



A RIGHT RELATIONSHIP WITH MONEY

The Church of Scotland Special Commission on the Purposes of Economic Activity



Church of Scotland



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May 2012



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At the General Assembly of the Church of Scotland in May 2010 the Commissioners decided to establish a Special Commission on the Purposes of Economic Activity to look into what had gone wrong with our economic system and to suggest ways in which it might be improved. More particularly the Commissioners were directed to establish what the Church could do to improve matters.

The Background

It was not a spur of the moment decision to establish the Commission. It had been under consideration for some time and three small conferences on the subject, under the auspices of the Kirk's Church and Society Department, had already taken place.

Nor was it the first time that the Kirk had tackled the subject of economics. In 1988, just two years after



the 'Big Bang' in financial markets the Special Commission on the Ethics of Investment and Banking had reported to the General Assembly. Their report sounded warnings about the trajectory of developments in the financial services industry. Thereafter the Church and Nation Committee had a watching brief on developments in financial services.

The Membership

When the Special Commission on the Purposes of Economic Activity was established in 2010 it was directed to report to the General Assembly in May 2012. Its members were drawn widely from Scottish society and not all had Church of Scotland connections. The 14 Commissioners came from a wide range of backgrounds and included anti-poverty campaigners, theologians, a politician and economists. Other members represented the health service, the STUC and the CBI. It was a very diverse group.



The Remit

The remit that we were given was to address five questions.

1. How can the Church best offer Scottish society a new vision of what might be achievable in the economic, social and community life of the nation.
2. How can the Church, at local and national level, be encouraged to become more engaged in transformative economics?
3. How can quality of life, well being and values, such as justice, cohesion and sustainability become the measures for economic activity?
4. How should inequality be addressed, ensuring the appropriate levels of choice are available to all?
5. What changes in peoples' attitudes and beliefs toward the economy might be desirable?

The meetings

It was clear from the outset that this was an enormous task and that there were very many interest groups that were already engaged in addressing these and related issues. It would not be possible to meet with all of them. Moreover there were a number of issues, such as sustainability, on which the Kirk already had a well-established position and others, such as the reform of the banking system, which were already being addressed as matters of public policy. There were other questions too such as the best measures of a successful economy which were being addressed by organisations such as the Carnegie Trust. We would not ignore these issues, neither would we concentrate on them.

Our first meeting was held in the summer of 2010 and we met monthly thereafter. Towards the end of our term we met more frequently as the demands of preparing our final report became pressing. We solicited responses from Presbyteries and were impressed by, and grateful for, the few responses that we received.



At our early meetings we discussed our remit, drew upon one another's understandings and experience of our current economic situation and we discussed a variety of writings on the subject including P. Heslam, Transforming Capitalism: Entrepreneurship and the Renewal of Thrift, Grove Books, Cambridge, 2010 and R. Wilkinson and K Pickett, The Spirit Level, Why Equality is Better for Everyone, Penguin, 2010.

Thereafter we began to take evidence from a wide variety of people with experience of different sectors of the economy whether as producers or consumers. We also took evidence from organisations, such as Christians Against Poverty and Church Action on Poverty who are engaged in helping people deal with a variety of economic problems. We spoke with various people who had engaged with the Poverty Truth Commission. When asked the question 'If there was just one thing that we could change that would make life easier for people living in impoverished circumstances what would it be'? The answer that we received most often was to reduce the price of consumer credit. Consequently we invited a variety of providers of consumer finance to come and speak with us. Only one accepted.



In addressing the question of how behaviour in business might be improved we spoke with the head of a professional institute. His evidence and our knowledge of what was happening in other professional bodies persuaded us that a great deal was already being done to address this issue. Only time will tell whether these activities will have much impact.

It was much more difficult to address the question of what we as citizens and consumers might do to bring about a 'right relationship with money' and thereby create a society where people understand that getting into a lot of debt is, almost certainly, not in their own best interests no matter the pressures to do so. It was much easier to say that debt is seldom the solution to poverty. In most cases it will exacerbate the problem.

Our personal submissions

A year ago I asked Commissioners to write c.1000-2000 words on the subject that most interested them and which they felt should be included in our report. Most wrote substantially more than what was asked



of them. Inevitably our final report is a work of compression, so these personal contributions will be offered on the Church of Scotland website following the 2012 General Assembly as waymarkers to our conclusions.

Our report

Our report for the General Assembly, which is published here, is our considered view on the outcomes of the evidence that we have taken and on our deliberations. Given the very disparate nature of our group we had some lively debates. We have written our report in a way that reflects where we were not always in full agreement. However, we are all agreed on the fact that, in recent years, our economy has not served our people well and is in great need of reform.

Charles W Munn,
March 2012.

Preface

This report has been produced against a background of debate and disquiet about the workings of our modern economy and the social and moral vision which underpins it. It is published against a backdrop of severe international recession and instability, a serious sovereign debt crisis (particularly in the Eurozone), high and increasing domestic unemployment, falling living standards and profound social and economic inequality.

The banking crisis and the ensuing recession have been especially painful in Scotland, where once-respected financial institutions have fallen victim to their own overweening ambition. The consequences will impact on our whole society for many years to come as government spending is drastically reduced, while low interest rates, the easy availability of credit and the exploitative manner in which much of that market operates have brought real hardship to savers and borrowers alike.

Those on the Commission who identify with the Kirk or with other Scottish churches are conscious of the weaknesses and contradictions in the life of these churches and in the lives of individual Christians. The



call to renew and transform economic life in Scotland is not motivated by any sense of superior knowledge, moral pride or self-righteousness. It echoes the call we have heard in the Commission, from across Scottish and British society, and through listening to one another.

The following is a summary report. The full report is available from the Church of Scotland General Assembly web pages -www.churchofscotland.org.uk/GA2012 – and can be obtained in electronic format or paper copies, by contacting the Church and Society offices on 0131 240 2275 or by e-mailing churchandsociety@cofscotland.org.uk.

Good News to the Poor

When Jesus began his ministry, he announced that he had come to bring good news to the poor and to proclaim the year of the Lord, the year of Jubilee when wealth will be redistributed. *(Luke 4:18, 19)* Jesus spent most of his time among the poorest of the land, teaching, healing and restoring them to full inclusion in their community.

Jesus directly confronted the economic inequality of his day. To the rich young ruler he says directly,



“Sell all you own, give the money to the poor and you will have treasure in heaven,” in his case a prerequisite for following Jesus. (*Matthew 19:10; Mark 10:21; Luke 18:21*). Zacchaeus is not condemned for his wealth but is praised for giving half of his possessions to charity. (*Luke 19:8*). The futility of excessive wealth is underlined in the story of the man who died before he could use it. (*Luke 12:18*) That people struggling with poverty are very close to Jesus’ heart is illustrated in the Sermon on the Mount and in the story of the poor widow whose small gift was of more value because she gave of her substance while others gave of their surplus. (*Mark 12:42f; Luke 21:2*). And he identifies himself with the hungry, the thirsty, the strangers, the naked, and the sick in the story of the sheep and goats in *Matthew 25:31ff*.

“The whole church must recognise that to be committed to the poorest and most vulnerable is the gospel imperative facing us all.” (*Sharing the Pain –Holding the Hope*. Report of Urban Priority Areas Committee to Church of Scotland General Assembly 2002)

The call to conversion, to transformation of life, which was so central to Jesus' ministry and which is the ongoing task of his Church, can never just be about our personal spiritual lives, or even our theologies and church lives. It is about our whole lives - our politics, our cultures, our economics, how we spend our



money and our time – because no part of life is beyond God's love.

We believe this is a time of *kairos* – of crisis and opportunity – in the economic life of our country and a time when all who seek the common good must be prepared to speak out and to take action.

Introduction

Our starting point is to ask what the economy is for. The question was answered with profound simplicity with the words 'The economy is for God, which means it is also for my neighbour; it is for my neighbour which means it is also for God'. Love for our neighbours is the ultimate test of our economic arrangements. All economies are embedded in social relationships. Refusal to name this has created a situation in which society too often seems to exist for the benefit of the markets. That the UK has one of the highest rates of child poverty in the industrialised world, and many are being deprived of basic survival needs, indicates an unhealthy degree of complacency and detachment.

We have allowed elements of our social and economic system to degrade human beings, and the environment, instead of seeking a holistic approach to life which incorporates a balanced view of



spiritual, social, political, environmental, and economic dimensions.

Where some hailed the fall of the Berlin Wall in 1989 as marking ‘the end of history’ and the triumph of capitalism, the crisis of 2008 exposed its instabilities. Reflecting on these critical turning points, many of us wish to move beyond the sterile oppositions of left and right to find new ways forward. **This is no time for business as usual.** We need to put aside the argument that ethical principles are too idealised to be put into practice and that economic practices are too unruly to be disciplined by principle. Facing the need to change the way in which our society operates will not be easy and it will require changes in four spheres of life - the inner world of the individual, the cultural world of beliefs and values, the physical/natural world and the many social systems and institutions which shape our lives.

As a Commission called together by the Church of Scotland, we bring in this report a clear and urgent call for action to transform our social and economic life. There are four priorities which we urge upon the Kirk, on Scottish/ British society and on our governments in Edinburgh and Westminster:

- **Reducing inequality**
- **Ending poverty**



- **Ensuring sustainability**
- **Promoting mutuality**

A MORE EQUAL ECONOMY can be created when the freedoms people cherish in their economic life are held in balance with the values they cherish in their social and political life. It reflects an understanding that severe economic inequalities undermine the bonds which hold societies together, and diminish us all. It prizes the opportunities which material security gives to new generations and seeks to extend these to all children in our society. This we owe to them and to the God who gives us the riches of creation to share.

A 'POVERTY FREE' ECONOMY is both a hope and an imperative. Realism about the difficulties of achieving it should make us more determined rather than more cynical. It is an economy which ensures that all members of society have a minimum income which allows them to live dignified and healthy lives. It is an economy which is inclusive of people with different physical and intellectual abilities, which is insistent that this generation of children are offered excellent opportunities to learn and thrive. This we owe to God who measures our moral and spiritual wealth on how we treat all members of society.



A SUSTAINABLE ECONOMY is one which exists in a healthy relationship with the earth's population and environment. It thrives without polluting the earth, poisoning the rivers and seas or destroying our climate; it thrives without impoverishing and depriving some, while others live by waste and excess. It plans for a future where energy is drawn mainly from renewable sources and where raw materials are either renewable or reusable. This we owe to our children, to creation and to the Creator.

A BALANCED ECONOMY is one which exists in a healthy relationship with the whole society of which it is a part. It is the product of a society which is clear about the common good and brave enough to shape its common life towards it. It grows by empowering the many, not the few, and by encouraging people to work and stand together in solidarity. It rewards those who share as well as those who speculate in shares, those who co-operate as well as those who compete. It promotes people into becoming participants rather than simply reducing them to consumers. This we owe to our children, to one another and to the God who made us for one another.



GENERATION OF CHANGE

We call upon the Kirk to work with civil society and government for the urgent transformation of our social and economic life towards these four goals. We cannot wait for another generation to bring about change. We challenge Churches and society in Scotland and the UK to engage in a new era of vision and action and to work towards a society where love and faith in each other becomes a higher human goal than faith in money, and where moral, economic and spiritual deprivation has been eradicated.

Economic context

In the aftermath of the financial crisis, questions have been asked about the fundamental nature of capitalism. The proximate causes of the crisis are fairly uncontroversial- our indebtedness, our unwarranted optimism and our dependence on financial services. The securitisation of mortgages led to the creation of various financial assets which were far riskier than was understood. Their complexity and opaqueness created uncertainty throughout the international banking system so that banks became mistrustful of each other. High leverage of banks combined with highly interdependent financial intermediaries meant that the bursting of a relatively localised housing bubble has affected the



economies of much of the developed world.

At the very least the crisis has demonstrated that the unconstrained market can get things wrong. The complexity of markets means that outcomes can be both unjust and unpredictable. There is a moral dimension to markets as well as an economic one and Adam Smith's "invisible hand" needs some legal and regulatory parameters within which it can work. The required framework must be externally generated, probably by government, but, potentially, by industry bodies and business itself. Ultimately, markets must reflect the values of society.

Those involved in banking and finance have borne much of the blame, but many of us in the developed world have played a part in the crisis either by our sins of commission or omission. In re-assessing our priorities away from putting our trust in an ever-expanding economy, the choices we make about how to live differently and use the resources at our disposal wisely are not choices enforced by the market economy but demonstrate the priorities, values and principles of the kind of society which we have become.



Economic Challenges

We are now in a protracted period of readjustment and uncertainty, due in no small part to significant levels of personal and public sector debt. During this period growth of output will at the least be severely constrained, very slow or even negative and is being accompanied by other welfare- damaging impacts such as high unemployment, low or negative income growth for many, loss of public services and vanishing pensions for many. The damage to the Scottish reputation for responsible relation to risk may be difficult to recover. Historically, financial crises have been followed by slow recoveries, and the risks facing the UK economy are mainly on the downside, particularly with the Eurozone crisis still to run its course.

This is all happening in the context of *two other key elements*. First, in Scotland in particular, *demographic change* is underway. The population is ageing, with the older age groups set to live significantly longer and fewer children being born - the so-called “demographic time bomb”.

The second element is *environmental risk*, including global warming. Dealing with carbon emissions will both cost money and involve major economic change. It will probably also lead to substantially higher



energy costs. This will put further downward pressure on living standards, with the poorest in society especially likely to be affected, as the less skilled typically are disproportionately affected by economic downturns, and the poor spend a higher proportion of their income on energy.

How do we manage this period of difficulty? Resource constraints and choice making are facts of life. Throughout life we face choices – as individuals and as part of society. In a crisis, public spending on defence, education and welfare come under pressure. But welfare, for both individual and society, is a much broader concept than income or wealth. Moreover, we may have to question whether some elements of universal benefit provision, such as the winter heating allowance and free bus passes for the over 60s, regardless of income, are the best use of limited resources.

Inequality

Market capitalism, while having many advantages for some as a way of organising economic activity, does nothing to guarantee an equitable distribution of income, and inequality has been increasing across many western societies.



In the UK the top 0.1 per cent's share of income fell in the three decades after the Second World War, but is now back to 1940s levels and is heading towards levels last seen at the end of the Victorian era, according to the High Pay Commission. Likewise those lower down the income spectrum were seeing their real incomes stagnate or fall, even before the crisis struck.

The causes of these changes are disputed, although it is commonly argued that globalisation has allowed cheaper workers abroad to compete with more expensive domestic labour. This may have put downward pressure on wages, particularly those of unskilled labour, although the information revolution and outsourcing is extending this up the skill range. Other contributing factors probably include declining unionisation, and technological change meaning that some skills are becoming better rewarded.

We are led to believe that the economy enables social mobility, but evidence suggests that such mobility is not substantial and has not increased over time; if anything mobility is falling. There is evidence that income inequality itself *leads* to lower social mobility.

Inequality and poverty in one generation are likely to result in the same difficulties in future generations as the tradition of working diminish in the family and the community. Moreover the trend towards part-



time, insecure and 'precarious' work (such as temporary contracts and agency working), increases the risks of poverty and inequality.

As trade union power has diminished and public policy emphasises the need for flexible working, the resulting imbalance has caused deterioration in the security, conditions and terms of employment. This is a particular problem for migrant workers as monitoring agencies are overstretched. Further changes in employment law are likely to make matters worse. There is a clear need to re-balance our economy to ensure that employees rights to a reasonable wage, to training and to a safe working environment are enhanced.

Measures of wellbeing and happiness do not automatically rise with economic growth. High levels of inequality along with real and perceived social exclusion erode a sense of wellbeing. When the fruits of economic growth are shared more equally society as a whole becomes healthier and happier.

Inequality may reflect the workings of supply and demand in the market. Competitive pressures only seem to affect low and middle-income earners. While most people are receiving little or no pay increase, top executive salaries are forging ahead. Average earnings of FTSE 100 directors jumped 49 per cent to



almost £2.7m in 2010-11. Since 2000 their earnings have risen from 47 to 102 times average earnings. The average income of the top 10% of earners is now 12 times higher than that of the lowest 10%. It is widely accepted that inequality is growing unacceptably high and that inequalities are growing faster in the UK than in most other developed countries.

Moreover, significant numbers of those at the top of banks and financial services who were at least partly responsible for the crisis continue to receive substantial salaries and bonuses. An unhealthy dependence on bonuses has skewed incomes while much of the rest of society, including many others working “at the coalface” in financial services, is suffering. This has arisen alongside the rapid increase in the size of the banking sector. Banking assets have shown a 10-fold increase in the UK, relative to GDP, since the mid-1960s, and there has been a similar increase in the fraction of income accruing to the sector.

There is a strong public perception, exemplified by the Occupy movement, that these trends point to something fundamentally wrong with the current model of capitalism. It seems that executives and “group-think” have too often almost completely “captured” corporate governance, and governments seem to have no power to constrain executive remuneration.



Good governance matters – for corporates, for public sector bodies and for special interest groups. This includes the issue of pay and other rewards where most Remuneration Committees do not appear to be established in such a way that the views of small shareholders and workers (even if these are the majority) are appropriately taken into account.

Our economic culture needs to be shaped by public values which promote social cohesion and common good. These values need to be translated into enforceable regulations. We need an ongoing public conversation about the relationship between ethics and economic policy, and the churches have a vital role to play in this debate.

Taxation

An efficient and fair taxation system is essential to reducing inequalities in our society and achieving a fairer distribution of each nation's and the world's resources. In addition to raising revenue for investment in essential services, taxes can influence behaviour (for example tax free savings accounts to encourage saving or high taxes on alcohol and tobacco) and can challenge inequality by placing the heaviest tax



burden on those most able to pay.

Because taxes are used to support a just and compassionate society, paying tax can be viewed as a social obligation akin to loving one's neighbour. But there is mounting evidence that the taxation system in the UK is not working well: not all people are paying taxes in proportion to their wealth and income.

Administrative problems, weak policy decisions and increasingly aggressive efforts by individuals and corporations to avoid some of their taxes have diminished the ability of governments to meet their undertakings. Loopholes, especially in corporation and property tax, are allowing individuals and companies to escape their full tax responsibility, while other corporations have moved their tax domicile overseas to avoid paying British taxes despite having the main base of their operation in the UK.

The UK government has negotiated deals, such as that with Goldman Sachs, which reduce the tax liabilities of multi-national companies who operate in Britain, while government bodies procure services from firms which use tax havens at a time when the public finances are under such strain.

Yet tax evasion and avoidance is not just a problem for the UK. The Church of Scotland has already become a supporter of Christian Aid's 'Trace the Tax Campaign' which opposes the financial secrecy



which deprives developing countries of much needed revenue.

Many of the places in the world which have become tax havens are British Overseas Territories and Crown Dependencies or are otherwise under British influence. It is therefore inconsistent for the UK government to have committed to maintaining overseas aid while, at the same time, supporting tax havens which deprive developing countries of the tax funds that they need for their development.

Financial Services, Consumer Credit and Debt

Lax regulation from government and its financial authorities, and ineffectual enforcement of consumer rights has led to a number of financial services scandals. Moreover the relative ease with which people can borrow has contributed to current debt problems.

This is an area where Credit Unions need to be encouraged and where unfettered competition in other financial institutions has revealed the need for tighter regulation.

The current crisis has plunged many more people into debt problems. Of those who are in difficulty,



currently roughly a quarter put this down to reduced income and a further quarter to unemployment. As a consequence, the UK has a personal debt problem which now requires long-term management predicated on better financial education and the promotion of money advice services like Christians Against Poverty and Citizens Advice Bureaux. It also requires a thorough examination of the whole question of credit and debt.

Those with consumer debt problems usually find it impossible to seek commercial loan help elsewhere; in essence they are stuck in an expensive debt spiral, which leads to lenders offloading bad customers to collection agencies or third and even fourth party debt collectors. Long-term debt issues have a serious impact on the health of individuals and families.

A new breed of pawn shops, pay-day loans and instant internet loans have sprung up in the UK. These firms offer short-term loans of up to a month, usually of sums up to £1,000. On an annualised basis these firms charge enormous four-figure rates of interest, pointing to high transaction costs and default rates as a justification. Again there is a concern that regulation here is weak, legality is dubious, and that it is easy for the unwary to fall into a debt trap. There should be greater regulation here to prevent borrowers ending up in a debt spiral. There also needs to be an examination of the question why more



reasonably priced consumer credit is not more readily available.

Credit unions should be encouraged. There are already 120 different credit unions in Scotland with upwards of three hundred thousand members. Advantages of credit unions include that they engender a culture of regular saving and not just borrowing, they do provide affordable credit but combined with responsible lending, and financial education is a part of their mission. It is a model which should be encouraged and the Church should consider its own involvement in this movement.

Those who have been thrifty and in particular the elderly who have endeavoured to save for their retirement have been particularly hard hit with the low interest rates currently on offer. The Bank of England strategy of retaining the base rate at 0.5% for the last 2 years and also the policy of quantitative easing has impacted upon those savers who have seen their savings and income erode as returns above the rate of inflation are almost impossible to achieve. These individuals who were relying on interest from their savings and who were not responsible for the current economic problems feel their plight has been ignored. They have become one of the forgotten sectors of society, especially at a time when Financial Services companies/Banks are not paying dividends, and many have also taken the opportunity to widen interest rate margins to increase their income in an endeavour to strengthen their



own balance sheets.

The cash machine is a lifeline for cash. Any restrictions on access are likely to prove particularly harmful to the poorer in society. Recent plans by some major banks to restrict access for their basic bank holders to the ATM network is a matter of concern.

Economic Impact

Poverty - the war on the poor

Poverty in a world rich in resources is a scandal. Nor are economic systems morally neutral, despite the protestations of politicians and economists. Without intervention, market capitalism has inevitably concentrated more and more wealth in fewer and fewer hands. The globalisation of markets has been beneficial for many, but has left hundreds of millions of the world's poor even poorer. The income of average households has not risen significantly (and has often fallen) even in many rich economies, while poverty in developing countries is still a scar which shames us all. The comfortable myth that growth will eventually benefit all, even if inequality rises at the same time, has been shattered, and as we now know,



the growth itself was unsustainable. The financial orthodoxies which led to mayhem in the markets have been firmly discredited. Far from a recipe for success, the formula which included deregulation, privatisation, wholesale liberalisation of trade and financial markets and lower corporate taxes, can now be seen to have contributed significantly to the global financial crisis.

Lip service has often been paid to the need to tackle poverty. It has generally taken the form of poverty reduction, which really means 'business as usual' - a little more money here, a little more decision-making power there. In the UK, some intervention masked the growth of inequality. Banks and politicians kept interest rates low and enabled the easy availability of credit – which encouraged lending, fuelled growth based on ever-increasing debt, and contributed to the bubble which eventually burst. But the consequences of unsustainable public and consumer debt, and some of the policies now being pursued, are horrific for the poorest in this country.

Public spending cuts are increasing homelessness and unemployment, disproportionately impacting on women, young people, benefit claimants and people with disability. As in the developing world, the costs of our economics are unequally borne by those least able to resist.



A clear strategy of making this unpleasant reality more palatable by blaming the poor for their poverty is now in operation. A public rhetoric pursued by some parts of the media and some politicians, re-introducing Victorian categories of ‘deserving’ versus ‘undeserving’ poor, and stigmatizing ‘worthless scroungers’ as opposed to ‘hard-working families’, has the effect of individualising poverty and characterising it as the result of personal moral failings.

This hides some undeniable truths: that much poverty is structural and systemic; that the majority of poor people in the UK are working poor. This was implicitly recognized in the Working Families Tax Credit, which operated under the last government: this crucial support for many should not be used to subsidise low-wage employers (often in highly profitable companies). The current strategy of no-wage job placements in commercial entities is also of concern. The Commission strongly supports the minimum wage, and would be deeply concerned at any moves to undermine this.

This divide and rule strategy of ‘poor-bashing’ simply pits the not quite-so-poor in this country against the poorest, in an attempt to deflect attention from the ways in which wealth has actually ‘trickled upwards’ to the well-to-do. The combined impact of deep cuts, rising prices and this psychological assault is effectively seen by many as a war against the poor. Truly, we are not all in this together.

Health

Health inequities persist and people in poorer communities suffer from poor health more than people in wealthier communities: Scotland has some of the poorest postcodes in Europe. While the National Health Service is available to every person in the United Kingdom, we know that the social determinants of health such as employment, wealth, social networks, and environment are important. The inefficient working of our economic system does not just impact on peoples' budgets. It also impacts on their health.

Deprivation and poor health

Although life expectancy for Scotland's population has been improving there are still substantial differences. In the poorer parts of Scotland's cities, life expectancy has fallen, making the gap between rich and poor all the more visible. For example, for women there is a 17-year difference in healthy life expectancy between the most and least affluent areas. In one area of Glasgow male life expectancy is only 54 years.



The experience of poverty and disadvantage can be both a pathway to poor health and its consequence. There are many causes of poverty and disadvantage including unemployment, de-industrialisation, unhealthy lifestyles and issues surrounding family life and the nurturing of children.

Poverty of exclusion

Good work, including voluntary work, is good for health. But unemployment, as well as poor quality jobs involving insecurity and stress, can make people ill. The current economic climate is only likely to make matters worse. But it is also an opportunity to change things for the better. There is also an opportunity to address the issue of income inequality.

High levels of inequality, such as exist in Scotland, lead to high levels of perinatal death, mental illness, obesity, larger prison populations and high rates of illegal drug use. Moreover high levels of stress caused by unemployment, poor housing (or no housing) and debt problems are more likely to lead to participation in health damaging behaviours such as smoking, excessive drinking and drug use.

There is growing evidence of the crucial importance of the environment from the earliest time of life, from



pre-conception through to early years of life, and the need to support many parents in their role of nurturing children.

Problems caused by excessive alcohol consumption, smoking and drug use are certainly not confined to the poorer areas of Scotland but they are more prevalent in these parts. The annual cost of alcohol misuse in Scotland is estimated between £2.47 bn and £4.63 bn while illicit drug use costs £3.5 bn.

Current policies of dealing with the signs and symptoms of these problems have value but that there will often be greater value in tackling issues in the early years as it is in the first few years of a person's life that their life's trajectory is set. It is vital to tackle the causes of life's health and social problems as well as the outcomes.

Attempts to address the problems meet opposition from those who have a vested interest in maintaining the ways in which society currently operates.

There can be little doubt that the society and economy in which we live has provided many benefits in the form of freedom of choice, individual rights, better health and higher levels of material comfort. But many have failed to benefit. There have also been sizeable costs. Levels of inequality, debt, obesity,



alcohol-related problems and mental illness, together with ecological damage, have all increased at the same time as improvements have occurred.

Global Poverty

The purposes of economic activity are to ensure that people, the world over, have what they need not simply to survive, but to have realistic prospects for flourishing, and the capacity and support to form strong and resilient communities. The ways in which our economic system is structured and operated is a major barrier to achieving this.

The global economic and financial crisis has touched almost every part of the world, including the UK. But the worst global financial crisis in decades has battered the economies of many developing countries, which have seen their exports tumble, foreign investors withdraw, unemployment rise, and remittances from relatives working overseas decline. The Millennium Development Goals are far from meeting their 2015 targets¹.

The economic challenges facing developing countries are being compounded by a falloff in overseas aid,



with governments renegeing on their aid commitments as they try to shore up their own economies following bailouts to financial institutions and falling revenue. It is estimated that around 90 million people have been pushed back into extreme poverty (living on less than a dollar a day). Their situation is made worse by rising prices of commodities which are driven by growing demand, scarcity and speculation. Nor is it helped by the large debt and interest payment burdens which many developing countries still carry, and the predatory actions of so-called 'vulture funds'ⁱⁱⁱ. Both at home and globally, the most vulnerable are bearing the heaviest consequences of the crisis.

Multiple trade injustices persist, including the subsidising of developed world producers who then offload surpluses on the developing world, lowering prices, putting local traders out of business and undermining food security. Trade rules set by institutions such as the IMF, the World Bank and the WTO are heavily biased towards rich countries.

Transfer mis-pricing where multinational companies export their goods from developing countries at lower than market prices, thereby reducing their book profits and their tax liability, have the effect of depriving developing countries of the tax revenues to which they are entitled. Christian Aid estimates that this practice costs developing countries \$160 bn per year.



Climate change is creating impossible challenges for the world's poor despite the fact that their share of responsibility for this problem is tiny. Faced with this reality the developed world has done little to live up to its responsibilities and to find a solution. The Scottish Parliament's policy commitments to the reduction of greenhouse gases and the promotion of renewable sources of energy are welcome developments. However, the challenges of transition should not be underestimated and the costs which will be incurred have to be measured against the benefits.

The Church of Scotland has already committed itself to various initiatives designed to reduce greenhouse gases at local, national and international levels. It also participates, with other churches, in the eco-congregations project which helps congregations to link environmental issues to their faith and take action in their local churches, communities and nationally.

The Commission welcomes the UK Government's commitment to increase the international aid budget to the UN target of 0.7% of Gross National Income (GNI) by 2013, and the Scottish Government's maintenance of its International Development Fund. The Scotland/Malawi Partnership, in which the Church of Scotland plays a full role, is an imaginative civil society model based on mutual co-operation, ensuring that aid and knowledge transfer is provided in an empowering way, involving local Malawians.



The Common Good

For many years we have been creating an economy where the dominant values are greed and fear. It is an economy in which the weak and the vulnerable suffer disproportionately and where non-renewable natural resources are squandered.

The option now is to live life more fully without being enslaved by money. We need to re-think what kind of people we want to be and what kind of society we want to live in. We can all make a difference by taking some responsibility for the places in which we live and work. By building social capital (that is, the value of social relations and the role of co-operation and confidence) we will strengthen the fabric of our society and enhance the common good.

The capacity for loving and caring is still deeply rooted in our society. The challenge is how to make these the dominant values. There is a real danger that it will simply be a question of getting back to 'business as usual', with every possibility that the experience of the past few years will be repeated in the future.

Whilst we understand that economies will always be subject to economic cycles we also understand that



human behaviour can either moderate or exacerbate the ups and downs of the cycle. Governments have been tasked with the management of our economy. But there is also a moral and cultural dimension to the crisis.

Nothing less than societal transformation is needed at every level. It also needs to come from the business community: despite the good example of mutual models such as John Lewis, Airdrie Savings Bank and Tullis Russell the pursuit of profit or shareholder value alone, without regard for employees, customers and the wider community will not create a healthy economy. Economic activity ought to be a positive force for good. Many of the social, cultural and environmental aspirations we share can only be afforded or achieved through the wealth and innovation which flows from economic activity.

All in this together

The current crisis will make considerable practical demands on faith communities, and it will be important that they respond with coherent pastoral strategies. But beyond this, the Christian community, if it is to be faithful to Jesus Christ, must consider anew its relationship to money, and bear witness to its calling to be



a community of hope, justice and love. This should inform our preaching, teaching, action and prayer, and our engagement with public policy and debate. It will also require us to become much more economically literate. In this regard the Church should encourage initiatives such as the Financial Education Partnership, and similar activities, to extend their work in financial education.

The Churches may also help in practical ways by assisting in the promotion of credit unions, community businesses and other mutual aid societies which offer real co-operative and ethical alternatives.

In the past, societies have always derived benefit from having a sense of the common good out of which arises a sense of common purpose. Society must decide if there is any real resonance in the phrase 'We are all in this together'. If there is, then we will soon realise that there is merit in looking after 'the least of these'. Indeed we will understand that it is in the best interest of all of society to do so.

Western populaces have been encouraged to believe that the market knows best. The market has been seen as all powerful: questioning its ability to deliver ever-growing economic benefits has been regarded with great suspicion. The drive to make money is still the major motivating force for many people.

We know that neither markets nor the state, of themselves, can deliver contentment or happiness.



Equity, fairness and sense of community depend on fundamental values of human dignity, justice and citizenship to be translated into political will.

The second decade of the 21st century therefore emerges as a crucial time of transition and reassessment, in which we have an obligation and opportunity to develop new perspectives on economics. The 2009 Encyclical of Benedict XVI, *Caritas In Veritate* offers profound theological reflection on economic and social questions and we commend this prophetic document to the Church of Scotland for study and assessment.

We believe that we need to reimagine our economic life in a spirit of hope and realism. We want to see our shared imagination shaped by the task of reducing inequality, ending poverty, ensuring sustainability and promoting mutuality, – a task rooted in our understanding of and commitment to *the common good*.

Many Scots have some connection with the Church of Scotland. Our shared hope is that the Kirk, working in partnership with other churches, faith communities and the whole of Scottish civil society, can continue to be a powerful force for good within Scottish society. Its public voice, visibility and continuing presence across all of Scotland, not least in the poorest urban and rural communities, give it a significant



role in convening a Commission such as this and promoting its findings.

The Kirk, in common cause with other Christian churches and other faith traditions, brings to the work of reflecting on economics and economic policy the resources of a deep and powerful tradition of thinking about the good of Scotland. At a time when the moral vision of Scotland needs to be deepened and renewed in relation to major economic, social and environmental challenges, we believe the Christian tradition and the Christian imagination have a profound contribution to make. The voice of the Kirk is only one voice in conversations about Scotland's future; but when it speaks, it is still a crucial voice. It is so because it is a positive voice – one which speaks with passion and conviction about the common good of Scotland and about the goal of life in all its fullness for all of Scotland's people.



Action points

1. We urge the endorsement of four priorities for economic life in Scotland: reducing inequality, ending poverty, ensuring sustainability and promoting mutuality.
2. We urge the Church to change, in the light of the clear teaching of Scripture, our own priorities in preaching, teaching and action with respect to money, greed and inequalities, as a Gospel witness and to encourage such change among all the people of Scotland.
3. We call on the Westminster and Holyrood governments to pursue policies which reduce injurious levels of personal debt, and to introduce a legally binding maximum interest rate of 40% APR for all kinds of consumer credit.
4. We call on the UK and Scottish governments to promote financial education in schools and colleges as a priority, and would encourage the promotion and expansion the Credit Union movement.



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5. We affirm support for the minimum wage, and encourage its being raised towards the level of the living wage; we urge that payment of the living wage be made a criterion in awarding goods and services contracts over the value of £100,000 in any year.
 6. We urge the UK government to end the UK's support for tax havens, to support greater international tax transparency, and to prioritise the development and implementation of a code of conduct on business taxation which defines the practices and behaviours firms will and will not undertake.
 7. We support the reduction of levels of inequality in wealth within the UK, encourage business to recognise the corrosive effects on business ethics of the current unhealthy dependence on the "bonus culture", and urge a return to more traditional forms of remuneration for work undertaken.
 8. We support the growing of the 'mutual' and co-operative sectors of the Scottish economy towards 10% of the total, and the promotion of business models which emphasise positive social impacts, and call on the Scottish and UK Governments to introduce immediate fiscal incentives to promote these.



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9. We note with concern the links between deprivation and health, and in particular support the minimum pricing for alcohol, calling on all to unite in support of this major public health priority.
 10. We encourage all congregations to actively promote support for families with young children in practical ways such as providing premises for early years and family activities, providing more intergenerational activities, working with local communities and organisations to promote and support parenting.



Membership of Special Commission on the Purposes of Economic Activity

Grateful thanks are extended to all members of the Special Commission on the Purposes of Economic Activity

Prof. Charles Munn, OBE (Chair)	Former Chief Executive, Chartered Institute of Bankers in Scotland.
Dr. Linda de Caestecker	Director of Public Health, NHS Greater Glasgow and Clyde
Mr. Paul Chapman	Member, Church of Scotland Priority Areas Team.
Rev. Dr. Doug Gay	Lecturer in Practical Theology; Principal, Trinity College, University of Glasgow.
Rev Dr Kathy Galloway	Head, Christian Aid Scotland.
Ms. Janette Harkess	Director of Policy & Research (2009 -11), Scottish Council for Development and Industry.
Prof. Werner G. Jeanrond	Professor of Divinity, University of Glasgow.
Mr. David Lonsdale	Assistant Director of CBI Scotland



Rt. Hon. Lord McFall of Alcluith	MP for Dumbarton 1987-2005 MP for Dunbartonshire 2005- 2010 Chair House of Commons, Treasury Committee, 2001-10
Prof. Jeremy Peat	Director of the David Hume Institute; board member, Scottish Enterprise
Cathy McCormack	Long term resistance fighter in the war against the poor as detailed in her biography 'The Wee Yellow Butterfly'
Mr. Grahame Smith	General Secretary of the STUC.
Dr. Jim Spowart	Former managing director of Direct Line Financial Services and founder of Intelligent Finance (IF).
Prof. Jonathan Thomas	Professor of Economics, University of Edinburgh.

End Notes

ⁱ The **Millennium Development Goals (MDGs)** are eight international development goals which the United Nations member states have agreed to achieve by the year 2015. They include eradicating extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development.

ⁱⁱ Vulture funds are private companies scavenging profit from the debts of some of the world's poorest countries, buying up the debts of heavily indebted poor countries at a cheap price, then trying to recover the full amount. For example, Donegal International bought up the debt owed by Zambia to Romania - then valued at around \$30 million with accrued interest - for \$3.3 million, then sued Zambia for the full amount of the debt, plus compound interest, demanding \$55 million in total.



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