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What Bearing, If Any, Does the Christian Doctrine of Providence Have Upon the Operation of the Market Economy?

A Response to Michael T. Dempsey

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In his comment on our previously published article,[1] Professor Dempsey asks whether we have fully understood the traditional Christian doctrine of divine providence and whether our attempt to apply the doctrine to modern economic theory and practice has been successful. He gives a negative answer to both questions. We do not believe he has given our view a fair reading because he ignores large sections of our article in his comment. It appears he also knows too little about economic theory, practice, and history.

We will begin by summarizing our earlier article, partially to note significant gaps in Dempsey's discussion. We discuss further the doctrine of providence, and what we hoped to achieve by raising the possibility that one could think of markets as a part of God's providence. We also will address the importance of the idea of spontaneous order and the informational problems associated with coordinating the behavior of hundreds of millions of people. In our view, the call for utopian schemes for coordinating economic behavior apart from markets is a misguided attempt to force the kingdom of heaven into existence rather than to let God be God. Dempsey is concerned with the need to serve others and we will note that much of market activity does precisely that.

Summary of Our Argument

In the first section of our previous article, we outlined what has been meant by providence, showed that theologians usually have not treated economic matters in their discussion of providence,[2] and suggested that economic matters may be related to the idea of providence in ways similar to the relationship of natural phenomena to providence. We quoted Benjamin Wirt Farley[3] to illustrate that providence has traditionally been held to involve God's preservation, accompaniment, and direction of the created order. We focused on the idea of preservation; that seemed to us to be where economic issues fit most naturally. We noted that when theologians give specific illustrations of preservation, they tend to refer to natural things such as the fecundity of nature. We then stated:

> The preservation of the species involves more than propagation or the production of food. If food is produced but not transported and exchanged, people suffer. The ability of human beings to learn and understand economic relations; to create institutions that enable societies to produce, transport, and exchange goods and services; and to alter those institutions as the complexity and diversity of human society increases, would seem to be part of God's providence as well.[4]

Our second section drew on ideas of Adam Smith and Friedrich Hayek concerning spontaneous orders. The idea is that social institutions often evolve in ways that help create an orderly system even though no one sets out to create the institution and no one consciously runs the institution.[5] Examples include language (in use long before ordered in grammar books), law (clearly an evolving thing in nations that rely on the common law system), and the marketplace.

The third section examined the marketplace as a part of God's providence. In this section, we first contrasted a society in which personal relationships dominate social and economic life with one in which impersonal relationships are dominant in the economic sphere. Modern market societies are characterized by impersonal relationships. Economic exchanges in personal markets tend to be characterized by tradition, custom, and status. However, impersonal exchange requires different means of organization. The means of organization is related to the idea of spontaneous order, and involves an order that relies on decentralized decision making. One of Smith's tasks in *The Wealth of Nations* was to show how decentralized systems generate order and not chaos.

We then shifted gears slightly, and moved to a discussion of an important tool used by modern economists—perfect competition—from which we derive demand and supply analysis. We followed the thinking of Harold Demsetz, who argues that the model of perfect competition is not a model of either competitive behavior or of real-world firms and families. Instead, it is a model that shows how a decentralized economic system can allocate resources efficiently. Real-world markets are much more complex than those analyzed in the model of perfect competition, but the model captures an important reality about market systems—people responding to prices and changes in prices have incentives to make decisions that result in socially desirable outcomes. To the extent that market systems carry this out, we suggested that one could think of them as part of God's providential care for human beings. Our final section discussed self-interest, noting that it does not imply selfishness.

Our overall goal in the original article was not to sanctify markets or neoclassical economics but to look at markets as one way in which God preserves human beings. We admit to a certain rhetorical hyperbole in the hope that by using language related to God's providence, some theologians might take a fresh look at markets. Perhaps they could see that the coordination problems involving hundreds of millions of people and billions of actions are enormous, and that markets perform this coordination function remarkably well. If the same result were accomplished by conscious direction, we are certain all would applaud the abilities, wisdom, and efficiency of those who carried it out. Yet, the remarkable achievements of markets often go unnoticed. People do not marvel at the fact that there is gasoline at the station when they want gas, or bread at the grocery store, but are in shock when their expectations are not met. Such expectations often are unmet when economies are organized by other methods.

Obviously, we were unsuccessful in Professor Dempsey's case. He did not take a fresh look at markets; and he repeats the fallacious notion that there is always a "winner" and a "loser" in an exchange[6] because he fails to recognize that voluntary exchange is mutually beneficial.[7] He apparently also does not believe that people serve others through their jobs or by providing jobs for people.

The Doctrine of Providence

Dempsey says that our arguments are seriously flawed, at least from a theological perspective. He says that we rely heavily on Barth's theology of providence. Actually, Farley was our main source.[8] We also referred to Barth directly, as well as to some other theologians, including Emil Brunner, Donald Bloesch, Wolfhart Pannenberg, and John Polkinghorne.[9] We were trying to gather the core ideas for how providence is described by theologians. One thing we found is that theologians are very vague when it comes to providence, especially when it comes to general providence. We took from Farley and Barth the idea that providence is God's activity of preserving, accompanying, and directing the entire universe.[10] We went on to say that we were focusing on the first of the three dimensions of providence because the preservation of creation, including humanity, is most directly relevant to economic issues. Farley states, “In the Bible, God’s preserving work is threefold. God preserves the physical universe, the earth, and all of its species; humankind in general; and his covenant people in particular. Preservation is a divine work, the express purpose of which is the uniting of all things in Christ.”[11]

Part of Dempsey’s criticism of us is that we ignore the *telos* or goal to which God is bringing his creation. Farley mentions the goal of uniting all things in Christ in the passage just quoted. Our interpretation is that preservation is necessary for God’s ultimate goal to be achieved but is more general than the specific goal. For the achievement of the goal, God’s accompanying and, most importantly, directing of human history is also needed.

We are focusing on a notion of general providence in which God first of all preserves all of creation—nonhuman and human life as well as Christians and non-Christians. An important biblical passage is that concerning Noah after the flood. God promises that he will not again destroy every living creature as he had just done, and says, “As long as the earth endures, seedtime and harvest, cold and heat, summer and winter, day and night, shall not cease.”[12] God promised a regularity to life that enables humans to rely on the seed planted in the spring to be ready for reaping before winter and that winter will come to an end. Is this part of God’s providence? We think so, but, as we noted in our original article, nonagricultural societies have to find ways to get the food to people who do not live on farms, and those not living on farms have to be doing something productive.

If the doctrine of providence does not include the idea of general providence but only special providence, then we would agree that markets cannot be part of God’s providence. If the doctrine does not include anything relating to human acting or planning, then markets cannot be a part of God’s providence. Perhaps this is what Dempsey means when he states, “… talk about God’s providence cannot be based upon nor identified with a human theory, construct, or ideology.”[13] We are not suggesting that God’s providence is based on markets but that the efficacy of markets may be, at least in part, due to God’s providence.

The Functioning of Market Economies

Like most economists, we observe markets and see how well they accomplish the coordination problems associated with the interactions of hundreds of millions of people. Markets are not perfect; no human institution is perfect. However, the ability of markets to provide goods and services to hundreds of millions of people without force or violence is remarkable. This is also not accomplished in isolation from the rest of society. For markets to work well, societies need to have a reliable legal system, a system of property rights that permits assets to move to higher-valued uses, and a populace who keeps its word. As Deirdre McCloskey notes, if people were more interested in living a truly Christian life than they do now, markets would still be the best way to organize the economy.[14]

Dempsey, along with many other theologians, observes markets and sees only shortcomings. Selfish behavior is observed, there is an unequal distribution of income, concentration in the hands of a few of power and capital, and so on. What are the alternatives? The general call Dempsey makes is, "… the modern economic theory proposed by Klay and Lunn needs to be radically redesigned: individuals and corporations must be moved by faith and by the love of God to trust that when they endeavor to serve one another, *God* will ultimately meet their needs."[15]

He says we need to redesign economic theory. How does he suggest doing this? People should be better than they are. People need to be moved by faith and love. Certainly the world would be a better place if people were moved by faith and love. The world would be a better place if government officials were moved by faith and love or if the clergy were made up of better people.

How do we organize the economy in the mean time? Dempsey cites Kathryn Tanner's work as an example of an economy based on grace.[16] In her works, Tanner offers some suggestions about how the economy could be transformed to approach the ideal system. Her practical suggestions boil down to an expansion of the federal government's role in all of life, including economic life. Another approach is that of John Milbank, who argues that economy should be based on gift. His ultimate solution is Christian socialism.[17] Dempsey suggests that firms could be more concerned about, "… maximizing profits and benefits *for others*, such as their employees, their business associates, the community, and the poor.…"[18] Both this solution and that of socialism or greater government activity face incredible information problems. In a nation of two hundred million people, how can government bureaucrats know enough about people's needs, wants, or conditions to make the correct decisions concerning what should be produced, in what quantities, and so on? How is the business executive supposed to know what provides maximum benefits for the groups Dempsey mentioned, especially when benefits to one may have to come at the expense of others? For example, raising wages increases costs of production, which implies the final price has to be greater, which harms consumers. We are not sure who Dempsey has in mind with the reference to "business associates," but if it is competitors, then we have collusion, thus violating federal antitrust laws. If he has in mind suppliers, then better prices for them also mean higher prices for consumers. For his solutions to work, business people or government bureaucrats would need quasiomniscient knowledge and enormous power to overturn the free choices of individual consumers, workers, and employees. One advantage of the market system is that it reduces the information needed, so that mortals can make decisions that result in benefits for many.

Economic historians have studied, for a number of years, how economic development came to occur in western Europe. One economic historian, Nobel laureate Douglass North, has written extensively on this subject, and, among other things, he focuses on the development of impersonal exchange:

> The most dramatic and traumatic shift that has occurred to human beings throughout history has been the shift from personal to impersonal exchange. By personal exchange, I refer to a world in which we deal with each other over and over again in small-scale economic, political and social activity, where everybody knows everybody, and where under those conditions, to use a simple illustration from game theory, it pays to cooperate. That is, game theory says that human beings cooperate with each other when they play a game over and over again, when there is no end game, when they know the other parties to the exchange, and when there are small numbers. In such a world transaction costs are low, but production costs are high, because it is a world of small-scale production, without economies of scale, and in which you typically cannot use the modern technologies I have described as part of the second economic revolution.
>
> This revolution began in Germany in the chemical industry in the second half of the nineteenth century and is now spreading all over the developed world. The world it has produced is characterized by impersonal exchange. It is a world in which our dependence rests upon people all over the world, whom we do not know; there are no repeat dealings; and large numbers of players are involved. Therefore it is a world in which the game is played differently. In game theory, we say such a world is one in which it pays to defect. That is, if you do not know the other party, you are never going to see him or her again, and neither side has any particular further hold on the other, it pays to run off with the money. A lot of economic historians have spent much time considering the way in which the Western world, in the last six or seven centuries, evolved a set of institutions that made cooperation in impersonal exchange worthwhile. That is, these institutions changed the pay-off so that impersonal exchange paid off and therefore people did not defect and cheat, lie and steal.[19]

We use two examples to illustrate the importance of the evolution referred to by North. The first is brand names on products. To many, such brands are merely part of emotional and manipulative appeals to induce people to buy their products. However, they also are an important part of the way firms are held accountable for defects. If all headache remedies were sold in plain undifferentiated bottles, so that no one knew who the manufacturer of a particular bottle was, the problems associated with tampering or with negligence would be even greater than they are with brand names. If a consumer buys a product that is substandard, she can choose to not buy from that company any longer when the name of the manufacturer is known. Brands convey information to people that is valuable to them, and the brands provide accountability to the firms.

For a second example, we use contracts and contrast them with a solution that might be seen as more Christian.[20] Suppose a firm supplies spark plugs to auto manufacturers. Further, suppose the spark plug manufacturer purchases materials from other firms in order to make the spark plugs. Finally, the material purchased has to be of a certain standard of quality to be used in the production of the spark plugs. In a market economy, there are contracts between the spark-plug manufacturer and its supplier and between the spark-plug manufacturer and the auto manufacturer. If the materials supplied to the spark-plug manufacturer are inferior, the spark-plug manufacturer can sue for violation of the contract.

Contrast this with a situation where there is no contract and the spark-plug manufacturer tries to follow the command of Jesus to forgive someone indefinitely.[21] The materials supplier provides materials that are of inferior quality and asks forgiveness from the spark-plug manufacturer. The manufacturer agrees. The next shipment also contains shoddy material, and the manufacturer forgives again, and so on. Meanwhile, the manufacturer's workforce is idle and the manufacturer is not meeting its obligations to the auto manufacturer. The spark plug manufacturer has obligations and responsibilities to others. If the spark-plug manufacturer loses the business of the auto manufacturer, it may mean unemployment for its workers. To try to balance the needs of all is an impossible task. Instead, by focusing on the contract and enforcing it, the employer can maintain employment for workers, autos are produced, and so on. The web of activities in the marketplace is enormous, with many effects that are hard for any one person to foresee. In some ways, "self-interest" is a shorthand expression for the fact that the complexities are so great that one actually will engage in behavior that is beneficial to many by focusing on what one is capable of knowing and accomplishing. Human beings, individually and collectively, do not have God's knowledge or foresight. To expect human beings to behave in ways that suggest they have such knowledge or foresight is utopian in the worst sense.

Mutual Service Through Markets

Up to this point, we have been discussing impersonal markets as spontaneous orders, coordinating decisions by millions of individuals participating in billions of exchanges without direct knowledge of each other. However, all of us also interact directly with others in some product markets and in labor markets. In this context, it is worth discussing the role of self-interest. Is it the faulty cornerstone of capitalism, interpreted as selfishness, or something quite different? Arthur Seldon, a well-known economic essayist, wrote in 1990:

> The service of self is universal, not because men and women are consciously selfish but because they can serve only the purposes they know, and in practice that means the interests of those nearest to them—themselves and their families. Other interests are increasingly removed: those of neighbors, friends, the community, the local hospital, school or old people's home, the town, the country.[22]

Service of self is an often-maligned fact about people and their market activities. Markets link billions of buyers, all with unique tastes and values, to millions of sellers in special circumstances. They produce incentives everywhere for producers to meet consumers' demands, and, without compulsion, products and services appear in stunning variety. Yet, markets may appear to do so by evoking *selfishness*.

Some market critics insist that the vast network of markets is nothing other than a devilish device for satisfying *mutual greed*. Indeed, Dempsey writes:

> If human freedom were more deeply understood as the freedom that God grants to individuals and to the church to serve others, then, a truly Christian account of freedom could not be understood in terms of self-interest but, rather, in terms of one's ability to engender freedom and opportunities for self-giving in others.[23]

Later, Dempsey cautions, "If Barth were alive today, he would surely warn us, and in the strongest possible terms, against constructing an idol of God who serves our self-interests."[24]

It seems obvious that Dempsey shares in the failure of most theologians to credit markets for providing billions of opportunities for people to engage in *mutual service*. For example, when a student pays tuition at a college or university, professors are given the opportunity to serve their students. Eventually, graduates serve others in many capacities—ranging from film production to research, from engineering to nursing, from journalism to law, and from production management to city planning.

Recently, financial incentives have been high for students to train as specialized surgeons. Even so, most students opt for alternative careers—ones that require less schooling, allow for more family time, and pose a lower risk of legal suits. All of these reasons legitimately come to bear on student choices of professions through which they will serve others. Their career decisions are both self-regarding and other serving. They are necessarily self-regarding, because individuals making career choices know themselves and their gifts better than does any advisor, theologian, or economist. The same decisions are simultaneously other serving, because they lead to serving others in uncountable ways.

Admittedly, salaries—market rewards in various careers—cannot reflect the *ultimate* value to society of all services provided. On the one hand, Mike may choose to become a professor or nurse out of a sense of personal calling to use his gifts despite lower salaries earned in those fields. On the other hand, Bill may choose an academic career because he is too lazy to work as many hours as doctors, and too cowardly to take the greater risks faced by most entrepreneurs. Alice may decide to train for a high-paying engineering career, instead of becoming a teacher, not because she cares only about money but because engineering makes better use of her rare talents. Whether decisions are made to prepare for low- or high-paying careers, the reasons range from other serving to selfish disregard for others. They must, however, always entail careful attention—in the form of self-regard.

Our general observation is that markets provide opportunities for people to serve each other (including people we will never know). Those who interact with markets make their decisions based on a combination of self-regard (informed by intimate knowledge of themselves and those closest to them) and a desire to be other serving. Some portion of service to others is reflected (and partially rewarded) in market incomes, the rest in personal relationships and subjective benefits (including spiritual ones).

We have just discussed labor markets and careers, where self-regard and other service are necessarily mixed together. The same observation can be made of all markets for goods and services. Individuals may behave badly or well in their decisions to buy and sell, but the market system would be incapable of delivering the great abundance that the writers of these articles and our readers take for granted if participants did not carefully evaluate what is good for themselves and those they know best (who can do this for them?), while also looking to serve those with whom they exchange directly (employers, sellers, customers, and so forth). This characteristic of market systems is necessary, but it can never excuse individual participants from failing to seek first the kingdom of God in their buying and selling. God always has something to teach His people about less visible opportunities, gifts, and criteria that should guide their actions in markets as elsewhere. Indeed, the church exercises its gospel vocation by helping Christians do just that!

Churches are very important participants in building and sustaining the moral and cultural fabric of society. Markets and governments are never enough. Without voluntary associations of people taking up tasks ranging from cultivation of the arts to care of the dying, societies could not thrive. In our second contribution to this controversy, we describe what markets do to vastly reduce poverty, which is a legitimate concern of Dempsey and all Christians.

Notes

1. See Michael T. Dempsey, "What Bearing, If Any, Does the Christian Doctrine of Providence Have Upon the Operation of the Market Economy?" *Journal of Markets & Morality*, this issue; and Robin Klay and John Lunn, "The Relationship of God's Providence to Market Economies and Economic Theory," *Journal of Markets & Morality* 6, no. 2 (Fall 2003): 541–64.
2. Dempsey did not understand that this was one of our aims. Perhaps we were unclear in the original presentation, but we discussed the uses of the Greek term *oikonomia*, using material from G. L. Prestige, *God in Patristic Thought* (London: SPCK, 1959). One of the uses of the term was *providence*. Further, the English word *economics* is etymologically related to *oikonomia*. We found it strange that, given this etymological relationship, theologians did not mention economic issues when discussing providence. Perhaps they need not bother because *oikonomia* refers to administration and may be seen as more related to business administration than to economics.
3. Benjamin Wirt Farley, *The Providence of God* (Grand Rapids: Baker Book House, 1988), 16.
4. Klay and Lunn, "The Relationship of God's Providence," 546.

5. Here and elsewhere in the article, we use the term *institutions* with reference to social networks, not discrete organizations that act in the social-political world.
6. Dempsey, "What Bearing, If Any …?" 486–87.
7. Technically, this would be *ex ante*. People can make mistakes and regret having made a particular exchange.
8. Because Farley was examining Reformed thought in particular, he referred often to Barth, but felt free to disagree with Barth at some points. For example, he questions whether one should subsume the preservation of human life under salvation as much as Barth did. See Farley, *Providence of God*, 36. Dempsey's criticisms raise a scholarly point—is it permissible to use a definition or a summary of key conditions for something and not accept the entire argument of the person? Does quoting Barth mean we have to agree with everything he said on a subject?
9. Polkinghorne is also a trained physicist.
10. See Farley, *Providence of God*, 16. Barth tended to use the Latin terms, *conservatio*, *concursus*, and *gubernatio*. See Karl Barth, *Church Dogmatics*, 3.3, trans. G.. W. Bromiley and T. F. Torrance (Edinburgh: T. & T. Clark, 1960), 58–239.
11. Farley, *Providence of God*, 32.
12. Genesis 8:22 (NRSV).
13. Dempsey, "What Bearing, If Any …?" 481.
14. Deirdre McCloskey, "Avarice, Prudence, and the Bourgeois Virtues," in *Having: Property and Possession in Religious and Social Life*, ed. William Schweiker and Charles Mathewes. (Grand Rapids: Eerdmans, 2004), 321–22.
15. Dempsey, "What Bearing, If Any …?" 485 (emphasis in original).
16. Dempsey does this in his footnote 4. The books cited are Kathryn Tanner, *Jesus, Humanity, and the Trinity: A Brief Systematic Theology* (Minneapolis: Fortress Press, 2001) and *Economy of Grace* (Minneapolis: Fortress Press, 2005).
17. John Milbank, *Being Reconciled: Ontology and Pardon* (London: Routledge, 2003).
18. Dempsey, "What Bearing, If Any …?" 485 (emphasis in original).
19. Douglass C. North, *Understanding the Process of Economic Change* (London: The Institute of Economic Affairs, 1999), 21–22. In our earlier article, we referred to Hayek and Smith concerning spontaneous order. The North quote shows that spontaneous order does not mean the order sprang up over night but that it evolved and is not due to the conscious design of anyone. Transaction costs refer to the costs associated with exchange, which include costs of searching for a good supplier, assuring the quality of a product and the reliability of the transactor, and enforcing contracts.

20. Both Milbank's focus on economy of gift and Tanner's focus on economy of grace are seen as different from a contractual basis to the economy.
21. The passage says seventy-seven times but we think Jesus did not mean seventy-seven in some legalistic sense.
22. Arthur Seldon, *The Virtues of Capitalism* (Indianapolis: Liberty Fund, 2004), 344.
23. Dempsey, "What Bearing, If Any …?" 487.
24. Dempsey, "What Bearing, If Any …?" 489.