

## The Ethics of Capital and Interest

*An Interview between Shawn Ritenour and Joseph E. Gorra*

**M**arkets, capital and interest are not value-free, despite a dominant fact-value dichotomy that often exists in economics. In this interview, Shawn Ritenour discusses this issue along with the nature of money, the ethics of capital, the distinctiveness and weakness of the “Austrian school of economics,” and how Christian philosophers might collaborate with Christian economists.

**Among other things, you are a professor of economics with, what I would describe as skilled theological and philosophical attentiveness and insight to the issues of economics and economic and political policy. What do you find so interesting about studying and teaching economics, and how has the integration of the Christian worldview made a difference in your work?**

From the first economics class I took in college, I loved the discipline. I really enjoy contemplating how all of the actions of the various people who participate in the global division of labor are coordinated so that people are able to satisfy the ends they value the most with the least amount of cost and so little conflict.

It was the Christian world-view that convinced me economics was worth studying. When I discovered Mises’ *Human Action* it was an intellectual epiphany. His rooting economic analysis in the reality of purposeful human behavior allowed me to integrate economics with other bodies of thought. For me this was especially important. As a student considering making economic my life’s vocation, I wanted to make sure that economic theory could be integrated with Christian doctrine. Christianity teaches that man is a person who, being made in God’s image, acts with a purpose.

In building his economic framework up from human action Mises discovered and developed an economic edifice that fits nicely with Christian doctrine. Because I became convinced that economics built on the right foundation is not only compatible with but actually grows out of the Christian doctrine of creation and man, I decided that economic theory is not a waste of one's life, but is a legitimate calling.

Recognizing that economics is a body of knowledge developed by discovering God ordained economic laws provides an incentive to study economics

because students understand it is about something real and not merely ivory tower sophistry. Viewing economics in this light also allows us to glimpse something of the glory of God by contemplating these economic laws as part of the created order. On a more practical level, it can actually allow us to make better sense of several Scriptural passages that use economic concepts and imagery.

**There are some fundamental and significant concepts in economics that merit attention for any serious student and scholar of this area. For example, what is the nature of money and how does it function in modern economic life? How should we think about this in light of an account of human action and flourishing?**

Money is medium of exchange so is traded in all markets. All prices, therefore, are monetary prices. This is a wonderful thing, because monetary prices allow entrepreneurs to calculate profit and loss. They are able to tally the costs of production and compare them to the expected price of their output and determine the wisdom of producing a certain product.

The beauty of the free-market price system is that these same objective monetary prices are manifestations of people's subjective preferences. The free-market monetary price system provides a way for economic decision makers to rationally allocate scarce land, labor, and capital goods to their most productive uses, as determined by members of society.

Economic calculation allows, therefore, the flourishing of an extensive, complex division of labor, which is vastly more productive than production for direct use. It is this increased productivity that increases our standard of living even as our population grows. It also fosters enough leisure time for culture to develop.

Without economic calculation, there would be no economic activity, only chaos. There would be massive waste and social disintegration resulting in starvation, death, and cultural ossification. The history of all hard core socialist experiments bears this out.

**Related to the nature of money and its function is the question of capital and interest. Capital and interest are often viewed with suspicion, whether for religious or non-religious reasons. Is that warranted? From within an ethical framework, how should we understand the morality of capital and interest and its contribution to society?**

Capital and interest should be no more suspect than any other things over which we are made stewards. In fact capital is very important for us to fulfill the cultural mandate. We are called to be fruitful and multiply, fill the earth, subdue it and rule over it. How do we do that in our fallen world without either starving to death or killing one another? An important part of the answer is to be productive. Sustaining a growing population, for example, requires increases in productivity.

Capital greatly enhances our productive capacity. For example, it is estimated that in 15th-Century France a farmer could produce approximately 3.25 lbs of wheat per man-hour. In 2004 the average farmer could produce 857 lbs. per man-hour. This is not because farmers today work harder than their 15<sup>th</sup> Century counterparts. In fact, a case could be made that they do not have to work as hard. This is because capital goods are helping them produce so much more. As the old tractor advertisement said, “Ford farming means less work and more income per acre.” Consequently, the accumulation of capital goods allows us to produce more and increase our standard of living.

Accumulating and using capital, however, requires productive activity funded by savings. It takes time to produce capital goods, so this productive activity must be enabled by people refraining from consumption and investing saved resources toward the accumulation of capital. Technological advance also requires savings and investment in research and development.

A person’s willingness to save is constrained by how willing he is to put off present consumption in order to have more consumption in the future. To agree to invest money now, people require a premium to compensate them for the waiting time they must endure. This additional positive investment return is called interest and is income earned by saving and investing. Therefore, economics teaches that the saver/capitalist provides a great social benefit, because he funds investment and provides for the accumulation of capital which makes us more productive, raising our standard of living. Interest, therefore, is a person’s meaningful reward for sacrificing present consumption as his contribution to social productivity.

**You belong to a tradition of economic thought often identified as the “Austrian School of Economics.” Can you briefly explain what is distinctive about that school and, as a Christian, what do you find to be its strengths and weaknesses?**

As I see it, the most distinctive characteristic of Austrian economics is its foundation in praxeology or the study of human action. All economic laws are indeed laws in that they are implications of something common to all people—purposeful human behavior. Wherever humans act, the laws of economic are in force. To discover those laws, economists in the Austrian tradition apply the laws of cause and effect to the reality of human action, deducing real and true economic relationships. The method of applying these laws of logic to human action is what has prompted some in this tradition to refer to their work as causal-realist economics.

The method has many strengths. It is realistic by keeping the whole man in view. It does not model economic relationships by supposing people are merely “economic agents” who are lightning fast calculators of pleasure and pain. It understands that humans act to fulfill their preferences, whatever they may be. It is also realistic because its starting premise, human action, is in agreement with our nature as rational actors made in the image of God.

This causal realism helps us to truly understand real economic problems such as inflation and recession. For example, Austrians both predicted and can explain the 2008 financial crisis and recession.

Another strength of the causal-realist tradition is that it keeps economics in its rightful place. Economics is not about everything.

I do not think that Austrian economics has any theoretical weaknesses. It does have limitations that economists in that tradition themselves recognize. Economics built on a foundation of human action does not tell us what is right and wrong. It also does not provide quantitative economic laws. Some people might say those are weaknesses, however, they are not weaknesses of Austrian economics, but merely reflections of reality. It is not helpful to act as if economics tells us more than it can.

**You are the author of the celebrated book, *The Foundations of Economics: A Christian View*. What prompted you to write this book, and how do you attempt to unpack this subject-matter for your readership?**

The proximate catalyst for the book was encouragement by a successful Christian entrepreneur. He had a foundation that wanted to grant money to someone who would write an introductory, free market economics text from a Christian perspective.

I had been thinking about the place of economics in a Christian world-view for awhile, and had not been satisfied with any materials I had seen up to that time. Although several principles-of-economics texts are available, I find most of them very jargon-laden encyclopedic tomes, attempting to mention every field of economics and usually end up being "a mile wide and an inch deep." They bombard the reader with facts and definitions, but economics is much more than terms. It is a discipline that enables people to discover economic laws and apply them to solve a myriad of economic problems. Therefore, the encyclopedic approach is not very useful in teaching economics.

Additionally, many economics texts often damn the workings of the market with the faintest of praise, but then go to great lengths to justify government intervention in the economy, especially in the sections relating to monetary and fiscal policy. I thought that there was a great need for an introductory economics text that begins with the fundamentals of human action, develops economic principles in a way that students can understand, and then applies these principles to economic policy.

And of course, the standard works on economics make no mention of Christian epistemology or ethics. I wanted to explain why economics was important to study, how we can be sure that what we call economic laws are in fact economic laws, and how Christian ethics affect how we view economic policy.

In my book, I provide a Christian justification for economics as a discipline, and show how certain relevant Christian doctrines impact both how we do economic analysis and how we analyze economic policy. As I implied earlier, economics is important because of the cultural mandate. It is really about how humans act to solve one of mankind's greatest dilemmas: how do we fulfill our commission to work, fill, rule, and keep creation in a fallen world of aggravated scarcity without either starving to death or killing one another? Economics greatly helps us solve the material aspect of that mandate.

I see three primary intersections of Christian doctrine and economics: epistemology, method, and economic policy. Christian doctrine informs how we do economics and evaluate economic propositions. Like the Spanish scholastics, I view economic law as part of the created order. The Christian view of creation teaches us that God created and sustains all there is. God created a universe with purpose and order.

**What is some advice that you would give to Christian pastors and seminary professors as they interpret and interact with various economic conditions and factors that face their lives and the lives of those in their care? How might they faithfully interpret and communicate scripture's perspective on economic realities?**

They should have at least a rudimentary understanding of economic law. Remember that the laws of economics are in fact laws of the created order. We can't merely dismiss them as if they have no relevance for us. Just as we must constrain our behavior in light of gravity, to be successful, we must constrain our behavior in light of the laws of economics. Therefore if pastors or seminary professors wish to meaningfully interact with and comment upon economic conditions and situations people face, they must have some grasp of sound economic doctrine.

For example, way too often, Christian social theorists will begin with the Christian principle to love your poor neighbor as yourself and then draw a straight line from that to a defense for the welfare state as a preeminent Christian means to minister to the poor. Such lines of thinking completely ignore the teachings of economics that reveal the negative incentives the welfare state puts in place for both the poor and productive tax payers.

**In the last ten to twenty years or so, it's been interesting to watch the emergence of various Christian, interdisciplinary perspectives on economics, including how the work of theologians and philosophers are taken seriously and integrated in this area. What are some areas of economics that you would like to see Christian theologians and philosophers take-up as their projects as they seek to help empower the work of the economics thinker?**

I would like to see more work done on the nature of voluntary action and free will. With the growth of neuroscience, the traditional Christian concept of the mind-body or spirit-body distinction is increasingly under attack. It further has been argued recently that action is more emotional than rational and only rationally justified after the fact. I would like to see this idea investigated more carefully. Additionally, the ethics of private property needs more contemporary defenders from theologians and ethicists.

**How might the study of economics enrich the work of theologians and philosophers that are attending to matters of practice, way of life, and what it means to flourish in a free society?**



I think it would give them a better understanding of human action as it is worked out in all of life. It would help them see the implications of our interaction being a result of purposeful behavior. As such, they would gain an appreciation for how the Christian ethic of private property helps mitigate social conflict and how aggression against property either by private criminals or the state injects conflict into social relations.

Economics also helps people escape their fear of the market. Good economics teaches that there are no autonomous “market forces” that are independent of the minds and actions of people in society. What we call the market is simply the social network of voluntary exchange. It is the preferences of the people that are impressed upon the market and not that of an autonomous market impressed upon the people. As mentioned above, entrepreneurs use economic calculation to direct scarce factors of production toward the production of goods most valued by people in society. To do so, they use market prices that are mutually determined by buyers and sellers in the market. Those entrepreneurs that are most successful, therefore, are successful precisely because they serve people in the market better than others.

Another great contribution of economics is to remind us that because exchange in a free society is voluntary, exchange is mutually beneficial. In a society where everyone is secure in their property, no one is forced into an exchange in which they do not want to participate. Therefore, all parties that do choose to participate must prefer what they receive in exchange more highly than what they trade away. In a free society, therefore, all trading parties benefit in that they all achieve a higher state of satisfaction as a result of exchange. Barring their own human error, there is never a case when a voluntary exchange benefits one person at the expense of another. Exchange, rather, allows both parties to help each other in attaining ends they value most highly.

Economics also reminds us that a person will choose to pursue actions for which the benefit exceeds the cost as determined by his preferences. His preferences are indeed personal. People do what they prefer. That understanding has helped me better grasp the social importance of the gospel and discipleship. If we do not like social outcomes that we observe, it is not enough to simply make a law requiring or prohibiting a certain behavior. The better way is to have their hearts changed and mind renewed according to the Scriptures.

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