

Kathryn Tanner. *Economy of Grace*. Minneapolis, MN: Fortress Press, 2005. xiii+158 pp. \$16.00 (paper), ISBN 0800637747.

Reviewed by Victor Claar, Economics, Hope College

As *Economy of Grace* opens, Kathryn Tanner promises to deliver a Christian vision for economic life. Unfortunately, she has no original ideas for what such an economy should look like. And her vision has little to do with Christianity; instead, it is a mere rehash of the views of John Maynard Keynes. The outline of the book's three chapters seems both straightforward and promising. In chapter one, Tanner organizes a boxing match between grace as the central focus of a theological economy, and money as the central focus of a capitalist one.

Chapter two consists of two parts. In the first two-thirds, Tanner shoots down two theological also-rans in a Christian vision of economic life. In her view, the vision of John Milbank of an economy of gift is impractical and insufficient. She correctly points out that, for two reasons, the South Asian examples often given as ideal gift economies fall short. First, most of the goods passed along in these economies have little value to anyone for any purpose besides giving. Second, participants give not out of generosity or grace, but out of the selfish ulterior motive of improving their own social standing. Tanner also finds fault with the economic ideals of John Locke. According to Tanner, Locke sells short the abundance of God's grace.

In the remainder of chapter two, then, Tanner proposes her own theological economy—one based upon the fullness of God's grace. Inasmuch as God's grace is plentiful, we should share all that we have been graciously given, with the assurance that giving away does not require doing without. When all members of the body give freely, the body hungers not. Tanner uses as her model the mutual giving among the persons of the Trinity.

Finally, Tanner promises that chapter three will reveal what an economy of grace—imagined afresh—should look like. Tanner has no interest in tweaking the selfish capitalist system; she intends to give a blueprint for a new economy of grace. But Tanner fails. She offers nothing new to economic policy. In order to understand the nature of her failure, it is helpful to review the watershed developments of economic thought of the last century.

During the height of the Great Depression—the modern era's greatest global economic crisis—the best and brightest economic minds scrambled to explain the phenomenon, and to recommend policies that might bring us out. John Maynard Keynes, a hero of Tanner, provided one revolutionary view. For Keynes, our economic plight stemmed from government doing too little.

According to Keynes, any rise in unemployment was the direct result of temporary insufficient spending on goods and services by the private sector. Like all economists, Keynes knew that, if the economy were left alone, private demand for products would return, and unemployment would fall as workers returned to work. But Keynes found it unconscionable to let poor people remain unemployed while the government possessed the power to return them to work. So, rather than wait around for private demand for goods and services to rise again, Keynes recommended letting the government step in and buy the goods and services that firms and consumers were not currently buying. In doing so, product orders would be up, and sales would begin to rise. Of course, many of those sales, at least initially, would be to a government buying goods that no one really wanted. Nevertheless, in the face of rising sales, firms would begin recalling the workers who had been laid off during the downturn. But how could all of this spending be financed during bad economic times? After all, incomes were low during the Depression. And when incomes are low, tax revenues are low as well.

Keynes's solution, thought to be quite innovative at the time, was that the government could pay for all such spending using deficit finance. That is, a government could get out there and compete in markets for loans—alongside firms and consumers—to borrow money. Keynes suggested that a government could borrow money from households to finance government purchases of goods, just like AT&T borrows money from households to finance AT&T purchases. Moreover, the government would be competing head-to-head with other potential borrowers, like AT&T, for exactly the same funds.

Contemporary critics attacked Keynes along three lines. First, if the government were permitted to steal loanable funds away from companies like AT&T, firms would no longer be able to afford to undertake all their desired new investments in plants and equipment. This is a serious consequence. If more loans are made to a government and fewer made to firms, then firms will not be growing their productive capacities in ways that contribute to the long-term growth of the economy. That is, all of the government borrowing will crowd out some investment by firms in projects that lead to steady increases in a nation's income and eventual standard of living.

A second criticism stems from Keynes's explanation of how economic downturns begin. Recall that Keynes believed bad economic times were caused by *temporary* reductions in the level of private demand for goods and services. Critics, then, charged that if Keynes were correct, any government-driven effort to step in and shore up demand might fail due to poor timing. If the government happened to use deficit financing to buy more goods at the same time that private demand was recovering on its own, then we would exchange one bad situation for another. We might merely be trading today's high unemployment for tomorrow's runaway inflation.

Finally, Keynes had absolutely nothing to say about what specific goods should be produced so that the government could buy them. One of the marvelous things about the private market mechanism is that it gets the mix of goods exactly right. Firms do well when they are producing products that meet people's needs; firms go under when consumers signal that they have little use for those firms' products.

In Keynes's view, a government buys goods for the sake of buying, with no regard for which industries might flourish or fail as a result. Simply put, a government—even one that means well—cannot manage precious productive resources as well as private market forces can. So, during a recession, a government might easily fall into creating a booming industry in, say, toothpicks. However, if it turns out, after the recession ends, that no one really wants toothpicks, then we will have squandered many of society's resources building the capacity of an industry for which consumers have little need.

Overall, then, critics considered Keynes's prescriptions to be a temporary palliative, with potentially perilous long-run consequences. Surprisingly, Keynes agreed with every one of his critics. Nevertheless, Keynes steadfastly maintained that society could not afford to fret over the future if people were starving today, and we had the power to help them. We are better off taking care of today's pain because, in Keynes's most famous words, "in the long run we are all dead."²

Owing much to the prevailing *zeitgeist*, Keynes gained traction where his critics could not. Economic thinking throughout the middle third of the 20th century was mainly Keynesian. Economists everywhere were enamored with the notion that governmental institutions could give relief to the suffering. John Kenneth Galbraith's *The Affluent Society* [Boston, MA:

²J. M. Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923), 80.

Houghton Mifflin, 1958] is thoroughly Keynesian. Keynes had indeed won the day.

Unfortunately for Keynes, the empirical evidence of the last 40 years has largely eroded his policy influence. The prevailing paradigm has shifted from a Keynesian one, in which a well-intentioned government could lend a helping hand to a struggling economy, to one in which the government should meddle only when it will clearly be able to improve upon market driven economic outcomes. This view is most strongly held among economists at the University of Chicago—a fraternity of Nobel laureates in economics. Following in the footsteps of Ludwig von Mises and Friedrich A. Hayek and, later, Clark Warburton, most modern economists believe that government planners simply are not skillful enough to improve upon the effortless inner workings of market forces to direct society's resources.

Nevertheless, it is easy to understand why Tanner is enamored of Keynesian ideals. First, Keynes never wanted to abandon completely the idea of markets as mechanisms to direct resources. He merely sought to use government policy to tweak the position of the economy at any given moment. Hence, Tanner can fully embrace Keynes without being written off as some naïve radical, hopelessly clinging to antiquated Marxist ideals. She indeed embraces Keynes; in the 56 pages that constitute chapter three—her vision of an economy of grace—she uses words like “Keynes,” “Keynesian,” and “Keynesianism” at least 13 separate times—all favorably.

Second, Keynes affords a path that permits one to champion institutional compassion without throwing out the entire market system. After all, Keynes's plea to get the poor back to work is hard to argue against on moral grounds. Therefore, Keynesian prescriptions can appear quite Christian, merciful, and gracious. If the government really can do an effective job of making our society more gracious, then it would make sense to let it. It is, however, the inability of the government to improve upon most market outcomes that has proved to be Keynes's undoing. Communist empires disintegrate into dust. School districts, trying to save money, privatize their bus and janitorial services. Central banks move to more transparent, rather than discretionary, monetary policies. Most attempts of the government to direct resources do no better than markets, and the government mostly does worse. Regrettably, Tanner has not yet processed this information, writing as though Keynesianism were not old news.

Therefore, Tanner's “Economy of Grace,” at least her practical recommendations for it, amounts to nothing more than recycled Keynesian notions of how the government can help markets achieve nicer outcomes. But Tanner's recommendations and blanket assertions reveal gross misunderstandings of the current state of the economy, as well as the current paradigm in economic thought. Let us consider several examples.

First, Tanner dismisses the widely held view that welfare programs can be a double-edged sword due to their unintended consequences. Economists today favor the idea of welfare programs, but realize that—if too cushy—such programs can discourage individuals from working or actively seeking work. However, Tanner asserts instead that,

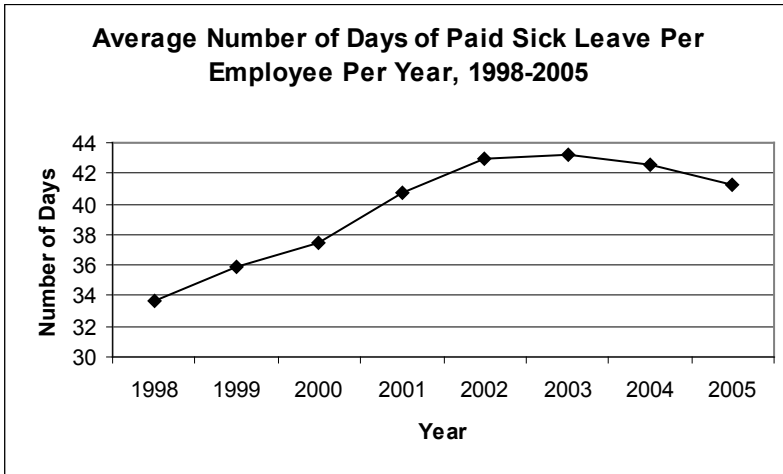
Nations with the best welfare provision—say, Scandinavian countries—are often also the ones with the most productive work forces. They do not, moreover, have higher vacancy rates than other countries—more people out of work, for example, than one would expect from the jobs available (104).

Observe that Tanner makes two specific claims here: one regarding productivity, and one regarding unemployment. Let us consider each.

Sweden has one of the world's most generous welfare systems—a system that includes universal health care for all. In such a system, it would be hard to imagine that workers would ever miss work due to illness. In such a system, one would expect the workforce to

be comparatively healthy with minimal days of work missed due to illness. Nevertheless, as Figure 1 suggests, Sweden's absenteeism due to illness is large.

Figure 1. *Swedish Sick Leave*

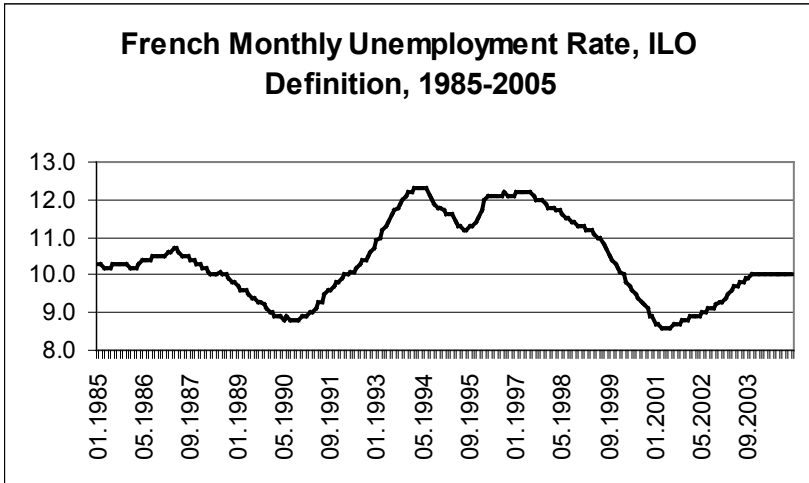


Source: Confederation of Swedish Enterprise

According to Figure 1, the average number of paid sick leave days per employee each year in Sweden exceeds 30. This seems puzzling, especially in a nation with free medical care for all. How could the average worker be calling in sick more than 30 days each year? The answer lies in the unintended consequences of Sweden's sick-leave benefit. In Sweden, workers receive no pay for the first day they miss work due to illness. But for every day thereafter, workers receive at least 80% of their regular pay. So, for many, a day off at 80% pay is better than a day at work for full pay. Hence, Tanner's assertion that generous Scandinavian welfare benefits lead to no reduction in workers' productivity seems unfounded.

Recent survey evidence has led the Swedish government to begin a mass promotional campaign to discourage workers from missing work unless they are, in fact, sick. A 2004 survey conducted by Sweden's National Social Insurance Board found that 40% of workers believed it was appropriate to claim sick pay if they felt tired, or were having trouble getting along with their bosses or coworkers. The survey also revealed that 65% believed missing work due to stress at work was acceptable. In addition, 71% thought that family problems were grounds for sick leave. The ad campaign discourages Swedes from calling in sick unless they are ill (*Nordic Business Report*, Sep 20th, 2004).

As noted above, Tanner also claims that nations with generous welfare benefits do not experience unemployment problems. Figure 2 gives recent unemployment rates for France—a nation with a generous welfare system.

Figure 2. *Seasonally Adjusted Unemployment Rates in France*

Source: Institut National de la Statistique et des Etudes Economiques (INSEE)

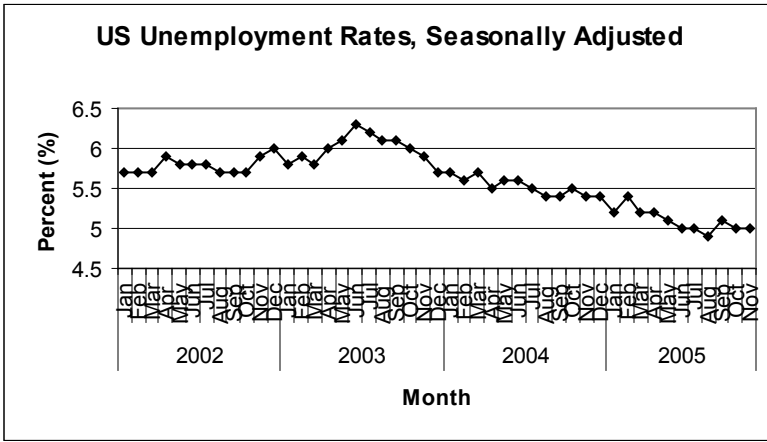
Observe that France has high unemployment rates, fluctuating around an average of about 10.5%. Unemployment rates are even worse among French youth: it is not unusual for the unemployment among young workers to be near 25%. This evidence directly contradicts the assertions made by Tanner in the quotation given above.

Tanner makes other blanket pronouncements. She alleges a tendency of free-market economies to spiral out of control when times are good, and to spiral to a crash when times are bad. Tanner states:

Spirals of decline... are a constant feature of capitalism. The U.S. economy has been in one for awhile [*sic*] now, ... leading to unemployment, ... all in a destructive feedback loop. The Federal Reserve has been trying for the last several years, with limited success, to disrupt this destructive feedback loop through lower interest rates... (113).

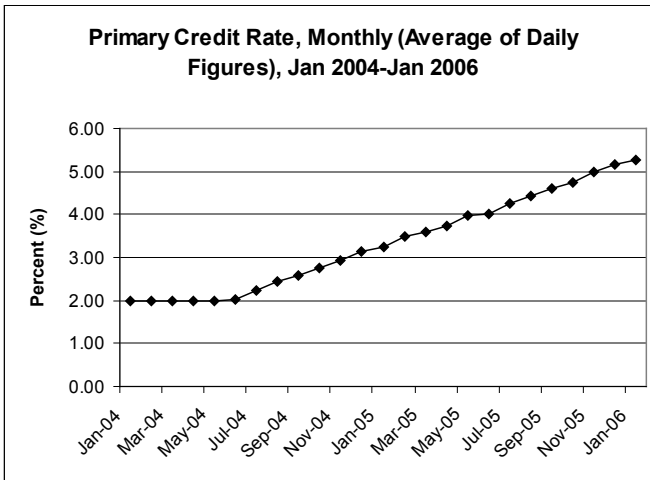
As Figures 3 and 4 illustrate, neither of the claims Tanner makes regarding unemployment and interest rate movements in the United States is correct. On the contrary, the economic picture is a pleasant one. Unemployment is falling, not rising. Further, the Fed has been raising interest rates due to recent improvements in the economy. Moreover, the U.S. unemployment experience appears to be a much smoother and more stable one than that of France depicted above.

Figure 3. Monthly US Unemployment Rates, 2002-2005



Source: US Bureau of Labor Statistics

Figure 4. Federal Funds Target Rate



Source: Federal Open Market Committee, Federal Reserve System

Not only does Tanner make statements that directly contradict recent empirical evidence, but she also demonstrates a serious misunderstanding of fundamental economic principles. For example, Tanner pursues the old Utilitarian argument that it is good policy to rob a rich woman to give to a poor man, because the poor man's appreciation for one more dollar will be much greater than the pain caused to the rich woman from losing one dollar among the many she already has. Therefore, society overall would be happier since the poor person's happiness gain exceeds any loss incurred by the wealthy one.

This argument, while compelling, proves unworkable due to two unintended conse-

quences. First, this argument ignores the effect that raiding the incomes of high-income earners has upon their incentives to pursue valuable productive activities that lead to even higher incomes. The U.S. economic experience of the 20th century illustrates this phenomenon. In the 1960s, the top 1% of income earners paid a marginal tax rate of 70%; that is, the tax liability for the highest earning Americans created by earning one more dollar was 70 cents. By 2002, the marginal tax rate faced by the top 1% had been cut so far that earners in that bracket owed a mere 30-40 cents in taxes for each additional dollar earned. To Tanner, this would appear grossly unfair. How dare we cut the tax rates paid by Americans in the top 1% of earners? They have so much already. The gracious thing would be to do the opposite: take more from the rich to give to the poor. Society would be the better for it.

Critics like Tanner would do well to consider the resulting impact upon the tax burden of Americans across the population. In 1963, when tax rates on the top 1% were very high, the top 1% of income earners shouldered 18.3% of the income tax burden. By 2002, even though their tax rates had been slashed dramatically, the top 1% of income earners paid 33.7% of the entire income tax! How can this be? The answer is straightforward; by letting high earners keep more of each dollar earned, they worked even harder to earn more dollars that went into the tax base. Moreover, because of the improved incentives to earn more dollars, high earners made more taxable money faster than the tax rate fell. In the end, high earners contributed more of the entire tax bill, not less.³

The second unintended consequence of robbing the rich to give to the poor involves the administrative costs of doing so. In the United States, we spend approximately \$40,000 on each family of four living below the poverty line, per year, fighting the war on poverty. With bills like that, due largely to bureaucratic overhead, we would serve the poor better by simply cutting families a check for \$40,000, rather than serve them indirectly through bloated government programs.⁴

Tanner makes other puzzling statements. On page 102, she talks about productivity gains as though they happen for free, not because firms make huge investments in research and equipment in order to realize such gains. Similarly, Tanner supposes that anyone would be thrilled to work for less money, as long as they got a really nice park instead (103). But such a supposition necessitates a benevolent social planner who supposedly can see clearly into the hearts and minds of all citizens and their preferences.

Yet, Tanner's most arresting claim is not an economic one. In building her theological case for a Keynesian economy, Tanner discards the notion that Christ died to atone for the sins of humanity, claiming that there was no debt that needed to be paid by anyone. She writes,

... it cannot be the case that Christ on the cross is being punished by God in our stead, suffering the loss of what we rightfully should lose because of the way we have misused God's gifts... The cross simply doesn't save us from our debts to God by paying them (65).

More simply stated, Tanner claims Christ's crucifixion had nothing to do with the fulfillment of the law. This is a disturbing assertion, and most of the book's ensuing discussion proceeds directly from it.

To summarize, *Economy of Grace* promises a new imagining of what an economy based upon abundant grace would look like. What it delivers instead is recycled Keynesian policy recommendations. I would have been curious to read the book Tanner promises, but there is

³James D. Gwartney, et. al., *Microeconomics: Private & Public Choice*, 11th ed. (Mason, OH: Thomson South-Western, 2006).

⁴John Stossel, *John Stossel Goes to Washington*. (ABC. WZZM. Grand Rapids, MI. 2001), 27 January.

Scott H. Hendrix. *Recultivating the Vineyard: The Reformation Agendas of Christianization.* Louisville, KY: Westminster John Knox Press, 2004. xxiv+254 pp. \$29.95 (paper), ISBN 0664227139.

Reviewed by James Halverson, History, Judson College

For two decades, the hot topic in the history of medieval Christianity has been christianization, how and to what extent medieval Europe became a Christian culture. Over that same period of time, Reformation scholars have focused on confessionalization, the creation of multiple antagonistic societies defined by religious beliefs in early modern Europe. With his latest book, *Recultivating the Vineyard: The Reformation Agendas of Christianization*, Scott Hendrix hopes to change all that. *Recultivating* expands upon the provocative and compelling theme Hendrix introduced in "Rerooting the Faith: The Reformation as Re-Christianization."⁵ In both works, Hendrix argues that the Reformation as a whole should be viewed as part of the ongoing effort to christianize Europe that had begun in the early Middle Ages. In the earlier article, Hendrix focused mainly on the first generation of magisterial reformers with a few suggestive comments about the radical and Catholic reformations. In *Recultivating*, Hendrix is more ambitious. He claims that viewing the diversity of religious developments (Lutheran, Reformed, Radical, Catholic) in the Reformation period as the multiplication of competing christianizing agendas will allow us to see the forest for the trees. Ultimately successful or not, the attempt is welcome. As Hendrix points out in his introduction, Reformation scholarship has become so highly focused on specific events, trends, regions, or individuals that the very concept of "the Reformation" has begun to lose meaning (xi). Hendrix proposes christianization as a useful conceptual framework with which "to understand what happened (in the Reformation) and how it has affected us" (xii).

Hendrix uses Lucas Cranach the Younger's painting *The Vineyard of the Lord* as a reference point throughout the book. He acknowledges that the painting is biased and inaccurate as both a celebration of Protestant success and a criticism of the failure of Medieval Christianity. Even so, Hendrix claims that the painting accurately "depicts the mentality of the Protestant reformers" whose goal was the creation of true Christians and a true Christendom (xxvii). Hendrix rightly argues that the great strength of this thesis is that it focuses on how the reformers saw themselves, rather than trying to explain them using categories such as religious freedom, individual rights, or separation of church and state, that would have been incomprehensible to them. His second, broader thesis is even more provocative. Beyond proving that christianization was the explicit agenda of the early Protestant reformers, Hendrix claims that the idea of "christianizing Christendom... gave coherence to the Reformation as a historical movement" (xxvii). Proving his first thesis would further solidify Hendrix's place as a sober and expert interpreter of the Reformation. Proving his second would be a truly remarkable achievement.

Like all histories of the Reformation, *Recultivating* begins with a chapter on medieval religion, but the treatment of the period serves a different function in this story. Hendrix acknowledges that he is not the first to view the Reformation as a christianizing movement.

⁵Scott H. Hendrix, "Rerooting the Faith: The Reformation as Re-Christianization," *Church History* 69:3 (September 2000): 558-577.