

DEPRESSION, RECESSION, AND RECOVERY: NIEBUHR'S CHRISTIAN REALISM APPLIED TO MACROECONOMICS

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Abstract

Following decades of macroeconomic theories applied to counteract the business cycle, the Great Recession of 2008-2010 was an unexpected challenge to economic dogmas that had been part of American consciousness. In like manner, early economic principles such as the Protestant Ethic and the promise of industrial capitalism were challenged by the harsh injustices of the Great Depression in the 1930s. While it is tempting for people of faith to align with radical economic and political factions that purport unilateral solutions to economic problems, more often than not solutions are far more complicated and multifaceted than platitudes reveal. Following the Great Depression, Reinhold Niebuhr argued for a perspective of Christian Realism that could remain critical of both capitalism and socialism, and seek practical, moderate solutions to advocate both prosperity and justice for all people. Niebuhr's perspective, when applied to macroeconomics, recognizes that corporations, individuals, and government are each inherently oriented toward corruption and thus, need one another for purposes of mutual security and accountability. Both imaginative and moderate possibilities for macroeconomic and social change are briefly explored.

Introduction

The Great Depression of the 1930s demonstrated the volatility of free market capitalism, a force that until that time had been heralded as the utopian economic system for the establishment of a new world system. Rooted in both Puritanical values and Enlightenment ideals, capitalism fueled the rapid development of the United States by emphasizing rugged individualism and perpetual economic expansion. Such sentiments were nowhere more clearly expressed than in the irrational exuberance of the 1920s when, according to Yale economist Irving Fischer, stock prices had reached a "permanently high plateau" (Fox, 2009). However, the cruel realities of the Great Depression, mirrored in the "Great Recession" of 2008-2010, should serve as reminders that free markets are not divine forces and governments are not inherently salvific. Reinhold

Niebuhr's "Christian Realism" may be used as a framework by which both economic justice and economic prosperity can be understood, assessed, and reformed. By understanding the past, positive social change may be effected in the future.

The Divinization of Capitalism in American life

Sociologist Max Weber (1864-1920) defined the theologically infused economic principle known as The Protestant Ethic in *The Protestant Ethic and the Spirit of Capitalism*(1904). The spirit of capitalism was, according to Weber, an *ethos*, "... not mere business astuteness, but the idea of a duty of the individual toward the increase of his capital, which is assumed as an end in itself" (Weber, 1958, p.51). The Protestant Ethic engendered the idea that the harder one works and the more property and capital one accumulates, the godlier one becomes. Protestant Puritans saw property and capital as a divine calling of which they were stewards, liberals saw property as a self-evident natural right for private persons (Stackhouse, 1984). The concept of increased individual capital was foundational to the success of industrialism, mass production, and factory labor in the United States in the late nineteenth and early twentieth centuries; economic growth that eventually led to the prosperity of the roaring twenties and eventually, the despair of the Great Depression.

According to Weber, the success of capitalism depended on the embrace and internalization of certain socio-religious values. Weber noted that during the Industrial Revolution, it was not the capitalistic entrepreneurs of the commercial aristocracy who were the predominant bearers of the spirit of capitalism; it was, according to Weber, much more the rising strata of the lower industrial class (Weber, 1958). Weber argued that Protestants who did not come from dynastical families of Europe were empowered by the Protestant Ethic to commence the entrepreneurial industrialization of the American free market enterprise. The principle of vocation in the Protestant Ethic affirmed the necessary freedom for persons in society to perform pre-given patterns of social role and to give social space for the working out of godly duty. The logical and social psychology of the argument were vital to the development of cities in the Western World where "...peasants and freemen became artisans, tradesmen, merchants, and manufacturers, and above all citizens with self-governing responsibilities", leading to innovative social change (Stackhouse, 1984, p.59).

Weber did not ignore the fact that the earliest Lutheran formation of the Protestant ethic of capitalism was that the only way of living acceptably before God was solely through the fulfillment of the obligations imposed upon the individual by his position in the world. Fulfillment of worldly duties under all circumstances was the only way to live acceptably to God, according to the earlier Protestant Ethic, as individuals should abide by his living and let the godless run after gain (Weber, 1958). Prosperity, according to the earliest puritanical form of the Protestant ethic, was more concerned with the promotion of the divine calling that

encouraged profit through hard work. Spending capital on personal luxuries was disrespectful to God; profits were expected to be poured back into individual callings.

Walter Rauschenbusch (1861-1918) and other theologians in mainline Christianity introduced and promoted the Social Gospel as an alternative to the prevailing forms of the Protestant Ethic (Rauschenbusch, 1913). The Social Gospel affirmed the concept of the Church conquering social evils, superpersonal forces according to Rauschenbusch, to eventually Christianize all of society through social activism. For Rauschenbusch, "freedom, justice, and solidarity" were among the aims of the Social Gospel (Rauschenbusch, 1913, p.187). The attempt of the Social Gospel illustrated the rediscovery in Protestant theology of the social dimension of the Church's mission as a voice for social justice (Fuechtmann, 1989). Realistic laymen were largely untouched by the social gospel and did not share the official social passion of the communion to which they belonged. That the Social Gospel was not popularized at the lay level was probably the fault of the clergy (Meyer, 1970). Even though liberal clergy clung to the ideals of the Social Gospel, it had little impact on a grass roots level.

By the 1920s, the Social Gospel had run its course, but it took the stock market crash of 1929 to destroy the illusion of social Christianity (King, 1981). Handy (1960) noted that the period between World Wars I and II was a period of "religious destitution not less severe than that of the concomitant moral and economic depression" (p.3). Although proponents of the Social Gospel gleaned credit for the New Deal social programs and the success of the West in the World Wars, the Social Gospel did not succeed in retaining a prominent place in American theological consciousness.

Economic Foundations: Post-Depression Solutions

Following the Great Depression and the early political triumphs of the New Deal, the United States diverged into two politically-driven economic approaches to mitigating the ferocity of the business cycle: regulation and fiscal policy. Supporters of regulation were committed to the same ideals as the supporters of the Social Gospel such as restricting the powers of large corporations and providing legal protections for workers and consumers. For the promoters of government regulation, socio-economic justice could be realized through the enforcement of legal parameters to contain the injustices of an unregulated marketplace (White, 1991). Alternatively, supporters of fiscal policy affirmed the economic theories of John Maynard Keynes (1936). Rather than simply constrain and limit the powers of capital, fiscal policy supporters promised steady economic growth and, through countercyclical government spending, an ultimate solution to the dramatic shifts of the business cycle (Schumpeter, 1939; Hansen, 1941). Keynesian fiscal policy supporters contended that the injustices and inequalities of the economic system of the past could not be solved through redistributive justice, but through perpetual economic growth.

Both supporters of regulation and fiscal policy persisted beyond the Depression-era into

the postwar state, and both claimed divergent legacies of post-New Deal statecraft. Supporters of regulation operated on a general lack of faith in the justice of free-marketism, operating on the assumption that human nature was oriented toward oppression more than opportunity. Following World War II, New Deal liberals largely asserted that sustained economic growth (consistently expanding GDP) would eventually deliver prosperity to all Americans and by default, social justice. Franklin Delano Roosevelt, formerly a fiscal conservative who not unlike Herbert Hoover, affirmed balanced budgets, succumbed to pragmatism over principle in the face of the injustices caused by the Great Depression. Roosevelt ultimately concluded that that if:

starvation and dire need on the part of any of our citizens make necessary the appropriation of additional funds which would keep the budget out of balance, I shall not hesitate to tell the American people the full truth and ask them to authorize the expenditure of that additional amount (Leuchtenberg, 1963, pp.11-13).

Thus, the policies of the New Deal were an affirmation of the notion that relief and recovery would come not only by means of regulation of industry, but by stimulating demand and increasing the supply of money through government spending, even if that spending had to be conducted in deficit. By 1932, Americans were readily questioning the veracity of capitalism as a sustainable economic system and welcomed the inflow of money into a rapidly deflating market.

In the second half of the twentieth century, ostensibly moderate models of economic growth emerged from New Deal policies that included both fiscal and monetary approaches to macroeconomic management. By adjusting the money supply, the Federal Reserve could artificially control price levels and the rate of inflation (Friedman & Schwartz, 1963). By adjusting tax rates and levels of public spending, the federal government could do likewise, primarily by stimulating or contracting demand (Jacobs, 2005). Both strategies were intended to counteract the ups and downs of the business cycle and ultimately prevent another depression. The postwar economic recovery inspired broad confidence in the economic theories of John Maynard Keynes.

Keynes argued that countercyclical government spending combined with intentional efforts to stimulate private investment, could prevent recessions and restore full employment. The Keynesian economists, who followed Keynes' model, argued that by increasing government spending and cutting taxes during recessions, full employment could be maintained and economic growth could be steady and reliable. To prevent inflation after full employment had been reached, Keynesians prescribed the opposite actions: raising taxes and reducing government spending. Thus, the fiscal policy emerged as the preferred economic strategy of the twentieth century (Borgwardt, 2005) and economists anticipated that it would solve the perpetual threat of the business cycle. However, these hopes were dashed when the most drastic economic recession since Great Depression unexpectedly commenced in 2008.

Reconsidering Individualism as a Christian value

Blackburn (1997) argued that the Protestant Ethic was based on the self-righteous dogma that those who worked hard were rewarded by getting rich those who were poor only had their own lack of hard work and thrift to blame (Blackburn, 1997). The harsh realities of the dogma of the Protestant Ethic eventually manifest in the American labor crises following the Industrial Revolution and ultimately in the economic collapse of the Great Depression. Minorities and women, especially, suffered exponentially during the depression (Shlaes, 2007), not because of their lack of work ethic or thrift, but because of their status in society.

Moreover, Gardner (1914) argued that if an individual in society was superior, according to the ethic of Jesus, he should use that superiority of power in the interest of others. It was apparent that the injustices of actual society arose from the fact that men used power selfishly and that the strong used exceptional power primarily in personal interest. Social order, according to Gardner, could not be maintained without some element of the ethic of Jesus, as a measure of mutual services. Further, Gardner maintained that social peace and cooperation was secured only by the full acceptance of the paradoxical principle of Jesus that the strong shall serve the weak. Gardner asserted that the superiority of some individuals in society would not bar the way to self-realization of others, but would rather open to them the doors of higher possibilities; and the strongest cohesive force in society were the clasped hands of the strong and the weak. In a social configuration, Gardner believed that the value of each individual in society was capitalized as a value for all (Gardner, 1914).

In the "Great Recession" of 2008-2010, radical expressions of individualism, privatization, and anti-government protest gained ground among the more extreme factions of the American religious groups. Such an affinity to radical freemarketism and libertarianism is based on an essential shared value among both American free market fundamentalists and American religious fundamentalists: individualism. Shuman and Meador (2003) maintained that individualistic religion in America was shaped by three of the most fundamental tendencies of contemporary North Atlantic culture and its attendant consumer capitalism: radical individualism, narcissism, and therapeutic sensibility dominance. In effect, religion sanctified market capitalism and raised individualism to theological prominence (Budd & Brimlow, 2002).

However, Christians should question the validity of a theological justification for crude, unregulated capitalism or colossal, unrestrained socialism. While such values as "loving your neighbor as yourself" (Mark 12:28-31, John 13:34-35) and caring for the "least of these" (Matthew 25:33-40) are pervasive in the gospel accounts, the notion of unbridled individual economic gain is far more difficult to exegete. While the gospels do not endorse radical socialism, neither do they endorse radical free market capitalism. A moderate approach to economic policy that aligns with Christian values must be considered by both theologians and economists alike.

Christian Realism and Moderate Economics: Individual Freedom and Social Justice

Reinhold Niebuhr (1892-1971) criticized the failures of the social gospel, recognizing that its premise was unrealistic. Niebuhr did not find activism an unrealistic method to achieve justice. Serving as pastor of a church in Detroit, Michigan, Niebuhr was an outspoken critic of Henry Ford. Troubled by the demoralizing effects of industrialism on the workers, Niebuhr allowed union organizers to use his pulpit to expound their message of workers' rights. Niebuhr documented inhumane conditions created by the assembly lines and erratic employment practices. Niebuhr advocated a Christian Realism, as opposed to the idealism of the Social Gospel, preaching that in social crises the best that could be hoped for was justice. Niebuhr (1920) noted following the First World War:

The church knows what is occupying the mind of the world and it is anxious to satisfy that interest. If it expresses liberal or radical sentiments on current industrial or social problems it frequently betrays a greater desire to "hold the workingman for the church" than to establish justice for him (p.588).

Niebuhr's criticism of the social gospel and his program for theological and political renewal helped churches recover from the period of Protestant downturn between the World Wars (Johnson, 1982). Niebuhr was neither a radical supporter of the social gospel or the Protestant ethic; his theological formulation of Christian Realism called into question the radicalization of both movements. From Niebuhr's work, it is possible to "deduce free market principles, or at least mixed-capitalist, mixed-economy kinds of principles from his view of politics" (Pew, 2009).

Niebuhr realized that both humanity and its institutions are prone to evil; thus, both the private and public sectors must strive to balance one another's power, but never to usurp it. The government needs the ingenuity of private enterprise and private enterprise needs the regulation of the government. Without either of these leveraging forces, public or private corruption is inevitable. Ultimately, such corruption is what led to both the Great Depression and the Great Recession; the science of economics operates on an Enlightenment assumption of rationality, but the Christian theology operates on an assumption of man's propensity toward injustice and indulgence.

Christian realists in the Niebuhrian tradition would not settle for mere socialism on one hand or mere capitalism on the other: they are called to formulate "something other than an utterly conventional and entirely unimaginative position on the relationship between the public and private sectors" (Patterson, 2003). Imaginative Third Way economic models exist, but remain neglected or marginalized. Henry George's economic theories support free access to land and the proportional taxation of its use. G.K. Chesterton's economic theory of Distributism supports free access to capital resources to inspire productivity. Such moderate models, which are each in their own ways somewhat compatible with Niebuhr's views, are little tried but remain viable resources for economic experimentation.

Conclusion

Following the Great Depression, Niebuhr (1932) warned that “when economic power desires to be left alone it uses the philosophy of *laissez faire* to discourage political restraint on economic freedom” (p.33). As America works toward a second Great Recovery, Christians should reflect on Niebuhr's economic perspective and resist the urge to align with the more radical libertarianism factions aligning with the Austrian school of economics. Such movements, which place “supreme confidence in the market” are simply “not consistent with a biblical view of human nature and sin” (Wallis, 2010). Human beings are sinful and will inevitably use freedom to prey on one another; in like manner, human institutions such as government will also become corrupt. Neither radical libertarianism nor radical socialism will guarantee economic prosperity or justice for all.

Thus, an equal balance of power is necessary to ensure social justice and to protect the common good. As C.S. Lewis noted, democracy works not because individuals are inherently good, but because they are not; Lewis (1934) argued that “mankind is so fallen that no man can be trusted with unchecked power over his fellows” (p.665). In other words, human beings need government to protect themselves from their own evils and they need freedom to protect themselves from the evils of government. Christians striving for a more biblical view of economics may consider Christian Realism as an alternative lens through which to interpret economic theories; perhaps, thereby seeing past the prevailing radical ideologies of American politics and striving for lasting economic change that ensures not only prosperity and freedom, but justice and equality as well.

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