

JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 25, December 1998

From the Editor:

In the best traditions of learned journals this issue is a month late! However I hope it is worth the wait. It contains two papers from the July 1998 meeting of the ACE Study Group. The first is Ben Cooper's fascinating paper on what Ecclesiastes has to tell us about the economics of growth. If growth is futile then perhaps we should not be unduly alarmed by the pre-millennial slowdown in the UK. The second is Donald Hay's first "stab" at getting to grips with what Christian economists might have to say about the UK National Health Service. At the time of writing the NHS is going through yet another winter funding crisis and its funding and structure are very much back on the economic and political agenda. Finally I have contributed a review article focusing on two recent contributions to the business ethics literature.

As always submissions to the Journal are invited – I challenge you to make the next issue on time!

A recent development has been the establishment of an ACE UK web page. It contains listings of the contents of previous issues of the Journal, further information on the annual Study Group (July 9th –10th 1999, Jesus College, Oxford) and other useful information. The web address is <http://www.aber.ac.uk/~arh/ace.html>

The Fall 1998 issue of the North American ACE Bulletin contains an article by Michael K. Wohlgenant on Austrian Economics, a conversation with a prominent British Christian economist and seven book reviews. Further details from the secretary, John Mason (mason@gordon.edu).

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ISSN 0956-3067

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FUTILE GROWTH AND THE ECONOMICS OF ECCLESIASTES

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1. Introduction

Christian economists would no doubt love to be like the prophet Daniel. In Daniel, we have a man who faithfully reveres the one true God yet finds himself an advisor at the political heart of a pagan power. It would be very good to be found, as it says in Daniel chapter 5 verses 11 to 12, to have “a keen mind and knowledge and understanding, and also the ability to interpret dreams, explain riddles and solve difficult problems”. We may not be asked to interpret many dreams, but it is a very high standard to aspire to. Daniel and his friends were apparently *ten times* better than any of King Nebuchadnezzar’s other advisors. Moreover, they always managed to conduct themselves in a manner that was, on the one hand, full of humility and tact and, on the other, allowed nothing to compromise their faithfulness to God.

So how did they do it? When King Nebuchadnezzar came to Daniel and said, “Well Daniel, base rates up a quarter or half a point? what do you think?”, how did Daniel know what to say? It would be good to find out, since the situation we find ourselves in is remarkably similar. We are striving to provide godly analysis and advice for an essentially non-Christian audience.

Daniel, of course, had the advantage of being an Old Testament prophet. Fortunately, that does not leave us, comparatively speaking, working entirely in the dark. We have a speaking God who has been pleased to reveal himself most especially in his Son, to whom the whole of scripture is a truthful and authentic witness. So the possibility, at least, exists to derive principles based on that revelation that are able to guide our analysis of economic problems today². The basic idea is shown in Figure 1. The Bible, while essentially an account of redemptive history, contains plenty of material of an economic nature. From the creation accounts, the Law and from the ethics of the New Testament, the aim is to build up a picture of God’s good, pleasing and perfect will with regard to economic issues. This can then be used in a positive way, to provide godly guidance to policy-makers, or in a negative way, to criticise worldly ways of economic thinking. So the better we understand the biblical revelation, the more godly the principles will be—and, hopefully, the more like Daniel we shall become in our interactions with the pagan world around us.

¹ This paper is based on a talk given at the Study Group Meeting of the Association of Christian Economists, 11 July 1998.

² This is the task very admirably attempted by Donald Hay, *Economics Today: A Christian Critique*, Apollos, 1989, on which the following description of “theological ethics” is based.

But those involved in developing Christian social ethics from biblical material would be the first to admit that it is not an easy process. It is not so much the length of time since the original revelation; rather, some of the material in the bible relating to economics, especially that expressed in the Old Testament Law, seems to be tied very closely to a particular phase of redemptive history. The problem comes in applying these ideas outside the context for which they were intended³.

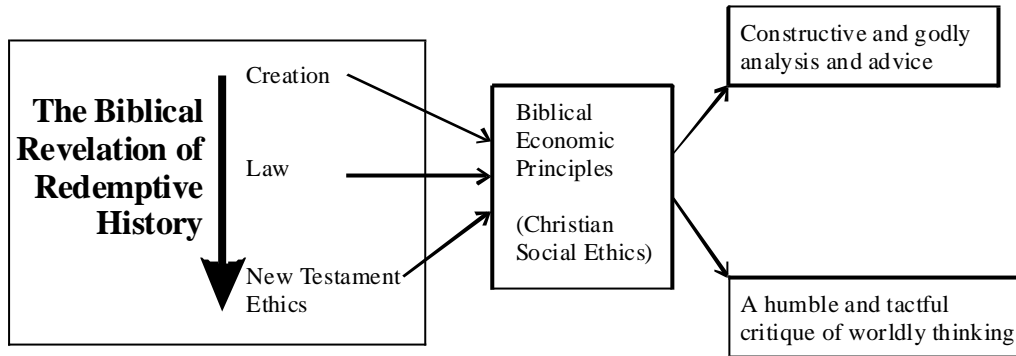


Figure 1

However, this difficulty need not depress us. If constructing Christian social ethics seems too hard, then perhaps we should look to the strong stand of biblical material that seeks to expose the emptiness of worldly thinking *in its own terms*. If we can mimic this process with respect to contemporary worldly thinking, then that would allow us to make a very handy short-cut. While this method is no help in developing *positive* advice à la Daniel, it could allow us to move directly to a critique of contemporary economic thinking based on sound biblical foundations. The basic idea is shown in Figure 2. The biblical critique of worldly thinking aims to show that either the universe is cold and meaningless—with no purpose, no morality, no point—or there is a sovereign and transcendent God who cares deeply about justice. The exciting prospect facing us is that in our economic analysis we can work towards the same aim.

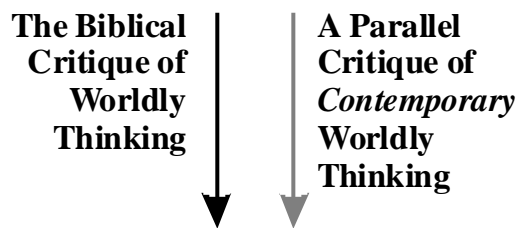


Figure 2

So this is what we have in store. First, we shall look at the biblical critique of worldly thinking as it is most profoundly expressed in the book of Ecclesiastes. A reasonable understanding of this most remarkable book is very helpful when it comes to adopting a directly critical approach for ourselves. Next, we shall look at an example of

³ A recent account of some of these difficulties can be found in Esmond Birnie, “Should the Christian Economist be a Theonomist?”, *ACE Journal* No. 24, 1997.

the same approach applied to a contemporary issue. My own research has been looking at economic growth. Despite being firmly within the conventions of the neoclassical, utilitarian paradigm, this research concludes that growth, far from being the most desirable objective of all economic activity, can actually make people less happy. Finally, we shall look at how such a negative approach to economic analysis can actually be a very good thing.

2. An Overview of Ecclesiastes

Ecclesiastes contains some of the most hauntingly beautiful poetry in the entire Bible, and parts of it are no doubt familiar to all of us. The discourse on the rhythms of time, and our frustrated place within it, in chapter 3 is justly famous, as is the rather disturbing poem on the creeping inevitability of old age and decay at the beginning of chapter 12. However, the structure of the book—or, rather, its *lack* of structure—can make the book as a whole something of an enigma. Certainly, Ecclesiastes has none of the precise, logical progression of thought that we find in, say, Paul’s letter to the Romans. Commentators who have treated it as if it were written the same way have quickly become unstuck⁴. But, as we shall see, the desultory arrangement of material is an inevitable result of the thought experiment the author sets himself. Moreover, although the message of the book is rather hard to grasp on a single reading, repeated re-reading reveals a basic argument that is actually very simple.

The Aim of the “Teacher”

There is nothing perplexing about the aim of the author of Ecclesiastes, which is stated very clearly in the first chapter. This is chapter 1, verses 13 and 14:

I devoted myself to study and to explore by wisdom all that is done under heaven. What a heavy burden God has laid on men! I have seen all the things that are done under the sun; all of them are meaningless, a chasing after the wind.

Ecclesiastes is either written by Solomon, or from the perspective of Solomon⁵. Either way, the task the wisest of the wise sets himself is to investigate “all that is done under

⁴ It is difficult to *wholeheartedly* recommend a single commentary on Ecclesiastes. Perhaps the best introduction is chapter 6 of Derek Kidner, *Wisdom to Live By*, IVP, 1985. Kidner’s, *The Message of Ecclesiastes*, The Bible Speaks today (IVP), 1976, is also good, as are the early chapters of Michael Eaton, *Ecclesiastes*, Tyndale Old Testament Commentaries (IVP), 1983. Derek Tidball, *That’s Life! Realism and Hope for Today from Ecclesiastes*, IVP, 1989, is very good at bringing out the contemporary feel of the book. Along the same lines, I can also recommend two (rather long) sermon series that are available on tape. These are by Phillip Jensen (seven talks) and Alan Stewart (six talks) and are available from St. Matthias Press, P.O. Box 225, Kingsford NSW 2032, Australia; email, matmedia@ozemail.com.au.

⁵ The “I, the Teacher, was king over Israel”, in verse 12 suggests the latter.

what's the profit at the end of the day? *point* of it all? The answer is so conclusive, so resounding, that he does not hesitate to give it right away: Nothing. All things done under the sun are meaningless, a chasing after the wind.

There is no gain under the sun

Indeed, it is the cry of ‘ “Meaningless! Meaningless!”’, says the Teacher. “Everything is meaningless,” ’ that brackets the bulk of the book, from 1:2 to 12:8. The word rendered as “meaningless” here in the NIV, or “vanity” in the Authorised Version, captures the ideas of frailty, futility and emptiness—a puff of wind: here for a moment, but then gone without trace. So all things done under the sun have *no permanence*.

The Teacher moves from observation to observation, asking, for each sphere of human activity under the sun, “Does *this* have meaning?”. As he does so, the major cause of futility he finds is the inevitability of death. Death hangs like a dark cloud over every activity. So work is futile because it can make no lasting impact on the consciousness of future generations. The fact is that no-one will remember you for long when you are gone. Moreover, you can make nothing that is genuinely new under the sun, and can take nothing with you when you die. This is chapter 5, verses 15 and 16:

Naked a man comes from his mother's womb, and as he comes, so he departs. He takes nothing from his labour that he can carry in his hand. This too is a grievous evil. As a man comes, so he departs, and what does he gain, since he toils for the wind?

However, a great deal of that which the Teacher finds meaningless is found wanting on a much shorter time-scale. Can one find meaning in pleasure? For a moment it feels good; but when the moment is past, one is left with nothing. Can one find meaning in relationships? The Teacher finds human relationships sorely corrupted. He finds the abuse of political power and the oppression of the poor. “This only I have found”, he concludes, “God made mankind upright, but men have gone in search of many schemes” (7:29).

Interestingly for us, much of this material on immediate futility is of an economic nature. In particular, chapters 4 to 6 contain a fairly comprehensive analysis of whether one can find meaning in wealth and achievement. The conclusion, as we might expect, is

bleak, but the reasons are worth looking at. First, wealth is no compensation for the loneliness that the pursuit of wealth creates. This is chapter 4, verse 8:

There was a man all alone; he had neither son nor brother. There was no end to his toil, yet his eyes were not content with his wealth. “For whom am I toiling,” he asked, “and why am I depriving myself of enjoyment?” This too is meaningless—a miserable business!

Secondly, our aspirations always expand faster than our ability to satisfy them. This is chapter 5, verses 10 and 11:

Whoever loves money never has money enough; whoever loves wealth is never satisfied with his income. This too is meaningless. As goods increase, so do those who consume them. And what benefit are they to the owner except to feast his eyes on them?

Thirdly, very often, those with wealth are simply unable to enjoy it. This is chapter 6, verses 2 and 3:

God gives a man wealth, possessions and honor, so that he lacks nothing his heart desires, but God does not enable him to enjoy them, and a stranger enjoys them instead. This is meaningless, a grievous evil. A man may have a hundred children and live many years; yet no matter how long he lives, if he cannot enjoy his prosperity and does not receive proper burial, I say that a stillborn child is better off than he.

Now these are perceptive observations, and remain very relevant today. However, we have to admit that conventional economic analysis hardly addresses these issues at all.

But surely, you might think, there is *some* meaning in economic activity? What about technological progress? —Economic growth? This is chapter 4, verse 4:

And I saw that all labour and all achievement spring from man’s envy of his neighbour. This too is meaningless, a chasing after the wind.

This verse perhaps hints at the *zero-sum* nature of much economic “progress”, something we shall return to in Section 3.

Wisdom with a sting in the tail

Now in all this, one might be forgiven for thinking that the Teacher is an obsessive pessimist, a depressive who only sees the bad in everything. However, as we read the book, the sincerity of his quest shines out: he really does want to find meaning under the sun if it exists. So there are many parts of the book that seem quite positive. On some occasions, the Teacher seems to have found real order amid the chaos. Thus he discerns that all things are good in their time, that wisdom, like an inheritance, is a good thing, and that a reverent attitude before God is good too. Indeed, there are long sections—even, the

case of chapter 10, a whole chapter—that read at first glance as if they could have been lifted straight from the book of Proverbs.

However, this is wisdom with a sting in the tail. The focus throughout is almost entirely on the foolishness of the world. Indeed, the Teacher is almost seems led to foolishness himself as he experiments with different worldly perspectives—even at one point suggesting moderation in righteousness in the face of inevitable sin (7:16-20). In all this, his sense of frustration at being unable to grasp fully the complete picture is evident. This is chapter 7, verses 23 and 24 (see also 8:16-17):

All this I tested by wisdom and said, “I am determined to be wise” but this was beyond me. Whatever wisdom may be, it is far off and most profound—who can discover it?

For the most part, it seems that the best the Teacher can manage is to discern that which is *relatively* good. Thus, for example, wisdom is better than folly (2:13), companionship is better than loneliness (4:9), moderation better than greed (4:6). Most importantly, it is better to find what satisfaction there is in working under the sun than to give up in despair. This is a theme that recurs throughout the book (3:12, 3:22, 5:18-20, 11:8-9). This is chapter 2, verses 24 and 25:

A man can do nothing better than to eat and drink and find satisfaction in his work. This too, I see, is from the hand of God, for without him, who can eat or find enjoyment?

But even here there is a sting in the tail. Yet again, the inevitability of death rears its ugly head. Both the wise man and the fool will die. The fate of every person is no different from the fate of an animal. So, while there are many things that are relatively good under the sun, ultimately these too are meaningless. This is chapter 9, verses 9 and 10, which makes the point with dark humour:

Enjoy life with your wife, whom you love, all the days of this meaningless life that God has given you under the sun—all your meaningless days. For this is your lot in life and in your toilsome labour under the sun. Whatever your hand finds to do, do it with all your might, for in the grave, where you are going, there is neither working nor planning nor knowledge nor wisdom.

Where is meaning?

So the book of Ecclesiastes sets out to test every aspect of human activity under the sun and finds it all, ultimately, futile and pointless. However, along the way, we get glimpses of a radically different perspective. We get a glimpse of a God who, unlike us, can do things that endure forever; that is, rather than being a puff of wind, they have real permanence—*i.e.* in the language of Ecclesiastes, real meaning. We get a glimpse of a transcendent God, inscrutable from a perspective “under the sun”. He is a creator God who still takes an active interest in his creation: subjecting it to frustration, certainly

(7:13-14), but also, in his mercy, preserving partial order and partial satisfaction, for which we can be grateful. Most of all, however, we are led to a God who cares about justice and will ultimately judge everything. This is made very clear in the final verses of the book, in chapter 12, verses 13 and 14:

Now all has been heard; here is the conclusion of the matter: Fear God and keep his commandments, for this is the whole duty of man. For God will bring every deed into judgment, including every hidden thing, whether it is good or evil.

We might summarise the argument of the book as follows: If we restrict our attention to just that which we can see and observe for ourselves, we find nothing that has any real point, any real permanence. We might find partial wisdom, or one thing better than another, but, ultimately, these too amount to nothing. For something to have real permanence, real meaning, it must come from *outside* the world we can see, since we can see with our own eyes that *everything* under the sun has been subjected to frustration. So life can only have meaning if it is lived in the light of a God whose very nature is just and who will therefore bring everything to judgment.

Now this may seem an odd place to bring people to. We shall defer a discussion of *why* this is a good point to bring people to until Section 4.

3. An example application: negative utility growth

We have seen that one of the methods used by the Teacher in Ecclesiastes was to expose the *immediate* futility of activities under the sun. We saw also that many of the examples he chose had a very contemporary feel. There seems little reason why we cannot adopt the same approach today.

For example, over recent years there has been an increasing feeling among some that economic growth has failed to buy much in the way of extra happiness or satisfaction. Average real per-capita income in western economies has increased between three and five times over the last fifty years or so. However, there does not *seem* to have been a corresponding increase in average levels of contentment. In the US General Survey results over the same period, the proportion of people responding that they feel “very happy” shows no discernible increase – if anything, the proportion has decreased (see, e.g., Oswald⁶ or Myers and Diener⁷). We have only the crudest of data on this issue, but there does seem to be something here apparently at odds with conventional neoclassical ideas about growth.

⁶ Andrew Oswald, “Happiness and Economic Performance”, *Economic Journal*, vol. 107, No. 445, 1997, pp. 1815-1831.

⁷ David Myers and Ed Diener, “The Pursuit of Happiness”, *Scientific American*, 1996.

There are, of course, many potential explanations of this phenomenon. Scitovsky⁸, for example, suggests that we respond dynamically to consumption. That is, we like novelty, but not too much. Thus the economy responds with a stream of mildly novel new products, but these give only temporary and not lasting satisfaction.

However, in joint work with Cecilia García-Peñalosa⁹, we would like to suggest an explanation that remains firmly within a neoclassical framework. Our suggestion is that the stagnation, or decline, we observe in average utility levels is caused, in part at least, by the presence and innovation of *status goods* in the economy. Status goods are goods that confer utility only at the expense of someone who consumes less of the good; we assume that consumption of (pure) status goods has no effect on total utility. Such goods are not a new idea, of course. Hirsch¹⁰ coined the idea of a “positional” developed by, among others, Frank¹¹. The difference here is that we consider the relative consumption of status goods in an endogenous growth model where firms are able to influence—by innovating new status goods, by marketing or by advertising—the degree of importance consumers attach to their position within the status-good consumption hierarchy. The results we obtain are quite striking. In the long-run we find plenty of innovative activity in the economy. However, this activity is increasingly directed at the innovation of status goods rather than goods that have intrinsic utility. Such activity cannot increase total utility. Indeed, as status goods become more and more prestigious, more and more of a consumer’s budget is diverted away from goods with intrinsic utility, resulting in a *decrease* in total utility.

Status games

We consider consumption choices between two types of good: normal goods, which have intrinsic utility, and status goods, which have no intrinsic utility but give some prestige value to those who consume more of them. As consumers make these choices, they play a *status game* against each other.

The simplest possible status game is simply a re-interpretation of the prisoners’ dilemma. Two neighbours, Smith and Jones, have been given an identical sum of money and are choosing what to spend it on. If they spend it on a normal good, then they receive a payoff of, say, 1. If one of them buys the status good and the other does not, then there is a utility transfer from the normal good consumer to the status good consumer of, say, 2. But if both neighbours buy the status good, they get nothing.

⁸ Tibor Scitovsky, *The Joyless Economy*, OUP, 1976.

⁹ Ben Cooper and Cecilia García-Peñalosa, “Status Effects and Negative Utility Growth”, *Nuffield College Discussion Paper* No. 150, 1998. (This may currently be downloaded from <http://www.nuff.ox.ac.uk/economics/papers/>.)

¹⁰ Fred Hirsch, *The Social Limits to Growth*, Routledge and Kegan Paul, 1977.

¹¹ Robert Frank, “The Demand for Unobservable and other Nonpositional Goods”, *American Economic Review*, vol. 75, 1985, pp. 101-116.

		Smith	
		Normal	Status
Jones	Normal	1	2
	Status	-1	0
		1	-1
		2	0

Table 1

These payoffs are shown in Table 1. It is, of course, a dominant strategy to buy the status good, leaving both neighbours with nothing.

But this is a very crude way of thinking about status games. What happens if the neighbours have continuous choices over how to allocate their budgets, as in conventional consumer theory? What if there are more than two neighbours in the status game? And what determines the payoffs in the game?

To address these issues, we suppose that consumers arrange themselves into non-overlapping peer groups, each with its own common level of income. The utility to a representative peer group member increases with:

- the quantity of normal-good consumption (at a decreasing rate),
- the quality of the current best-value normal good, denoted by q_t ,
- the *relative* consumption of the status good within the peer group,
- the prestige value of the current best-value status good, denoted by \mathbf{a}_t .

Consumers care about relative consumption of the status good in the following way. Once the peer-group members have chosen how much of the status good to consume, we can rank them into a hierarchy, with those who have chosen higher levels of the status good at the top. The utility a given consumer derives from the status good depends on where they fit in this hierarchy. For everyone below her in the ranking, she receives a utility transfer (the size of which increases with the prestige value of the status good, \mathbf{a}_t). For everyone above her in the ranking, she loses an amount of the same magnitude. That is, inter-personal comparisons of status good consumption, inducing feelings of either pride or envy, determine a consumer's utility from consuming the status good.

Given the level of income received by members of a peer group, and the prices of the two types of good, we then solve for the unique (mixed-strategy) Nash equilibrium of

the game where the members choose how to allocate their budgets. We can then calculate the expected levels of consumption of the two goods and the expected utility to a given consumer. As we might expect from the prisoners' dilemma example, this expected utility level is sub-optimal. The first best outcome would be for consumers to spend their entire budgets on the normal good. The expected utility level from the status game falls short of the first-best level by an amount that increases with both the size of the peer group and the current prestige value of the status good.

A two-sector growth model

The question remains: How do normal-good quality and status-good prestige evolve over time? To address this issue, we place our model of consumption within a very simple endogenous growth model with two sectors. The basic structure of the economy is shown in Figure 3. The current period is denoted by $t = 0, 1, 2, \dots$. Normal-good quality depends on the number of normal-good innovations that have occurred up to time t . Activity in the normal-good R&D sector ensures that quality moves step by step up a "quality ladder". Similarly, the prestige conferred by the status good depends on the number of status-good innovations that have occurred up to time t . Activity in the status-good R&D sector ensures that prestige moves step by step up a "prestige ladder".

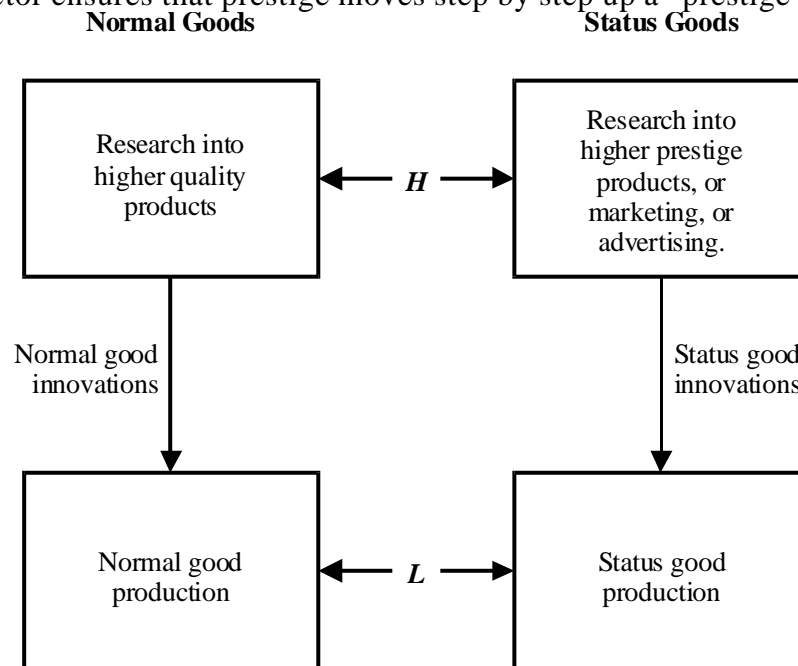


Figure 3

R&D for normal goods can be interpreted as a search for a higher quality product. However, R&D for status goods can be given a broader interpretation. While it could be a search for goods with higher prestige, it could also be advertising or marketing activity that, if successful, increases the prestige of an already existing product.

As shown in Figure 3, there is a fixed stock of skilled labour, H , that can be used in either of the two R&D sectors, and a fixed stock of unskilled labour, L , that can be used in any of the two production sectors.

Final goods are produced with a single input, which is unskilled labour. One unit of unskilled labour produces one unit of final good, regardless of quality or prestige. (In models of this type, a stream of new and “better” products, rather than an expansion in output, represents growth in activity.)

Prices depend on the current market state. There are two possibilities in each sector. Either all firms have access to the current best product, in which case price competition forces the price down to marginal cost. Alternatively, R&D activity in the past results in *one* firm holding the patent for the current best product, with all other firms exactly one step behind. For simplicity, they hold this patent for just one period. Consumers always choose the normal good with the lowest quality-adjusted price, and the status good with the lowest prestige-adjusted price. This means that in a price-setting equilibrium, a sector leader (if one exists) can charge a “limit” price just below the gap in quality or prestige between its product and the next-best.

From the Nash equilibria in each peer group, we can calculate the expected level of status good consumption of each consumer. Aggregating over peer-group members, and then over peer-groups, gives us aggregate demands for the two types of good. These actually turn out to have a very simple form. With the utility form we have used, demand depends on the real price of a good and a factor that depends on just the prestige-value of the *status* good. When status-good prestige is low, the expenditure share on normal goods is close to one; but as it increases, this share tends towards zero.

We close the model by imposing labour market clearing for the two types of labour. Labour market clearing in the final-goods sector allows us to calculate the profits in the two sectors for each market state. Finally, we can calculate the allocation of skilled labour in the R&D sector, given the expected profits to making an innovation in the two sectors. The details are unimportant—what matters for the final results is that the equilibrium level of skilled labour devoted to status-good R&D depends only on \mathbf{a} , as one might expect from the demand functions. Moreover, this level is *increasing* in \mathbf{a} . This means that as the current best status good climbs the prestige ladder, a higher and higher proportion of resources are allocated to status good R&D.

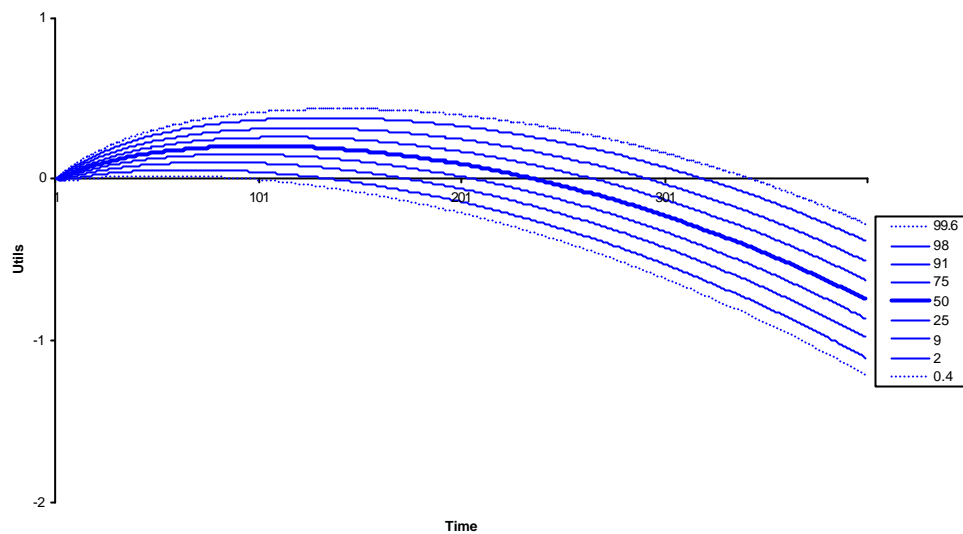


Figure 4

Figure 4 shows numerical results that illustrate what happens when the ease of making normal good innovations is the same as the ease of making status good innovations. When a_t is small, the expenditure share is almost entirely on normal goods, making normal good innovations relatively more profitable. Thus, early on, we get more normal good innovations, and these result in an increase in utility. However, as a_t increases, status-good innovation becomes relatively more profitable, and we get more status good innovations. These depress utility by an amount increasing in peer-group size and the size of the gaps in the “prestige ladder”. Eventually, all skilled labour is occupied in status good R&D. So, in the long-run, each time a status good innovation occurs, the underlying utility of a given consumer decreases.

So our conclusion is a gloomy one: economic growth may make you unhappy. We are reminded of the Teacher’s observation in Ecclesiastes 4:4, “And I saw that all labour and all achievement spring from man’s envy of his neighbour. This too is meaningless, a chasing after the wind”.

Interpreting the result

Two caveats should be noted. First, the outcome of the model is quite sensitive to the exact utility function one specifies. For the form we choose, expenditure share depends only on a_t . However, we could have chosen a utility function that resulted in expenditure share depending on both a_t and q_t ¹². In which case, long-run utility growth would depend on the size of the gaps on the “prestige ladder” relative to those on the “quality ladder”. So we would get positive, zero or negative growth, depending on these parameter values—although the level of utility growth would always be sub-optimal.

¹² Although we have so far failed to find such forms that give analytical solutions.

Secondly, it is obviously a crude abstraction to divide goods into pure status goods and pure normal goods. Most goods are some subtle combination of the two. So we might expect goods with a high status component to have some mitigating quality spillovers.

However, there may be a sense in which we have *underestimated* the ability of economic growth to depress satisfaction. Recall that the underlying utility loss from a status good innovation is an amount increasing in peer-group size and the size of the gaps in the “prestige ladder”. We have kept peer group sizes constant in all the above. But we can imagine that as communication and transport links have improved and grown, the effective size of peer groups has increased over the years. People now have a much clearer idea exactly where they fit in a given hierarchy.

4. The benefits of being negative

Of course, it may feel a bit uncomfortable to be so negative about everything. But sometimes it is good to be. So perhaps it is worth pausing at this point to reflect on the potential benefits.

Benefits to the Christian community

As a community, we are called to stay in the world but somehow remain distinctively separate within it (like the disciples in John 17:14-15). So we are under constant pressure to conform to the standards and priorities of those around us. Sometimes this results in our distinctiveness being lost. Indeed, in James 4:1-3 we read of a church that had succumbed to exactly the sort of greed, pride, envy and desire for status we have been discussing above. They needed to repent, and so do we if we chase after such things.

So this negative approach, whether it feels uncomfortable or not, can be a very useful way of “spring cleaning” our priorities. From time to time, it is good to think about how much we are living for things that are without meaning. When we recognise the futility of doing so, it becomes much easier to turn back to God, whose work endures forever.

Benefits for the gospel

It will not have escaped the notice of some that the basic approach we have been looking at here plays an important role in Paul’s systematic exposition of the gospel in the letter to the Romans. In chapter 1 of Romans we read of how all people have turned away from God, exchanging the truth about him for a lie. In particular, “their thinking became *futile* and their foolish hearts were darkened” (1:21). In response, God shows his displeasure now by giving people up to the consequences of this foolish choice. The result is a world of broken relationships and futile activity. But as we read on, we see that behind this futility there is still real meaning. We see that all people, whatever their background, will have to face the fair and impartial judgment of God. They will have to face up to the truth about what they have done—and if God is a fair judge, they will stand

before him with no hope. *Unless...* Unless they rely on the righteousness that has been revealed from God through the work of Christ on the cross (3:21-26).

Looking back from chapter 8, Paul says this (8:20-21):

For the creation was subjected to frustration, not by its own choice, but by the will of the one who subjected it, in hope that the creation itself will be liberated from its bondage to decay and brought into the glorious freedom of the children of God.

Exposing the futility of human activity cannot *prove* the existence of God. But it can make people stop and think. It can make them pause on the fruitless treadmill of their lives and wonder about the point of it all. In that moment, there is real hope that they will be open to the truth of a transcendent, sovereign, creator God who *can* provide real meaning. But this meaning comes from his justice. So it is but a short step for them to recognise their need for a Saviour, so that they might be liberated from their bondage to decay and brought into the glorious freedom of the children of God.

CHRISTIAN PERSPECTIVES ON THE ECONOMICS OF THE NATIONAL HEALTH SERVICE¹

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The National Health Service in the UK is widely perceived to be in a state of crisis, particularly perhaps by those who work in it. Some blame inadequate funding over a number of years; others see the problems as arising out of how the Service is organised and administered, and in particular the reforms of the past 10 years or so, which have introduced quasi-markets to allocate resources. In this paper we reflect on this situation in the light of a Christian view of health and health care. The structure of the paper is as follows. In sections 1 and 2 we review Biblical material with relevance to the question and note briefly how the Church has approached health care down the ages. In sections 3 and 4 principles derived from the biblical and theological analyses, that is derivative social principles, are advanced for the issue of how health care should be allocated and for the relationships between the health care professionals and the patients. In section 5 the paper rehearses the arguments for a public rather than a private health care system, before in section 6 looking at the particular problems of the NHS currently.

1. Biblical material

*1.1 What is 'health'?*²

Most biblical scholars agree that the word 'shalom' is the nearest biblical equivalent to the word 'health'. It means 'wholeness, well being, vigour and vitality, in all dimensions of human life' (Atkinson (1993)), and health is to be understood as a part of the concept:

Health is clearly part of shalom, as can be illustrated by the numerous times in the Old Testament when shalom is bracketed together with a Hebrew word translated 'health' or 'healing'. Thus the vision of peace in Isaiah 2: 1-5 (which could almost stand as a definition of shalom) is set in contrast to the sickness of the nation (1:5-6), its idolatry (2:6-22) and social injustice (3:13-15), which bring the judgement that the Lord will not be a healer (3:7b). (Atkinson (1993) p 25)

¹ This paper was first given at the July 1998 meeting of the Association of Christian Economists. I am grateful to the participants in that meeting for their comments and suggestions. It will be evident to the reader that the paper is very much an initial exploration of this topic.

² The discussion in this section relies very greatly on the helpful summary of the relevant literature and discussion in Jubilee Centre (1998).

In Jubilee Centre (1998) it is argued convincingly that the concept of health included in shalom is to be understood as physical health. For an individual it is the ability physically to fulfil a normal social and physical role assigned to him or her by society. An example is the lack of shalom experienced by Hannah when she was unable to bear a child (1 Samuel 1:5). The Old Testament attaches considerable significance to longevity and physical strength as a particular blessing, not surprising in a culture where there was no expectation of life after death.

1.2 The origins of ill health and death

The seminal passage in Genesis 3: 16-19 is generally understood to indicate that sickness and death are the consequences of our fallen human nature. However even the Old Testament does not make the precise equation that sickness and poor health are the inevitable consequence of sinful acts. The plagues in Egypt, the afflictions of the people of Israel in the wilderness, and some of the psalms (e.g. Psalm 38, and Psalm 32:3-5) affirm a connection between sin and ill health. But the book of Job should warn us against assuming that it is always so to be interpreted. However, the Old Testament definitely does assert that the state of our relationships with God and our neighbours are the cause of good/ ill health. In Isaiah 32:17 a right relationship with God is seen to produce shalom. The longevity of the patriarchs is attributed to their obedience to God throughout their lives. By contrast, in Deuteronomy 28 the Israelites are warned of the serious physical consequences, including ill health, which will flow if they are disobedient and do not keep the covenant. And there are a number of striking incidents where disobedience is followed by sickness: the leprosy of Miriam, the plague that afflicted the people in Numbers 25, and the judgement on Gehazi in 2 Kings 5:26-7.

1.3 The ministry of Jesus³

In the ministry of Jesus the emphasis is on healing rather than health. One fifth of the Gospel record is to do with healing incidents and the reactions to them. Forty one distinct incidents have been identified. Healing was an integral part of Jesus' ministry. This is exactly what should be expected given the summary statements of his ministry in Matthew 4:23 and Mark 1:35-9 where preaching and healing are explicitly linked. In the synagogue at Nazareth in Luke 4:16-21, Jesus applied the Isaiah passage to himself: the kingdom of heaven is at hand, and the healing power of Christ is to be made manifest. The Gospels use a variety of words for healing. *Therapeuo* is the normal Greek word for healing or curing, and is used a number of times. *Hygiaino* has the sense of 'make well again', and is used in the Septuagint for shalom, that is well-being in a very wide sense to include prosperity, bodily health, contentment, good relationships and salvation from sin. It is the word used in the parable of the prodigal son in Luke 15:27 to describe the situation of the son restored to his father 'safe and sound'. A third word is *sozo*, which has the meaning of 'save, preserve, rescue', and is used in the Gospels for miraculous healing with the sense of freeing from evil to save the whole person. It is evident from this word

³ In this section we have made extensive use of the analysis by Hurding (1986).

study that the concept of healing in the Gospels is widely construed, and not just confined to physical healing though that is clearly included.

Not only do the Gospels report a large number of healing incidents, they also report a wide variety of types of physical disorders, including chronic conditions, blindness, deafness, dumbness, spinal deformity, paralysis, skin diseases, and haemorrhage. The list also includes mental/spiritual disorders (Jesus is described as driving out demons), and three raisings from the dead. The Gospels emphasise that Jesus healed by the power of God: ‘..and the power of the Lord was with him to heal’ (Luke 5:17). The methods of healing included touching the sick person, and speaking to him or her. Faith on the part of the person was not, as far as we can tell, a prerequisite for healing. However lack of faith in general prevented Jesus from performing miracles in his home town (Matthew 13:58). How are we to interpret these healing stories? At the theological level they are best understood as signs of the Kingdom that Jesus proclaimed, the new order which would reverse the consequences of human sin, including the physical consequences of sin. But they are also signs of the compassion of Jesus in the face of human suffering (Matthew 14:14).

1.4 The early church

In Acts there are a number of stories of healing performed by the apostles, and more general references to healing activity. These appear to have functioned as authentication of the authority of the apostles, and as markers of the new age of the Kingdom as proclaimed by them.

In the Epistles there are a number of references to gifts of healing, such as 1 Corinthians 12:9. In James 5 a ‘procedure’ to be followed in a case of illness afflicting a church member is prescribed, including prayer, repentance and anointing with oil. These passages would seem to imply that healing was not limited to the apostolic age, but was to be an ongoing activity of the Church, as a sign of God’s kingdom.

2. Church history

How has the church interpreted its role in healing since the apostolic era? There seem to have been two main strands of interpretation and action.

2.1 Sticking to the miraculous

The mediaeval Roman Catholic church encouraged the belief in miraculous healing, associated with the veneration of the relics of saints. This generally went with hostility to medicine and especially to surgery of any kind. However this did not exclude great compassion for the sick, and many monasteries provided places where the sick could be cared for even if no medical ‘treatment’ was offered. Present day pentecostals or charismatics also place considerable emphasis on miraculous healing as part of the ministry they offer to both church members and outsiders, most notably in missions which emphasise healing as part of the blessings of the Gospel. Such activity is often

criticised by those of a dispensationalist conviction, who argue that miraculous activity was uniquely a feature of the apostolic period, and point to Paul's thorn in the flesh as evidence that healing cannot be promised unconditionally. However this case can be overstated, and charismatics point to the passages in I Corinthians 12 and James 5 as supporting their position.

2.2 Compassion for the sick

There is little doubt that much of the involvement of Christians in the medical profession has been motivated by a desire to serve the needy with compassion, in imitation of Christ. This has sometimes been viewed as being instrumental to the preaching of the Gospel, especially in missionary situations. An example is Hudson Taylor, the great missionary pioneer in China, who used medical care to gain acceptance so that the Gospel would be heard. This is a pattern which has been repeated all over the developing world by Christian missions. Some would go further and see healing activity as a sign of God's kingdom transforming lives, and in itself being a witness to the Gospel. For example the Archbishops Commission on the healing ministry in 1958 reported that the Church's ministry of healing should be seen as 'an integral part of the Church's total work by which men and women are to become true sons and daughters of

3. Derivative social principles for health care

Following the schema outlined in the introduction to the paper, we now move from the biblical and theological material briefly summarised in sections 1 and 2 above to the derivation of social principles which will allow us to evaluate health care. Any such principles depend entirely on the authority of the theological material from which they are drawn. They can only be provisional, open to revision and restatement if they prove not to reflect the biblical material adequately and in its entirety. The process of revision may also be stimulated by the emergence of new issues in the supply of health care for which the principles as previously formulated are inadequate and so necessitate a rethink. However the 'authority' of the principles continues to depend on the biblical material and theological interpretation, so care must be taken not to allow the issues to dictate the new principles that are derived from the process of revision in these cases.

Before proceeding to specific principles, a more general summary of the biblical material is helpful. The Jubilee Centre (1998) provides a useful summary for our purposes. The source of ill health is ultimately sin – the absence of an appropriate relationship with God and with our neighbour. Our relationship with God is characterised (negatively) by our disobedience to his pattern for our lives. Examples are our materialism and our hedonism. Materialism leads to personal problems such as financial difficulties and overwork (because we do not earn enough to support our materialistic lifestyle), which in turn lead to stress related physical and mental illnesses. Hedonism in sex, food, alcohol, tobacco, drugs, and even too much sunbathing, can generate serious health problems, often later in life. It is often said that without such self induced illnesses our hospitals would be empty! Our broken relationships with our 'neighbour'

similarly provoke a range of health problems, such as sexually transmitted diseases, and stress related illnesses arising from failed marriages or difficult relationships in the work place, for example. More generally if we fail to help a neighbour who is in poverty, that neighbour may suffer from malnutrition, illnesses arising from poor housing and the inability to provide for children.

This catalogue of woes should remind us that the preaching of the Gospel should be an important element in any broad 'health care programme'. An interesting example which gives considerable support to this idea is the study by Sherman (1997) who investigated the impact of orthodox Christian faith (within any church or denomination) on the lives of people in three small Guatemalan towns. She found a very definite, but not surprising, positive correlation between Christian faith and living standards, education and health. In particular orthodox Christians spent less on drinking at fiestas and so had resources to improve their material standard of life, were more responsive to programmes of community medicine, and did not resort to shamans when ill. In turn the better living standards of the Christians were an effective witness in their communities and attracted outsiders into the churches. The Jubilee Centre analysis also draws attention to the biblical injunction 'to seek the welfare of the city' (Jeremiah 29), as an inspiration to love our neighbour in practical ways as a sign of God's kingdom, and that includes support for and involvement in health care. This background and the more specific biblical material summarised above suggest four derivative social principles for health care systems:

3.1 Health and health care as special goods.

The first principle is that health and health care should not be regarded as just other goods. They are fundamentally different for two reasons. First, if illness, suffering and death are indeed evidences of sin and evil, then actions to counter them are signs of the Kingdom. Second, the concept of shalom, while encompassing the concept of health as the absence of physical or mental illness (or more positively as the presence of physical wellbeing and vigour), also includes a concern for the whole person, and their quality of life. None of this will come as a surprise to practising doctors, who well understand that a particular illness or disability has deeper origins and wider implications for their patients than just the medical problem which is presented to them. But it does serve as a salutary reminder that the reductionist view of medicine as solely techniques for curing illnesses or alleviating symptoms is inadequate. The patient is a human being, and should be treated as such. But note that this recognition does not imply the opposite extreme that only so-called 'holistic' medicine is any use, especially if attention to physical medical problems is neglected or played down. There is a definite role for doctors specialising in the technical medicine in which they have been trained, and they should not be expected to become counsellor, spiritual adviser and social worker as well. But nor should they underestimate the importance of other non-medical expertise in caring for a sick person.

One particular aspect of health care allocation mechanisms has begun to grapple with this problem though from the rather different motivation of how to ration scarce

resources. The concept is that of ‘quality adjusted life years’ or QALYs (see Culyer (1989) for a brief discussion). In assessing whether to treat particular patients, especially when resources do not permit all patients to be treated, a judgement is made as to how long the patient might be expected to live if the treatment is applied, and more subjectively what will be the quality of their life. The decision rule is that the treatment should be applied first to those patients with high QALYs. The concept has been much criticised for its utilitarian overtones, and for the probability that it will give priority to the middle class patients over working class patients. However it does draw attention to the correct idea that the patient is more than just another ‘case’ to be given the appropriate medical or surgical procedure. It could for example lead a doctor to alleviate a condition rather than try to cure it, if the cure implied that the patient would live for much longer but with a miserable quality of life. Of course doctors have made and will continue to make such decisions without appealing to a formal QALY index, but the index could help them to focus on the appropriate data in making those decisions.

3.2 Prevention is better than cure

It should be self evident that prevention is better than cure. So measures to prevent the incidence and spread of disease should surely get a very high priority. Of course many of these will lie completely outside the health care sector. In a poor country, clean water supply, sanitation and food supply are probably the key requirements. In a rich country, the focus should probably be on the poorer sections of the community in respect of food, clothing and housing. From the more strictly medical aspect, vaccination, family planning and other primary health care programmes are important, including educating people about the health care risks attached to particular types of personal behaviour. This brings the discussion to the issue of personal lifestyles: smoking, alcohol, drug taking, obesity and sexual promiscuity involve very serious health risks, to which health education programmes draw attention. What then should be the attitude to those who ignore the warnings? How can we make people more responsible for their own health? The problem is that ex post the costs of unhealthy behaviour are only partially borne by the persons involved in that they have to accept the suffering that it brings with it, but with a public health care system they do not have to pay for the often expensive treatment which they will need or even the costs of care of one kind or another. From a biblical perspective a person is expected to accept the responsibility for the consequences of their own sinful behaviour, and it is hard to see why that should not be the case where illness is the outcome of a person’s abuse of their own body about which he was fully warned, but chose to ignore.

3.3 Grace

In contrast to the principle of personal responsibility outlined in the previous section, there is a contrasting principle that the benefits of the Kingdom of God are made available on the basis of grace extended freely to those who are sinners. If our argument at 3.1 above that health and health care should be regarded in some respects as signs of the Kingdom, this would imply that health care should be available to all regardless of their personal history. This would make it a ‘merit good’, if the textbook categories are

applied. Further the principle of horizontal equity would apply. That is, any individual should receive as much health care as any one else in the same medical condition regardless of **irrelevant** factors such as race, class, gender, social position. However that begs the question of what factors might be relevant apart from the strictly clinical judgement as to whether a particular medical procedure is likely to succeed in a particular case. Once again the kind of judgements involved in estimating QALYs may be needed.

3.4 Care for the needy

The biblical material makes it clear that those who are enjoying health and prosperity in the community have an obligation to care for those who are not. Given that illness is often associated with poverty in the long term, not only should there be a health care system to provide care to the poor on the same terms as to the rich, but the community should also step in to help materially those who are in need as a consequence of illness, who will often be the elderly.

4. Derivative social principles for the doctor-patient relationship

If our contention that health care is not just another good is correct, then it surely has implications for the relationship between the doctor (or other health care professional) and the patient. In this section we explore how the relationship might be properly structured.

4.1 Covenant relationships

Messer (1996) argues that the biblical framework for relationships is that of covenant reflecting the covenant relationship between God and the human race. This covenant relationship has the following characteristics which are relevant to the former. The first is inclusiveness: that is, God's covenants are not, at least under the new covenant, restricted to particular groups. Second, the initiative in covenants invariably comes from God, but is not complete without the willing response of the people to whom it is offered. God does not impose a covenant on an unwilling partner. Third, in his covenant God is totally committed to the shalom of his people, and his purpose is to seek their good in every possible way. This is linked to his faithfulness: God's covenant is permanent and he will not unilaterally withdraw from it. Finally, God's covenant by its very nature affirms the ultimate worth of each person. He will not enter into covenant with a creature he regards as worthless.

4.2 Covenants in health care relationships⁴

⁴ Many of the characteristics of ideal health care relationships which we identify in this section are identical to those which can be derived from the concepts of 'relationism'

A human relationship differs from the relationship between God and man in that it is no longer a relationship between unequal partners, but the two people involved are fundamentally equals. The ‘therapeutic covenant’ between doctor and patient is a special form of human relationship. But it should none the less have many of the characteristics of God’s covenant. It should for example be inclusive: that is, the treatment offered by the doctor, and her attitude to the patient, should be independent of the gender, age, class and race of the patient. The covenant aspect is that the initiative comes from the doctor, but needs to be complemented by a response from the patient giving consent to what the doctor proposes. This rules out two models of doctor-patient relationships that are sometimes observed. One is the benefactor-suppliant model, where the patient has to rely on the good will of the doctor to provide appropriate service and has no ‘rights’. The other is where the relationship is a contract for service – a complex and human contract but none the less not qualitatively different from contracting any other professional to do a job for you. Because it is a covenant, there has to be a commitment on both sides: the doctor has to be sensitive to the shalom of the patient even if she is not able to take responsibility for that shalom in all its (non health) aspects, and should not just see the patient as another technical ‘case’ to be attended to. The patient in his turn has to be committed to taking the advice of the doctor, accepting that the doctor is exercising her clinical judgement in the best interests of the patient. The alternative is an atmosphere of distrust, with the patient constantly questioning or doubting the advice given, and even, sadly, looking for reasons for suing the doctor should the patient become dissatisfied. A key feature of the relationship is continuity over time, since a course of treatment may take several weeks or even years in the case of a chronic condition. So faithfulness is important, a willingness to maintain commitment even if circumstances change. Finally the covenant between the doctor and patient should assert the personal worth of the individuals involved. The doctor has to see the patient as someone worth helping whatever their circumstances. Equally the patient should give the doctor respect, reflecting the doctor’s expertise resulting from a long and difficult training, and should acknowledge the fact that the doctor is another human being who also has needs e.g. for sleep at night, so should not be called out unreasonably!

We may summarise the derivative social principles of this section and the last section as follows:

1. Health care should be seen as promoting shalom: that is the delivery of health care must be undertaken in full recognition of the general well being of the patient. But this does not mean that the medical practitioner should not specialise in giving medical advice and treatment, but that she should be aware of other dimensions and causes of ill health, and recognise the need for other professionals to be involved in caring for the patient.

e.g. face to face contact, continuity of contacts over time, mutual respect and common purpose.

2. Health care should not be limited to treating the patient who presents with a medical or other problem. In particular, there should be a recognition of individuals' personal responsibility to care for their own mental and physical health, the dissemination of information about healthy living, and an emphasis on preventive health care measures.
3. The supply of health care should be a merit good, that is it should be available to all on the basis of need, and the principle of horizontal equity should be strictly applied.
4. The supply of health care should recognise the obligation to help the needy, since poor health is itself often a cause of poverty, and poverty is often a cause of ill health.
5. The relationship between the medical professional and the patient should be based on the covenant concept.

Having identified the derivative social principles, there are two ways in which they might be applied. The first is evaluative of suggested methods of allocating health care resources, or of existing health care systems. The second is constructive of structures and systems for the delivery of health care, which would embody the principles while recognising human fallenness. The latter task is much more difficult than the first, and succeeding sections are definitely in the former mould.

5. Problems with a private health care system

'That any nation, having observed that you could provide for the supply of bread by giving bakers a pecuniary interest in baking for you, should go on to give a surgeon a pecuniary interest in cutting off your leg, is enough to make one despair of political humanity.'⁵ George Bernard Shaw is not the only writer to have expressed scepticism about the wisdom of using markets to allocate health care. Indeed much economic analysis of health care systems has identified problems with market based systems rather more fundamental than Shaw's pithy observation. These concern the efficiency and equity aspects of such systems, and we will address these in the next two sections before turning to an evaluation based on our derivative social principles.

5.1 Efficiency of market based health care systems

It is generally agreed that the consumer sovereignty argument for the use of markets cannot be easily applied to health care. The consumer, or patient, faces acute information problems which prevent him from making appropriate choices. First, some health care is very complex and it would be hard for someone without medical training to assess the accuracy of diagnosis and the probability that a particular treatment will be successful (and success may be hard to define where the 'cure' is less than complete). Second, this problem for the patient (consumer) is exacerbated by the fact that mistakes could be very costly and probably irreversible (certainly irreversible in the case of death

⁵ Quoted in Barr, N. *The Economics of the Welfare State*

while being treated!). Third, a patient will have great difficulty in identifying the price/quality vector for all the potential suppliers of health care, and in cases of acute care or accidents there is simply no time to consider what might be the best supplier. Fourth, reputation building, which sometimes helps consumers to identify quality in the case of other complex goods and services, is unlikely to be of much help in this case. Patients are simply not able to assess the quality of the care they have received in order to inform others with any degree of accuracy.

In practice most market based health care systems depend on the availability of health insurance. The market for health insurance has its own particular failures which makes it less than adequate to the situation. The first is adverse selection, because the insurance company cannot assess the risks of individuals. If it offers insurance based on average risks, then low risk individuals may not take up insurance leaving the company with only the high risk individuals. In response to rising claims from these remaining individuals, the company will raise premiums, and once again the lower risk individuals will drop out. Alternatively the insurance company will drop 'community' or general insurance, and use experience rating or introduce sophisticated screening of potential clients (witness the current debate in the UK over genetic screening of potential life insurance clients). The outcome is that the old and chronically ill will not be able to get cover. The only solution to this problem is regulation which prohibits this type of discrimination.

The second problem is moral hazard. One aspect is that the insured may not take as much care of their own health as they might. The smoker or heavy drinker will rely on the doctors to sort out the health problems created by their indulgence, in the knowledge that they personally will not have to pay. An insured person may also seek medical advice for quite minor ailments which could be treated at home with a simple remedy bought over the counter. The solution to these problems is the introduction of an element of coinsurance, with the patient having to pay for the first part of any medical bill, and perhaps having to pick up a share of the rest of the cost. This gives the patient an incentive only to use professional medical advice when it is really necessary, and to take steps to improve their own physical health. Another aspect is that the doctors have no incentives to economise or to limit the extent of tests or treatments to what is strictly necessary, given that the bill will be picked up by the insurance company. Indeed, in a context where there is concern that a dissatisfied patient might sue, there is every incentive for the doctors to cover themselves by requiring every possibly relevant test and implementing a wide range of procedures or treatments. Once again this problem can be met in part by requiring the patient to pick up a part of the cost. Alternatively the insurance company can set limits to different types of claims, and can indicate the range of treatments or procedures for which it is prepared to pay.

A third problem is that of transactions costs. Private medical insurance is most common in the United States, and the experience there is that a very large proportion of the premium income is absorbed by administration, reflecting the complexity of many medical insurance schemes in screening applicants and processing claims. The outcome

is that people with a low degree of risk aversion will not find any policy offers which are attractive to them and will remain uninsured.

Another source of market failure is that the input markets for medical care are not competitive. One problem is that the supply of doctors, and of different specialisms within the profession, is strictly regulated by professional associations. The reasons for this are entirely understandable, but the regulations can very easily become a barrier to entry. Moreover the market model presumes economic rationality in the supply of medical services, whereas the profession may attach more importance to the prestige of certain specialities and this can affect the motivation of the medical staff and their willingness to supply certain treatments.

Finally the market is not suited to capture certain externalities that have traditionally been important in the supply of health care. The most significant of these is 'caring and sharing': the appropriate sympathy that many people feel for the sick and disadvantaged, and their desire to ensure that their sick neighbour gets the same treatment that they themselves would hope for in similar circumstances. It is of course difficult to gauge how significant these feelings are. One measure might be the willingness of people to give to medical charities and local hospitals or clinics for those who cannot pay for treatment. However, this is probably a very imperfect indicator, since there is a 'free rider' problem: I may be willing to give only if I believe that a sufficiently large number of others will give to make the charitable operation viable. Moreover if the problem is not local, but arises in a community in another part of the country or even overseas, a person may be so imperfectly informed about the scale of the problem and the feasibility of solving it by charitable giving, that giving is too 'risky'. While evidently a market system for allocating health care does not exclude private charity, it does nothing to encourage or sustain it.

5.2 Equity considerations

Market supply of health care raises serious issues of equity. In respect of horizontal equity it has frequently been noted that people from lower socio-economic groups are less successful in obtaining health care even where they are in principle entitled to it. This is not entirely a question of ability to pay. The problem is that they lack information about what treatment is available, and that they lack power to ensure that decisions are taken which will deliver that treatment. The suggestion is that they are not considered to be priority cases, and may therefore have to wait longer for treatment, and may be denied the more advanced treatments, in comparison with middle class patients. There is also an issue of vertical equity. Insurance systems are implicitly redistributive in that they redistribute resources from those in good health to those in poor health, who are often economically disadvantaged, not least because they are ill. But the mechanism is very imperfect: the poor may not be able to pay the premiums to be included in a health insurance scheme, and some groups may not be able to get any health insurance because of their health status, for example sufferers from chronic illnesses.

5.3 Evaluation by the derivative social principles

We may now consider how a private health care system based on health insurance fares when evaluated by the derivative social principles of section 4 above. We have just noted that such a system is unlikely to deliver either horizontal equity (principle 3) or vertical equity (principle 4), and these failures seem to be characteristic of private health care and not defects of design. Very evidently it will also fail to deliver desirable public health measures such as the promotion of healthy life styles: moreover, as noted, insurance leads to a moral hazard problem, with people taking insufficient care of themselves, and doctors using health care resources unnecessarily to avoid litigation by disappointed patients. However the key objection to private health care on the basis of the derivative social principles has to be based on health care as promoting shalom (principle 1) and the covenant relationship between the doctor and the patient (principle 5). Ever since the Hippocratic oath the importance of codes of conduct and professional ethics has been recognised in medicine. The serious charge against market systems of health care is that they tend to erode good behaviour and practice. One reason for this has been analysed in a completely different context by Holmstrom and Milgrom (1991). They model a situation in which an agent has to apply himself to two types of activity, one of which has a measurable output, and the other being non-measurable such as the quality of a service supplied. By definition incentives can only be related to a measurable activity, so if the rewards to the agent are based on the measurable output, then he has no incentive to supply the non-measurable aspect. In a competitive market where there is no scope for establishing and benefiting from a reputation for quality the second will not be supplied at all if it is costly. The application to medical care is obvious. If market systems are introduced which base rewards on indicators of activity e.g. completed consultations, number of operations, then there will be a tendency for other aspects of medical care related to shalom to be neglected. Professional codes of conduct are unlikely to be able to prevent this except in the most blatant cases, and will be powerless to prevent a general erosion of 'good' behaviour, in a situation where by definition virtue is not, and cannot be, rewarded. A second reason for concern is that in a market system the patient inevitably becomes a 'customer' who expects service, and is willing to sue *ex post* if he thinks that the service is inadequate. This role for the patient inevitably militates against the covenant relationship which should characterise the interaction between patient and doctor.

Our conclusion is that a private health care system is unlikely to meet the criteria of the derivative social principles, unless the motivations of the doctors are based in exceptionally strong concepts of virtuous behaviour reflected in a widely accepted professional code of conduct.

6. The National Health Service

The objectives of the National Health Service were described as follows in the 1944 White Paper, which was the founding document of the service:

‘...the Government ...want to ensure that in future every man and woman and child can rely on getting ...the best medical and other facilities available; that their getting them should not depend on whether they can pay for them or any other factor irrelevant to real need.’

6. 1 The NHS in the light of efficiency/equity arguments

It remains a principle of the service that access to treatment is determined on the basis of clinical need, thus meeting the criterion of horizontal equity. In this the role of general practitioners is critical: they determine the treatment to which the patient is given access. A theoretical difficulty with the system, at least until GP fund holding was introduced, is that the doctor has no incentive to economise on the use of system resources, where those resources are inevitably limited. However there is no evidence that GPs systematically referred patients unnecessarily for specialist treatment, or that they prescribed excessively for more minor ailments. It seems that they consciously avoided overloading the system and in general only referred where they felt that the resources were available to provide appropriate treatment. Indeed the success of the voluntary rationing system, backed up by the existence of waiting lists for treatment, is something of a puzzle given the circumstances.

The NHS operates on the principle of ‘universal insurance’: that is everyone pays National Insurance contributions which are not related to the health risks of individuals. In practice the level of contributions is not actuarially related to the actual health risks of the population at large, and indeed the National Insurance Fund is inadequate to cover all the costs of the NHS. However the key characteristic is that the system is universal, so there is no problem of adverse selection. The administrative costs are much lower than private health care insurance as there is no need for a large staff to process claims. Evidently too the system does have the feature of vertical equity: not only is there a transfer via the insurance mechanism from the well to the sick, but also the contributions are mildly progressive (though not completely, since there is a ceiling on National Insurance contributions) and so involve transfers from the better off to the less well off. Recent studies also suggest, contrary to what is popularly received, that there is no class or racial bias in the treatment that people receive in the NHS (see LeGrand and Vizard (1998)). There is however plenty of evidence that poorer people and some ethnic minority groups are less healthy, which suggests that preventative measures merit more attention. But these measures are unlikely to be exclusively or even primarily ‘medical’ in the broadest sense: policies on poverty, employment, housing etc. are much more important, one exception being health education about smoking, alcohol, exercise and healthy eating.

An advantage of the NHS is that as a monopsony employer of health care professionals, it has been able to counteract the monopoly power that might otherwise be exercised by the professional organisations. For example the number of doctors in training is determined by the Department of Health and not by the medical associations. However there is some concern that the authorities have gone too far in keeping health

service salaries and wages down, and this has led to problems of recruitment and retention of nurses for example.

Prior to the founding of the NHS, many local hospitals and clinics depended on voluntary charity, and were relatively well funded. But inevitably the coverage and quality of care was variable, and better for relatively wealthy groups and neighbourhoods. The NHS has successfully sustained these altruistic notions of compassion and assistance for those who are sick and in need of treatment, though direct charitable support has obviously declined. The public at large are very anxious that the traditions of the NHS should be maintained even to the point of expressing a willingness to pay higher taxes if that is what is needed. Whether that willingness would translate into support for actual tax increases may be doubted, especially in the absence of hypothecation.

6.2 The NHS in the light of the derivative social principles

The discussion in the previous section suggests that the NHS scores well on principle 3 (that health care should be a merit good, or horizontal equity) and principle 4 (care for the disadvantaged, or vertical equity). On principle 2 (prevention and the issue of personal lifestyles) the evaluation is more equivocal. There is no doubt that the NHS does overcome externality problems in cases of infectious diseases, and that it promotes public health education. However the provision of free treatment does generate a potential moral hazard problem in that there is less personal incentive to take measures to avoid sickness. So people probably care less for themselves than would be ideal, and indeed may foolishly continue with smoking or drinking in the expectation that if taken ill they can be cured.

The NHS also scores well in terms of principle 1 (promoting shalom) and principle 5 (covenant relationships between doctor and patient). The key to this is that doctors are paid salaries. This is permissive of the pursuit of wider objectives than just another consultation provided or course of treatment completed, since payment is not related to indices of measurable health 'outputs'. The doctor is, in principle, able to consider the shalom of the patient, and to develop a covenant relationship with the patient. The incentive to do so is provided by professional codes and the general ethos of medical practice. Lazy or inefficient doctors are identified and disciplined by their peers. It is this environment which is eroded by the introduction of quasi-market arrangements for rewarding doctors and ensuring efficient use of resources within the service.

6.3 So what went wrong? (1) A funding crisis?

The extent of the 'supposed' funding crisis in the NHS has been carefully analysed by LeGrand and Vizard (1998), and in a series of articles in the BMJ (1997). Their findings are that NHS expenditure per capita grew much faster in real terms in the 20 years to 1995 than GDP per capita, even when NHS expenditures are deflated by a price index that is specific to NHS inputs. The funding 'crisis' is not explicable by demographics (old people cost more) or changes in morbidity. Nor does the evidence suggest that growth in funding has been inadequate to sustain technological change, which

can of course reduce costs as well as introducing expensive new treatments. There is a problem of rising expectations of the NHS from the public: the income elasticity of demand for health is certainly greater than unity, so implicit demands for health expenditures are likely to grow at a faster rate than GDP per capita. But the observed growth in expenditures has been sufficient to accommodate this growth in demand for any reasonable value of the income elasticity. One puzzling aspect of the public expectations is that there is a major difference in perceptions of the NHS between those who use it and those who don't. The former group are markedly more satisfied with the Service, suggesting that the non-users are simply misinformed.

However the apparent adequacy of the growth in total funding may hide some serious difficulties. For example, the long run trend growth has been combined with some considerable year-to-year fluctuations in funding: e.g. a slight fall in funding in real terms in 1996-7 generated a significant short term 'crisis' which was reflected in media stories of wards being closed and lengthening waiting lists. The last 15 years have also been characterised by a move to distribute health resources more equitably between the various Regional Health Authorities on the basis of population and morbidity. In the process, 'overfunded' regions invariably experience lower growth in their funding or even cuts leading to hospital closures etc.. However the evidence on this is that the progress towards equalisation of funding has been extremely slow, mainly because of the political difficulties of actually cutting services in a well provided region. Finally, the zeal of successive administrations for 'efficiency gains' within the Service has sometimes backfired. For example the requirement for a 3% year on year productivity gain measured in terms of 'finished consultant episodes' was met to some extent by early discharge of patients, which actually increased costs in the long run. In any case it is hard to see how there can be **continuing** productivity gains in what is in essence a personal service. It implies that over a 23 year period a consultant will be able to double the number of patients she treats.

The evidence then seems to suggest that there has been no generalised funding crisis in the NHS. However the mere perception that there is a crisis brings with it some problems: in particular, a perception that the Service is of low quality is a stimulus to those who are better off to opt into private medicine, and they are therefore less willing to pay the necessary taxes to maintain the public system. This has not yet become a problem in the UK, but it could become one if more people opt into private medicine. Fortunately there is continuing public support for the NHS, and opinion polls suggest that people would be prepared to pay more taxes to support the Service if needs be. One way of tapping into such goodwill would be to hypothecate some taxes for NHS funding, perhaps by making it more 'National Insurance' based. Alternatively 'sin' taxes on tobacco and alcohol could be used, given the costs of treating conditions related to smoking and alcohol abuse, with the possible added bonus of encouraging more healthy lifestyles. And more could be done to recover the costs of treating traffic accident victims from insurance companies.

6.4 So what went wrong? (2) The reforms since 1989?

If underfunding has not been the problem, the other possible culprit is the organisational reforms of the NHS since 1989. The first step was the White Paper *Working for Patients* in 1989. This introduced the purchaser/provider distinction, where the ‘purchaser’ holds the budget and buys health care from ‘providers’, in a ‘quasi system introduced after the White Paper, the purchasers were identified as District Health Authorities and GP fundholders (about 50% of GPs covering about 52% of the population by 1996). Their role was to purchase services from the ‘providers’ of hospital care, the hospitals and other specialised services organised as trusts with rights of independent action in respect of the mix of services supplied and the prices charged to the purchasers for those services. The idea was to introduce an element of competition into the provision of services by the trusts, giving them incentives to cut costs and use resources more efficiently. In practice the trusts did compete for contracts with the DHAs and the GP fund holders, though the amount of competition tended to be limited by the location of the hospitals and the unwillingness of patients to travel too far for treatment. So the trusts in a particular region quickly learned that there was little point in undercutting neighbouring trusts in a bid to attract more patients. However in a more limited sense it worked by improving information in the system as a whole identifying excess demands and spare capacity across regions, and there was a certain amount of travelling by patients to get treatment in other regions. In 1998 the new administration announced some important changes in the system, and the market rhetoric of the previous administration was significantly toned down. The ‘purchasers’ will be primary care groups of 50+ GPs in a particular area: and District Health Authorities will largely disappear as purchasers. ‘Contracts’ will be replaced by service agreements for 3 to 5 years thus excluding short term price competition between the trusts.

The second step in the reforms was the *Patients Charter* introduced in 1991. For the first time, hospitals were given performance and standard of service targets: and patients were to be given access to information about the quality of service and waiting times for appointments. This was implemented in 1994 with the publication of NHS Comparative Performance Tables on an annual basis. In 1998 the decision was made to make more information available on clinical outcomes as well as the numbers of patients treated. The philosophy underlying these changes was presumably to enable (and even encourage) patients to be more like consumers in ‘demanding’ treatment: this sat somewhat uneasily with the concept that the ‘purchaser’ was the GP fund holder (or the GP acting through the District Health Authority) and not the patient, on the presumption that the GP is informed in a way that the patient is not.

The suggestion is that these ‘market’ style reforms of the NHS are responsible for the perceived crisis. The argument is that health care is simply not amenable to market based supply systems. The case can be seen most sharply in the case where the doctor receives a fee for service rather than a salary. For the reasons rehearsed in section 5.3 above, the incentives are to concentrate on measurable ‘outputs’, such as the number of patients treated, while there is no incentive to improve the quality of care, especially if higher quality is consuming of time and resources. In practice of course the NHS has preserved the salaried status of doctors even with the reforms, and that is a good thing. However, market mechanisms (and the accompanying rhetoric) do operate at the

institutional level. So primary health care groups, like their predecessors the GP fund holders, will be operating with fairly tight budget constraints, and will be looking for low cost service agreements with the trusts. Similarly the trusts need to offer low cost services in order to attract custom, and will need to concentrate their attention on the throughput of patients. As we have already noted such pressures on both the purchasers and the providers are not conducive to provision of a service in which the shalom of the patient, and the quality of the doctor- patient relationship, are given high priority. Obviously, the quality of the service will be maintained to a degree by the concern of the purchasers that their patients get an appropriate level of care, and the self monitoring of the medical profession in terms of professional codes. However the constant need to watch budgets at the very least sets up conflicting pressures on the medical staff.

7. Conclusions

In this paper we have outlined a number of Biblical derivative social principles in the area of health care and the relationship of health care professional to the patient, which in some respects differ quite markedly from the usual concerns of health care economists with efficiency and equity. A key difference is the recognition that health and health care are not 'just like' any other services: health is part of shalom, a total concept of well being which includes all dimensions of life, including our relationship with God and with our neighbour. The implication is that health care cannot be treated in a mechanistic manner: the health care professional may specialise in treating physical symptoms, but should not forget that the patient is much more than just another 'case' to be processed. Another derivative social principle notes that prevention is just as important as cure, and this ties in with the concept of shalom in the recognition that much sickness has its origins in the lack of shalom in the patient's life. An implication is that the individual should be encouraged to take responsibility for their own health, especially the avoidance of unhealthy lifestyles. The derivative social principles also support the positions that health care should be a merit good, available on the basis of medical need, and that the financing of health care should be implicitly redistributive from the healthy to the sick. Finally, the paper argues that the doctor-patient relationship should be modelled on the concept of a covenant, with mutual responsibilities between the parties.

These derivative social principles are then used to evaluate both market based and public service systems for the supply of health care services. The market 'failures' in the supply of health care are well known, and are briefly summarised in the paper: what is new is the suggestion that market based systems are likely to be inimical to the pursuit of shalom for the patient, and covenant in the doctor-patient relationship. The reason is that market based systems for the allocation of resources are not able to take quality of service into account, in a situation where the reputation mechanism is not available effectively to enforce high quality. To put it another way, professional and ethical codes concerning the quality of service are put under great pressure in circumstances where resources are scarce and the criteria for allocation are tied closely to measurable 'outputs', in this case the number of patients treated in various ways. The paper argues that the NHS as it was conceived at its inception is much closer than any market based

system to the ideals set out in the derivative social principles. There remains a puzzle as to why there is widely perceived to be a 'crisis' in the Service. The view that the problems arise because of under funding is examined, and the consensus in the literature seems to be that the evidence does not support this explanation. The alternative is that the problems have arisen from the organisational changes introduced since 1989, and in particular the introduction of the purchaser/provider framework and quasi-markets. Although these fall far short of a complete market model, the effect has been to change the pattern of incentives quite markedly and in directions which are almost certainly detrimental to the concepts of shalom and covenant outlined above. The 'crisis' then is one of a change of culture for the medical profession, from a culture of service not closely tied to managing scarce resources, to a culture where budget constraints are 'hard' and threaten to erode the older traditions of the NHS. Evidently the gains from the new system are in terms of greater efficiency in the use of resources, as medical staff are forced to consider the resource implications of their pattern of working. The concern is that undue consideration of efficiency threatens to erode 'virtuous' behaviour.

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HAVE BUSINESS ETHICS A ROLE TO PLAY IN THE COMPETITIVE ECONOMY? A REVIEW ARTICLE

Competitive and Ethical? How Business Can Strike a Balance by Giles Wyburd, London: Kogan Page, 1998, ISBN 0 7494 2669 1 (pbk £16.99)

The Role of Business Ethics in Economic Performance edited by Ian Jones and Michael Pollitt, London: Macmillan, 1988, ISBN 0 333 71741 4 (hbk £45.00)

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There has recently been a spate of publication on the subject of business ethics. This reflects growing academic interest in the subject, spurred on by the development of business ethics teaching in university Business Schools in Britain and North America. Teaching development has occurred at both undergraduate and MBA level, as both an elective and, less frequently, a core subject of the curriculum. This in turn reflects a rising concern for “corporate responsibility” in the boardrooms of major companies, and a growing interest among company management to be seen to be taking ethical concerns seriously. External pressure has been growing on companies in a number of areas through, what might be loosely termed, the “political process”. One area is reflected in the burgeoning subject of corporate governance, entailing concerns about the determination of boardroom pay (adverse press coverage of “fat-cat” salaries seemingly unrelated to individual performance), the monitoring of executive directors and mechanisms for ensuring adequate accountability to shareholders. This has provoked over the last decade a number of official or semi-official reports; Cadbury (1992) on financial aspects of corporate board structure and governance, Greenbury (1995) on company directors’ remuneration and Hampel (1997) on standards in corporate governance.

A further aspect of this process is reflected in growing consumer and shareholder activism, particular over the issue of environmental concern. This has obliged many companies to begin to address questions of their responsibility towards Creation and in some cases to provoke embarrassing U-turn’s in policy (such as Shell’s Brent Spar débâcle). A still further aspect of this is the rapid growth of “ethical” investment, albeit from a very low base, over the last 15 years or so in the UK (but longer in the US) (Sparkes 1995). This movement has begun to force companies into an appraisal of the social acceptability of their activities. Almost as a reaction to the “greedy eighties”, business ethics¹ has become good business practice in the “caring nineties”. It is tempting to conclude that, for the typical large multinational, wearing your business ethics “on your sleeve” is as much about enlightened self-interest as about moral crusade, at least for British public relations. The cynic might even add that the growing

¹ Throughout I shall adopt the popular shorthand of using the terms “business ethics” and “ethical behaviour” to mean “good business ethics” and “good ethical behaviour”.

Published academic work on business ethics falls into a number of categories, reflecting the diverse academic and professional backgrounds of its authors. At one extreme business ethics has been seen as a opportunity for applied philosophy, an avenue for diversification for underemployed university philosophy teachers. Unsurprisingly the main thrust of this literature is to illustrate how theories of ethics might provide a basis for prescribing virtuous behaviour in business.² In itself this is a worthy exercise; however it makes for glazed eyes among a typical undergraduate audience of economics and business students. At the other extreme, at the risk of unfair caricature, is the “teach type publication aimed at the harried executive or MBA student; highly applied, full of case study material, often inviting useful reader introspection and sometimes geared towards the “code of ethics” or “code of practice” model.³ A further, rather smaller category is work in reaction to the business ethics movement, defending an older tradition that morality is for individuals not corporations; corporations exist to make as much profit as possible and any failure to do so is to the detriment of overall social well-being.⁴ These authors find much to frustrate them in the allegedly social-liberal agenda of the business ethics movement, and often castigate the perceived certainties of its “moral rearmament in the boardroom” stance. Finally there has also been a growth in edited collections or “readers” aimed at the student, bringing together the ethical teachings of philosophers, religious scripture writers and theologians down the ages, alongside more modern commentary and case study on corporate ethics.⁵ These often represent extremely good value for money, but tend to contain much more than an average undergraduate will get through in a short module or course on the subject.

It is encouraging to see Christian writers well-represented in this corpus of work. However for the Christian writer the challenge always exist as to whether to “come clean” on his or her moral foundations. This is a challenge because, in the post-modern world in which we are continually being told we inhabit, my (Christian) “meta-narrative” is as equally valid or invalid as anyone else’s, and so where I get my business ethics from is as valid or as invalid as where you get yours from. In fact for many non-Christian writers on business ethics, the source of those ethics is likely to be highly self-referential. The modern corporation responds to the contemporary (and therefore

² Examples include Donaldson (1989) and Jackson (1996).

³ A highly readable example by a Christian author is Murray (1997).

⁴ A recent example here might be Barry (1998). This style of approach harks back to a rather longer established literature, see for example Friedman and Friedman (1962).

⁵ Two examples might be Hoffman and Frederick (1995) and Stackhouse *et al.* (1995). The latter of these is from a Christian publishing house.

continually changing) preferences of the society in which it does business, but in turn it shapes those preferences and attitudes through the marketing and public relations process.

The task for the Christian writer on and teacher of business ethics may therefore be translated into one of highlighting the importance for the business executive (or aspiring business executive) in sorting out where he or she stands on important ethical issues. In other words the important message is that there can be no such thing as a business executive with no business ethics, or perhaps more accurately that no business executive operates in a moral vacuum. This task was revealed to me rather starkly after delivering the first lecture on business ethics on a brand new course on corporate governance and business ethics in 1997. It became glaringly apparent to me over the space of 50 minutes that, for the 60 final year undergraduates present, it had never crossed their minds that they would face ethical dilemmas in a career in business. I think they had signed up expecting to be told what was right and wrong, not to be given a long list of questions to go away and think about. Their confusion about the nature of the subject was further reinforced when in the second lecture I abandoned my prepared notes and had them complete a questionnaire designed to reveal their attitudes to such issues as office pilfering, petty insurance fraud, corporate whistle-blowing, and insider-trading. Very few even knew that if I was a company director and knew that a take-over announcement was imminent, then it would be illegal for me to tip my wife off to buy some shares in advance. Interestingly, and with offers of explanation invited, the ethical confusion was significantly greater (in a statistical sense) amongst men than women and amongst economists than other business students. Added to this confusion was the impression that business ethics had really little or nothing to do with corporate performance.

Two recently published, but very different books by Christian authors, have attempted to address the question of the link between business ethics and corporate performance. Giles Wyburd's *Competitive and Ethical: How Business Can Strike A Balance* (1998) is cast as a book for those in business and for students aspiring to be in it. It sets out to argue that ethical behaviour by companies can lead to successful performance in a competitive economy. The author has a wealth of experience in the world of business and has been heavily involved with the Institute of Business Ethics since its inception in 1986. The proposition that ethics and performance go hand in hand is an important one – it strikes a chord at the heart of the Christian faith in the sense that righteousness goes hand in hand with God's blessing. Wyburd is an author who believes strongly in the merits of a competitive, capitalist economy, and a firm adherent of the benefits of free trade. There was not so long ago a time when many academics would have ridiculed such an unequivocal stance on capitalism, perhaps rather less so since the collapse of communism in Eastern Europe. Wyburd is rightly critical of monopoly power but perhaps over sanguine about the ability of modern societies to eliminate it. He is also justifiably sceptical of Keynesian interventionism, citing Will Hutton as the modern day standard bearer of the Keynesian gospel in his belief that competition is a "public school ethic, transposed to the national economy". This is a pertinent quote given the suspicion

of some that Keynes himself would rather have entrusted economic management to a Cambridge-Bloomsbury elite, rather than the vagaries of the democratic process. Wyburd recognises that there is much that can go wrong, at the microeconomic level, in the economy and discusses, in Chapter 2, the familiar problems of price fixing and barriers to entry, and the difficulties of regulation in markets which lend themselves towards natural monopoly. For a reader such as myself, who was schooled as a student into the opinion that market imperfection and abuse of market power is the principle failing of market economies, this is an important motivation for ethical business activity.

Chapter 3 wades into the murky world of advertising with a plea for honesty, decency and truthfulness. Perhaps he is overly optimistic that bad advertising is simply not believed by customers and so is neither credible nor trusted. Chapter 4 brings even more face to face with the murky world of modern (and not so modern) business, by addressing bribery and corporate entertaining. Here we might congratulate the author for having the courage to link these two together. The important issues here, which the chapter does get to grips with, are whether such forms of corporate activity can be justified simply because they are not illegal. The example, which the author cites, is Lockheed's admission that it paid Japanese officials 12 million dollars in the 1970s to secure an order for aircraft. In its defence Lockheed admitted that it had done nothing that violated current legislation, even though the action was "unethical" saying that we ought on the part of business to expect a higher degree of critical assessment of the ethical integrity of its actions. Christians in business are answerable to a higher authority than civil law.

Chapter 5 widens the net further and examines a range of activities which bring companies into disrepute: bad quality, counterfeit or inappropriate products; pricing policies; employment and remuneration practice; and industrial espionage. For economists the discussion of pricing, dealing for familiar types of restrictive practice and predatory behaviour, will be of most interest here. I suspect there is little disagreement that, in principle, predation is unethical. The problem is that economists have found it extremely difficult to establish a workable, policy-implementable definition of predation. The discussion in this chapter of the famous Times Newspaper price cut of 1993-94 illustrates this well, and accords with academic economic research on the subject.⁶ Chapter 6 moves on to legal territory and deals with the question of whether self-regulation is better than regulation, an issue of considerable debate in the business ethics arena. It also gets to grips with the pros and cons of codes of ethics. As an executive member of the Institute of Business Ethics, which has been at the forefront of promoting codes of ethical practice as a management tool, it is perhaps not surprising, that after a balanced assessment, he comes down very much in favour of the self-regulatory code of ethics approach.

⁶ Claire Morris, *Product Differentiation, Predation and Competition in the UK National Daily Newspaper Industry*, unpublished PhD thesis, University of Wales Aberystwyth, 1998.

Chapter 7 is the final substantive chapter and tries to tie together the big issue of whether good corporate ethics will compromise (short-run) corporate profitability. For the economist (and particularly the Christian one) there ought to be no compromise – business must be both ethical and “competitive”. Failure to be profitable, or to sacrifice profitability to pursue other objectives, will, assuming a competitive market structure, result in long-run exit. The key question that arises is, to paraphrase some recent Euro-speak, what happens if some companies in a competitive industry are engaged in “ethical dumping”, in the sense that unethical behaviour allows them to enjoy lower costs of production than ethical firms. Economic theory would tell us that a Gresham’s Law or adverse selection effect might be at work, to the detriment of ethical standards in business. Casual empiricism would suggest that in practice ethical firms survive because consumers, suppliers and investors prefer to do business with them, so in economic terms they perhaps benefit from stronger demand and lower factor prices. A theological assessment would of course take a radically different view (and it is this view that Christian economists and teachers of business ethics will find most difficult to convince their readers and students): the ethical business need not worry about profitability because God’s reward for righteousness is blessing. Wyburd does not push his audience this far but he does conclude that ethical firms are well-managed ones, and well-managed ones are successful.

The Role of Business Ethics in Economic Performance edited by Ian Jones and Michael Pollitt is a very different treatment of the same issues. It is aimed at largely at an academic audience, rather than a student or practitioner one. It does however reach a very similar conclusion to Wyburd, namely that good business ethics is an expression of enlightened self-interest. Jones and Pollitt’s work will be familiar to readers of the *ACE Journal*; indeed they wrote a preview article on this book for Issue number 24. This volume brings together a number of influential writers on business ethics, weaving a set of rather disparate contributions into the general theme that the way in which economic activity is undertaken is as equally important as the results of that activity, and indeed that, insofar as ethical standards in business are an important aspect of the former, then they have a significant influence on the latter. Each of the contributions in the book is not only very different in terms of subject matter, but also in terms of outlook. The editors, perhaps rather artificially, arrange these in terms of four areas: conceptual and empirical issues in the role of business ethics on performance, issues concerning the way in which business ethics impact on market structures and institutions, the role of business ethics on the demand side of markets and the role of business ethics on the supply side.

Beginning with the conceptual, John Eatwell takes us back to Adam Smith and discusses the concept of self-interest in Adam Smith’s work. Is Adam Smith the “apostle of greed” that he is often made out to be by anti-neoclassical thinkers? Eatwell concludes that Smith was well aware that his morality of self-interest for the greater good might well fail, for reasons which are now familiar to those of us schooled in modern understanding of market failure. Eatwell tells us that in Smith there is a strong case for intervention by public authority to promote open and full information, and to promote

education, since Smith takes the view that both are requirements for resolution of the apparent contradiction between ethical behaviour and self-interest.

Mark Casson is concerned with the need for ethical leadership, and writes a chapter which imaginatively and effectively spans a gulf between economics and management, something at which he has proved adept over the last twenty years. The role of the leader is, to Casson, to model ethical behaviour to his or her subordinates, and therefore to confer legitimacy on ethical behaviour. The discussion is very much in terms of economics, spanning as it does, the way on which ethical legitimacy might enter the utility function of economic agents, the supply of leaders, competition between leaders and their groups, and the division of labour between leaders and followers. Leadership has recently become very “hot” in popular writing on management – some might conclude “hot” in terms of the temperature of the air that it has generated rather than in any other sense! While some readers will find Casson’s commitment to the view that analysis of leadership is an exercise in positivist economics, his seriousness of purpose is to be commended. Equally to be commended is his plea for a restoration of clarity in the moral education of children in western societies, as a pre-condition for improved understanding of leadership.

Simon Deakin and Frank Wilkinson write about the role for cooperation in good economic performance, contrasting the impact of the minimalist approach to contract law found in Britain with other examples from continental Europe where the legal framework facilitates a much better establishment of long-term trust relations. Trust emerges as the dominant theme in this contribution, and the authors discuss in their conclusions the need for both “hardware” (laws, norms and standards) and “software” (the trust learning process) to support its creation and maintenance. Economists (particularly English-speaking ones) are instinctively wary of anything which smacks of collusion – are words like “trust” and “networks” just a polite description of the institutions of collusion? There is a challenge here for economists to unravel – can trusting economic relationships be compatible with competitiveness? Is there a synergy or a trade-off between the two? We are, of course, here back to the title of this review – if trust is an aspect of ethical behaviour then what is its role in the competitive economy? Deakin and Wilkinson illustrate the issue by reference to various empirical examples, but the reader is left feeling that a deeper level of analysis is necessary.

A chapter by Sir Adrian Cadbury (of Cadbury Report fame) on voluntary codes of practice moves us on to the institutional. He takes us quickly and clearly through the various types of codes in use, reviewing their pro’s and con’s. Cadbury, unsurprisingly, is in favour of the voluntary code of practice, and eschews attempts to legislate for good ethics. However he does recognise that codes of practice cannot substitute for high ethical standards in business – the latter being largely a matter of personal morality (in apparent contrast to Casson for whom ethical standards are a matter of good leadership). Norman Barry takes further the case for minimal state intervention. Barry is a scholar of Hayek and the Austrian school. He is therefore an unashamed critic of the doctrine of the social market economy, and the notion of stakeholderism which attenuates the property rights of corporate owners. His plea is that society should not “politicise” the firm by

imposing on it obligations of corporate responsibility (beyond those to uphold the law and maximise profit).

The “demand” for business ethics is seen as coming through the mechanism of consumer activism particularly in the areas of environmentalism and “ethical” investment. Maurie Cohen and Russell Sparkes deal with each of these in turn. Cohen provides a useful assessment of the growth in the impact of environmental concerns, examining interpretations for this growth, and the strategies that both business and the environmental lobby have adopted to respond to it. He highlights the tension between the “rationalist” approach and the “romantic” approach to environmentalism, making a plea for less of the latter and more of the former. Perhaps the issue of greatest pertinence to both business and to economists is the question of whether stricter environmental regulations increase costs and reduce profits, or whether strategies are available which do not mean a long-run trade-off between environmental compliance and profitability. Ethical investment is a much more recent phenomenon in the UK, and has until recently received little academic attention. It is closely allied to environmentalism as an issue because standards of environmental responsibility are often at the top of the list of criteria used by “ethical” funds in deciding whether to make their investments. Again a key issue is whether there is a cost to investing ethically. In fact this is not as straightforward a question as it may seem, because companies which satisfy ethical criteria tend to be smaller and less diversified, and smaller firms tend to post higher rates of return on capital. Conventional methodologies such as matched pairing of companies, or capital-asset pricing based approaches tend therefore to place ethical funds in a favourable light. Proponents of ethical investment apply a form of “market for corporate control” argument that, if positive ethical criteria are used for investment purposes, then that reinforces the success of ethically well-run companies to the detriment of the less well-run. The impact of this argument depends on the scale of funds invested under ethical criteria. While these have been growing at a very rapid rate, they are still small relative to overall size of stock market investments.

The final two papers examine what the editors identify as the supply-side. Clive Wright assesses the influence of business ethics on corporate culture. His conclusion that the ethical dimension is becoming an important part of corporate culture. While this may be so, it leaves open to question whether that culture is “top-down”, being grudgingly or cynically accepted lower down the company hierarchy. Clearly the way in which the senior management of a company communicates its values is important in determining the extent to which they are endorsed and implemented further down. One further concern here is whether ethics are a luxury good for some firms – when recession hits high ethical standards are a dispensable excess. Equally important is the issue of the monitoring of ethical standards implementation throughout the company. This is not a trivial problem for the large, possibly transnational company, whose workforce may span different cultures and value systems. It may be a long way in cultural terms from the boardroom to the works canteen. The transnational theme is taken up in the final paper by Neil Hood, who acknowledges that the challenges here are enormous, and embraces, among other issues, the thorny question of the relationship between transnationals and host governments.

Overall there is much of interest in this volume. Much of what is written on the subject of business ethics appears at first glance rather simplistic, and by and large the contributors to this volume escape that charge. Ethical concerns are often complex and rarely straightforward. The key questions for economists who place importance on ethical concerns are to do with the transmission mechanisms from business ethics to corporate and economic performance. Critics of the business ethics approach, such as Brittan (1998), see a grand “moral rearmament” conspiracy at work, one which aims to overturn capitalism with a continental European social market economy overburdened with regulation and its attendant costs. But such writers seem unwilling or unable to distinguish between a process which encourages the voluntary adoption of high ethical standards, and the compulsory imposition of regulation. It is a mystery why the former must inevitably lead to the latter.

In reality there are likely to be a number of mutually inclusive routes through which ethical companies and ethical managers perform better than others. It may well be that, put simply, people are better motivated and more productive in such organisations. This is a line of reasoning akin to the “efficiency wage” hypothesis in labour economics, that the costs of being “ethical” are outweighed by productivity improvements. It might also be the case that for many companies a move towards a more “ethical” product orientation has allowed the exploitation of a first mover advantage – the taking advantage of a previously unoccupied area of product characteristic space. A similar argument might apply to ethical investment funds. These sorts of arguments all point in favour of the enlightened self-interest explanation – good business ethics is good for business. This is of some reassurance for Christian economists, but is at the same time disquieting in that it points heavily towards the relativist view that firms behave in a way that reflects what is expected of them by society. Introduce market power and an element of persuasive advertising and the whole process becomes an endogenous one in which firms behave ethically because consumers and investors demand it. Firms in turn manipulate that demand that through their marketing and public relations strategies. It would be more reassuring if we were certain that business is interested in business ethics for its own sake – a deontological explanation in which ethical business is promoted and developed by strictly exogenous moral imperatives. We can point to instances, such as Traidcraft plc where we can be reasonably sure that this is the case. For the rest perhaps we should content ourselves with Paul’s attitude that “the important thing is that, whether from false motives or true, Christ is preached” (Phil. 1:18).

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