater relationality. The process of change, and the goals of change, must be relational, i.e. by persuasion and consensus.¹⁰ Biblical teaching provides guidance as to how this can be achieved. The following sections amplify the five steps introduced above.

Embed relational values (step 1 in diagram)

The greatest challenge in moving from a Capitalist to a Relational economic system is to shift the goalposts from pursuit of business profit and personal gain to a focus on good and right relationships with God and neighbour. This priority has to be reflected, first of all, in how people use their time, for time is human beings' scarcest resource; it is also the currency of relationships. So the issue is this: how can society demonstrate to outsiders, and to itself, in its use of time that its greatest priority is quality of relationships?

The answer God gave to Israel, which is also reflected in the creation narrative, was to ring-fence one day each week for relational priorities: commercial activity was banned. This was taught in the Ten Commandments,¹¹ and reinforced by prophetic teaching¹² and social reform.¹³ The weekly rest day, providing special time and space for God, family and neighbour, has been the practice of the Christian church, wherever possible, since its inception.¹⁴ In Britain there have been restrictions on Sunday trade since at least 1448.¹⁵

To introduce a weekly shared day off does not require that the majority in the society are Christians; the physical, mental and relational health benefits of a weekly day off have been widely researched.¹⁶ Where Christianity and/or Islam are the dominant religion(s), as in Africa, the Middle East and Latin America, and parts of Asia, the case for a weekly shared day off rests on religious as well as relational grounds.

Every country in Europe barring Sweden and the UK keeps Sunday largely free of economic activity. There is still widespread support for a weekly shared day off in Britain, with exemptions for emergency services and recreational activities. More challenging will be to gain public acceptance of its spiritual and relational significance, and bring about the associated changes in lifestyle.

Strengthen household balance sheets (step 2)

To strengthen household balance sheets requires an increase in assets and decrease in liabilities. For most households, one of the main assets is the property in which they live. In biblical Israel, the ideal was for every family to own a piece of land on which they could build a home and find security.¹⁷ On the liabilities side of the balance sheet, biblical teaching repeatedly warns against the dangers of debt to individuals, families and society.¹⁸ A debt-based society will tend towards anonymity, even social alienation, and will generally be inflationary, involving an arbitrary and unjust redistribution of wealth.

To increase household assets, the goal should be for most households to be able to own the house where they live. In the UK, owner-occupation is the goal of the vast majority of the population.¹⁹ The challenge for housing associations and other forms of public housing is to find a way to enable people gradually to acquire equity in the properties where they live. Of course, there will always be those with special needs which are best provided for by rented accommodation, in sheltered housing schemes for example.

10 Jesus says that those who 'teach and practise the law' will be great in his kingdom (Matt 5:19), not those who impose it by force.

11 E.g. Exod. 20:8–11.

12 E.g. Amos 8:4–8; Isa. 58:13–14.

13 E.g. Neh 13:15–22.

14 The first day of the week as the day of Christian gathering is implied in, for example, Acts 20:7; 1 Cor. 16:1–2.

15 Fairs and Markets Act 1448.

16 For the UK, see Clare Lyonette and Michael Clark, 'Unsocial Hours: Unsocial Families? Working Time and Family Wellbeing', www.relationshipsfoundation.org

17 E.g. Mic. 4:4.

18 E.g. Deut. 15:1–6; Prov. 22:7; Rom. 13:8; Neh. ch. 5; Matt. 25:26–27.

19 National Association of Estate Agents, Oct. 2009. www.naea.co.uk/news/news_details.aspx?id=502.

6 E.g. Amos 1; Matt. 5:43–48.

7 See, for example, Deut. 10:18; Jas. 1:27.

8 See *Jubilee Manifesto*, IVP, 2005, ch. 12 by Paul Mills.

9 Matt. 22:34–40.

To decrease household liabilities requires decreasing debt which acts like relational poison, causing arguments, depression, divorce and even child abuse.²⁰ Yet in the UK average household debt at the end of 2009 was nearly £60,000, including mortgage debt, and average consumer debt £9,000.²¹ Ways to reduce household debt include new forms of house purchase contract based on equity rather than debt,²² restricting TV advertising of consumer credit, and increased minimum monthly credit card repayments. In particular, students should not have to use debt to fund university education, which also impacts negatively on family formation²³ and probably leads to greater acceptance of indebtedness as a normal part of modern life.

National debt is as relationally harmful as it is unjust to families.²⁴ UK national debt at the end of 2009 was over £33,000 per household.²⁵ US and UK government fiscal projections do not now forecast any future time when there will be a balanced budget. However, Germany has passed a law recently committing its government to a balanced budget from 2015. It is possible to run a modern economy without increasing national debt. Is it right or fair for this generation to pass on such huge debt to its children?

Empower extended families (step 3)

One consequence of the five moral flaws of Capitalism is the breakdown of family relationships. Yet families are crucial in God's plan for human wellbeing.²⁶ For most people, their closest and longest-lasting relationships are in their families. Whilst friends add much to our sense of community and sheer joy in living, it is families who do most of the hard work of care, especially for older people.²⁷ Yet, it is difficult to cite even one Capitalist society where there is not disintegration of family relationships as family members spend less time together, often due to long and unsocial working hours, and for some the need to move house every few years for work reasons.

Institutions lacking role or purpose will gradually atrophy. As banks and public sector agencies have taken over many of the functions which were family responsibilities, such as provision of credit, finance for housing, and care of those with disabilities, homes have often become no more than multipurpose leisure centres; family solidarity can rely less on shared experience. How could families' role be recovered? One proposal is that family members could form themselves into 'Family Associations', small mutual organisations for welfare, insurance, consumption and business purposes.²⁸

For families to play a key role in economic activity and welfare provision, 'colocation' is an essential precondition, i.e. relatives must live close enough to work together and to provide physical as well as emotional support.²⁹ So mobility of labour must be constrained. Although it maximises individual productivity by precisely matching skills to job requirements, it often imposes costs on third parties which are not taken into account, and certainly not paid by the employer. These costs include care of elderly relatives left behind, and stress on family relationships during and following a house move. So far as possible jobs should move to people, not people to jobs.

Colocation of relatives could be facilitated in several ways. Regional Investment Trusts³⁰ could mobilise capital for companies in depressed regions, to prevent people being compelled to move in search of work. Some UK companies already facilitate staff moving closer to ageing relatives;³¹ this could easily be extended if public and private sector organisations recognised the social and personal benefits. Tax incentives could be given to those who move in with, or

close to, elderly parents thus reducing pressure on public services.³² Students could be incentivised to go to local universities, as is the norm in France and Australia, to reduce the number settling away from their home area. Perhaps, also, relatives permanently resident in a local area could be allowed to file a joint tax return.

Engage capital providers (step 4)

Biblical ethics require that there is no reward without responsibility. The legitimacy of the return derives in part from the involvement of the capital provider in the enterprise.³³ Investment then plays a positive role in building social capital, money acting as a source of shared purpose and activity, a form of 'social glue'. Often there are non-financial benefits to the investor in such situations, such as providing jobs for relatives.

The most disengaged capital providers to companies are generally those who lend at interest. The rate of return is fixed so they have little incentive to track company progress; if they have collateral, they are protected from losing their money through insolvency. Nor is debt always helpful to companies. Those with high levels of debt relative to equity become vulnerable in a recession, putting jobs at risk. Easy bank credit encourages directors to pursue excessive growth to satisfy shareholder demands and increase their own bonuses. To reduce company debt, governments could favour equity (e.g. shares) over debt finance through the tax system because equity ensures greater stability of output and employment.³⁴

So how can shareholders engage more effectively with companies where they own shares? They can ask questions at AGMs having tracked company plans and announcements. Choosing smaller, local companies facilitates greater knowledge of company affairs and more effective engagement. Those with their own pension arrangements can have Self-Invested Pension Plans (SIPPs) so they can choose where their funds are invested and engage with those companies. For many this will require business education. It is also likely to involve higher risks resulting from greater concentration of their investments, and greater time commitment.³⁵ However, they will benefit from greater understanding of the business, and from being able to hold directors accountable more effectively.

Individuals have less direct engagement when their funds are held by institutions which invest their savings (e.g. pension funds), but they can require the institutions to keep them informed of their involvement. A proposed Relational Ratings Agency, which rates companies by their compliance with a new 'Relational Business Charter', would help investors and investing institutions evaluate whether the companies they invest in are operated with proper respect for their stakeholder relationships.³⁶

Governments could promote investor engagement by lowering requirements for the company prospectus to facilitate smaller companies raising capital locally. Governments could also use the tax system to promote businesses set up as 'Trilateral Partnerships' (a new structure where capital providers become 'capital partners', alongside managing partners and employee partners³⁷), local banks and Regional Investment Trusts³⁸ to tap into local funds for local investment.

Entrust welfare to local communities (step 5)

To move Capitalism towards a Relational economy a shift in responsibility for welfare provision is required from central government departments to local communities. This is sharply countercultural. In Britain, central government took significantly greater responsibility for education, health and welfare in 1945, even though 14 million people belonged to Friendly Societies,³⁹ due to scandals of poor local provision, and the disjointedness of voluntary, charitable efforts to

20 See, for example, Fox, G. L. and Chancey, E., 'Sources of economic distress: Individual and family outcomes', *Journal of Family Issues*, 1998, 19(6), pp.725-49.

21 Credit Action Debt Statistics; www.creditaction.org

22 E.g. shared equity and lease-to-buy contracts, and shared appreciation mortgages.

23 Allan C. Carlson, 'Anti-dowry: the Effects of Student Loan Debt on Marriage and Childbearing', *The Family in America*, 2005, 19(12), www.profam.org/pub/fia/fia_1912.htm

24 David Willetts, *The Pinch: How the Baby Boomers Stole Their Children's Future*, Atlantic Books, 2010.

25 Credit Actio *op cit*.

26 E.g. Ps. 68:6; Mark 7:4-13; 1 Tim. 5:3-8.

27 'Carers at the Heart of 21st Century Families and Communities', Govt. White Paper, 2008, pp.34-35; see www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/documents/digitalasset/dh_085338.pdf

28 See www.relationshipsfoundation.org

29 This is part of the rationale of the landowning legislation in Israelite society, where the importance of keeping relatives in the community is emphasised (Lev. 25:35-37).

30 David Porteous, 'The "TRUST" Proposals for Regional Banking in the UK', unpublished research paper, Jubilee Policy Group, September 1993.

31 E.g. John Lewis Partnership.

32 In Singapore there is a tax benefit for those moving to live in the same house as an elderly relative.

33 See Michael Schluter, 'Is Capitalism morally bankrupt?', *op cit*.

34 McKinsey Global Institute, 'Debt and deleveraging: The global credit bubble and its economic consequences', January 2010.

35 For a fuller discussion of these points, see Jonathan Rushworth and Michael Schluter, 'The Relational Company', paper presented to UCL Department of Laws, June 2008, available at www.relationshipsglobal.net/Web/OnlineStore/Product.aspx?ID=6

36 See www.relationshipsglobal.net/resources

37 For a longer description of this proposal, see Trilateral Partnerships working paper on www.relationshipsglobal.net/resources

38 David Porteous, *op cit*.

39 Samuel Fisher, 'Christian Involvement in the Establishment of New Financial Institutions in the Eighteenth and Nineteenth Centuries', March 2010. See www.relationshipsglobal.net/resources

meet needs which left many with no safety net. State intervention responded to the failures of localism, albeit in a period when incomes and administrative capacity were much lower than today.

There are other problems with localism today. There is fear of a 'postcode lottery', where those living in one area get better services than those in another, exaggerating inequalities. In big cities where there are no clear internal boundaries and in low-density country areas, it is difficult to create local communities (of, say, 10,000 to 30,000) to which people might feel some genuine loyalty. And for those making the most generous provision, there is then further disincentive in that vulnerable people might seek to move into their area.

So why entrust welfare to local communities? First, OT and NT teaching focuses responsibility at the levels of family and community, with only a very limited role for the state.⁴⁰ Jesus insists on familial responsibility to provide for older parents.⁴¹ In the cities of the Roman Empire, Paul urges church communities not to take over tasks families could and should perform for themselves.⁴² A relational perspective makes it easy to understand why biblical writers wish to minimise the role of the state or outside bodies. State involvement diminishes personal responsibility, and all the relational benefits which flow from long-term commitment and interdependence. The biblical priority is to strengthen social bonds, and teach personal responsibility rather than achieve 'equality' in some abstract sense through a rights-based culture.

Welfare provision is highly complex. The situations faced by individuals and families differ in thousands of ways, making it impossible to draw up rules for support which will be fair to everyone. So central government interventions, however well-meaning, are inevitably clumsy and wasteful, and often exaggerate inequality. In Britain, the present rights-based system underlines individual autonomy. The aim is to prevent people being required to be dependent on their relatives. As the unemployed, older people and other disadvantaged groups claim from distant Treasury funds, they are likely to lose any sense that helping person A leaves less money available for person B, or that they have an obligation to make a contribution back to the local community.

Of course, given the sharp regional and local differences in income between localities and within different parts of big cities, the State is bound to play a major role in redistribution of resources. The issue is the extent to which those resources are entrusted either to anonymous outposts of central government or local authorities,⁴³ both of which are largely insensitive to local concerns, rather than to much smaller and more relational local communities. Such devolution might lead to resources being misused, especially where there are entrenched local interests, so that national guidelines may have to be superimposed. However, Britain's recent attempt to decentralise expenditure to local authorities left little room for local decision-making, as some 190 national indicators and other national guidelines for health, education and care services were imposed.

The prize of localism in welfare is not primarily saving scarce resources; it is better relational support and care for vulnerable people. It is also the reactivation of families and communities, and their engagement in economic, judicial and political decisions, which reinforce relational bonds and incentivise political engagement.

40 See Schluter and Ashcroft, *op cit*, ch. 10.

41 Mark 7:9-13.

42 E.g. 1 Tim. 5:3-8.

43 Local authorities generally have a population of 250,000; unitary authorities typically 500,000.

Conclusions

As Jesus said, new wine requires new wineskins.⁴⁴ The 'Relational economy' might be characterised in Britain by new institutions such as Family Associations, Regional Investment Trusts, Trilateral Partnerships and a Relational Ratings Agency, as proposed in this paper. In the nineteenth century, Christians also contributed to developing new institutions to reflect their values, including Friendly Societies, Credit Unions, Building Societies and Mutual Insurance Companies.⁴⁵ Other Christians set up companies with a strongly relational ethos, such as Rowntree, Cadbury and Lever Brothers. These organisations helped to increase welfare, reduce class antagonisms, build social capital, and increase economic productivity.

Many other changes required to create a Relational economy have been raised elsewhere.⁴⁶ It is possible here only to sketch out a new direction of travel and argue that the changes required, although radical, are morally desirable, socially essential and financially beneficial.

A key factor in bringing about these changes is to create demand for them. In many countries, Christians are likely to find allies among those of other religious faiths with relational priorities, those in regional and local government who seek greater commitment and engagement from local populations, those in the environment lobby who recognise the importance of people's commitment to specific localities, and those among the wider public who understand the importance of family and other relational ties for human happiness and wellbeing. These disparate groups could together form a Relational Movement to persuade political parties to adopt part or all of the Relational agenda.

If Capitalism is not radically reformed, what is the alternative? Family and community solidarity will become increasingly dysfunctional, leading to high levels of unemployment, unsustainable demands on schools, hospitals and social services, and an increasingly angry, disillusioned and frustrated electorate. The door will be open for authoritarian politicians of the Left or Right, with an agenda of savage repression to maintain social order. Rather than wait for these sinister alternatives to emerge, Christians need to read the signs of the times. To protect society for the wellbeing of our children and children's children, the time to press for radical economic and social reform is not in 20 years' time. It is today.

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44 Luke 5:38.

45 Samuel Fisher, *op cit*.

46 See Michael Schluter and John Ashcroft (eds), *Jubilee Manifesto*, *op cit*.

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