



Investing as a Christian: Reaping where you have not sown?

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Summary

Who should you trust with your savings? Is the highest return all that counts or should this be sacrificed to moral principle? This paper discusses the appropriate ways for Christians to save and invest by outlining general and specific biblical instruction on the subject. Although there are few forms of saving that can be wholly endorsed, biblical principles offer far more discriminating guidance on financial investment than is commonly supposed.

Introduction

Consult any financial advisor about where to put your savings and four things will guide their counsel – risk, return, personal circumstance and tax. It is unlikely that the ethical status of your investments will enter into their calculations. This outlook is shared by the financial markets. Modern capitalism is founded on the belief that the maximization of financial return is its own justification. Ethical considerations have no place in determining how and where resources are invested since the free play of market forces are meant to ensure the greatest overall benefit to society. The profitable end justifies any (legal) financial means.

Surely Christians should strongly challenge such a view. Is not *how* a return is made on savings more important than *how much*? However, whilst some Christians, such as the present Bishop of Oxford, have been at the forefront of the 'ethical investment' movement, teaching on these issues at grass-roots level remains surprisingly scarce. In the main, Christians (and church treasurers) are given precious little guidance on where and how to invest their resources.

This paper attempts to redress the balance by outlining the biblical teaching concerning savings and investment, and then assessing how the most widely-available forms of saving compare.¹ It will not seek to give detailed financial advice but rather an ethical framework against which the advice of others can be evaluated.

General biblical principles for personal saving and investment

(i) Stewardship

The most widely quoted principle of biblical teaching to the practical issues of saving and investment is that of stewardship. The Creation narrative teaches that, whilst God is the source of all material resources, he has condescended to entrust their preservation and development to humanity.² In a number of parables, Jesus develops this theme by picturing his disciples as servants given charge of property. Their performance in its use will be assessed at the consummation of the Kingdom.³

These parables apply to our use of all resources, both spiritual and material, entrusted by God to his servants until the coming of the Kingdom. The servants' performance is assessed purely on the basis of financial return. Praise is reserved for those servants who have achieved a healthy profit through business ventures. The lazy servant is condemned for not even attempting to make a return. Superficially, this implies that the sole priority for a Christian is the maximization of financial return.

This would be a misguided interpretation of the parables. First, the 'return' spoken of is wider than just the pecuniary and includes the total good done to others. Second, the means by which profit is obtained matters to God. The Old Testament law accepts the legitimacy of trade for profit *per se*, since trade is presupposed but profit is unregulated. However, any wealth that results from dishonesty, theft, monopoly or exploitation of the

1 This paper works from the assumption that someone has spare resources to save and invest – an irrelevant presumption for many. A previous Cambridge Paper (Vol 4 No.1) discussed the grounds for a Christian to own wealth legitimately.

2 Gen.1:26-30; 2:15.

3 Matt.25:14-30; Luke 19:11-27; cf. Matt.24:45-51; Luke 12:42-47 and 16:1-12.

poor is legislated against⁴ and denounced by the Prophets.⁵ Consequently, the righteousness of any monetary return is conditional on the absence of the exploitation of customers, workers, creditors and suppliers. The ethic of stewardship applies not just to how productively we deploy God's resources, but also influences to what righteous purposes we deploy them.

The immediate problem this poses for most Western Christians is that we have relinquished the stewardship of our savings to intermediaries, such as fund managers and banks. In most cases, we have no idea of the activities and methods used to derive a return on our money. It seems contradictory therefore to bemoan economic exploitation and injustice and yet fail to realise that our own interest payments and pensions are being secured by the same exploitation perpetrated in the name of shareholders and creditors.

Financial returns must come from somewhere – they do not spring automatically from the action of impersonal 'market forces'. Rather, investment affects the distribution of assets, the products and services supplied and their relative prices. It has an inherent moral dimension. In practice, there are few morally flawless forms of investment. We have to choose the least of numerous evils. However, the absence of a first best option does not mean that we are absolved from the responsibility of making such a choice.

(ii) *The cultivation of relationships*

Scripture is unequivocal in preaching the subjugation of wealth to the cultivation of loving relationships. Not only does it teach the ever-present duty of supporting one's dependants,⁶ but Jesus specifically urges the use of this world's wealth to develop friendships, since the good done to others will be the only return on investment that will ultimately last (Luke 16:9).

Knowing exactly who is using your savings and for what purpose is a prerequisite for this. Not only do the close ties between saver and investor ensure a ready flow of information about how the money is used and how the business is going, but investing in this manner may help to cement the original relationship. By contrast, the trend of financial investment has been away from saving with people that you know to channelling savings through anonymous middlemen in order to reduce risk.

(iii) *Presumption on the future*

Investment decisions are almost entirely guided by expectations of the future. Although there is no contradiction between believing in God's providential care and simultaneously making plans to meet financial needs, the wise are humble in their attitude towards the future⁷ whereas the foolish presume upon future profits.⁸ To believe that one can know the future, and to incur financial obligations on that basis is, in a way, to claim an attribute of God for oneself.

The need for humility in one's attitude towards future events leads to circumspection when borrowing, especially in order to speculate. It also produces a suspicion of speculative schemes that require specific future events to occur in order to generate a return (e.g. futures and options funds).

Specific biblical principles for personal saving and investment

(i) *The prohibition of interest*⁹

Contrary to popular assumption, the Bible *does* prohibit all interest on loans within the domestic economy, and not just 'usury' or 'excessive interest' (see Deuteronomy 23:19¹⁰). Subsequent Old

Testament references indicate no exceptions to the prohibition whilst underlining its moral gravity by associating it with bribery and theft.¹¹ In addition, Jesus commends a radically liberal attitude towards lending (Luke 6:34,35).

Crucially in this context, the Parables of the Talents and the Ten Minas do *not* reverse the Old Testament opposition towards interest. Whilst the master chastises the lazy servant for burying his talent, and unfavourably compares this with putting the money out at interest, he judges the servant 'by his own words'. If the servant had truly believed that his master was a 'hard man', then he should have put the money out at interest since this is what would be expected. Receiving interest is 'reaping where one has not sown' – it is what hard men do (Luke 19:22,23). Implicit in this parable, therefore, is a distinction between risking money actively in a business venture and putting it on deposit at interest – reaping where one has not sown.

This hints at why such antipathy is reserved for interest-bearing loans. In such a loan, the lender takes no explicit share in the risks of the business, yet requires a return. Not only does this presume that future profit is certain but, if the venture fails, it is the entrepreneur rather than the lender who is liable. Similar problems arise when interest-bearing loans are incurred to finance consumption or house purchase – little consideration is given to changes in borrowers' circumstances by the inexorable logic of compound interest.

(ii) *The sanctioning of risk-taking and profit-share*

The corollary of this criticism of interest is that financial contracts that explicitly share risk, through partnerships or equity shares, can be positively sanctioned. No specific biblical warrant exists for such contracts and so their legitimacy must be inferred from the support given to reasonable commercial profit fairly obtained, the acceptance of rental contracts (see below) and the support given to trade and risk-taking.¹² However, two of the previous principles point to the validity of such profit-sharing contracts. First, they explicitly acknowledge that profit is uncertain and is not presumed upon. Second, a profit-share contract is more risky for the provider of finance. This necessitates greater information flows between the user and supplier of capital, so reinforcing their relationship.

(iii) *Rent and hire contracts*

Interest on money and rent on property derive from different forms of contract. In a loan, the ownership of the money and its associated risks are transferred to the borrower whereas in a rental contract, ownership and ultimate risk remain with the original owner. This distinction is set out in Exodus 22:14-15 where hire charges act as compensation for the owner retaining the risk of the objects used by another (see also Leviticus 25:14-16, 29-31). These precedents give tacit sanction to the renting or leasing of property for a return.

(iv) *Hoarding and speculation*

Hoarding can range from stuffing banknotes in a mattress to amassing valuables in a bank vault. Although the practicalities of life require some degree of storage, hoarding to protect one's wealth receives short shrift from the biblical writers.¹³ Hoarding is an anti-social act in that it deprives the economy of the employment-generating consequences of the resources being spent, donated, lent or invested.

A related activity is that of speculation, whereby assets are acquired solely in the expectation of their appreciating in value. This can range from investing in shares that are thought to be takeover targets, to borrowing heavily in order to 'invest' in property, futures contracts (cf. Barings), art or antiques. To the extent that such speculation achieves a return, it is the result of favourable circumstances and superior knowledge rather than productive activity. Risks are taken not in providing benefits to others but in gambling upon future events. Indeed, in volatile markets, speculation is essentially motivated by the desire to gain at the expense of the next sucker who buys high and sells cheap. As such, it is merely redistributive and presumes upon the future.

4 E.g. Lev.19:13, 35-36; Deut.19:14; 24:15; 25:13-15; 27:17.

5 Isa.10:2; Jer.17:11, 22:13; Ezek.18:12-13, 22:12-13; Amos 2:6-8.

6 Lev.25:25; Mark 7:9-13; I Tim.5:3-8.

7 It is those 'without knowledge' who claim that 'tomorrow will be like today, or even far better' (Isa.56:11,12) whereas Solomon urges 'Do not boast about tomorrow, for you do not know what a day may bring forth' (Prov.27:1).

8 Luke 12:16-21; Jas. 4:13-17.

9 An earlier Cambridge Paper (Vol 2 No.1) outlined the undesirable economic consequences that arise from an interest-based economic system. Further discussion can be found in Mills, P.S., *Interest in Interest: The Relevance of the Old Testament Ban on Interest for Today*, Cambridge, Jubilee Centre Publications, 1990.

10 Exod.22:25 and Lev.25:35-38 state the prohibition in the context of charitable loans, whereas Deut.23:19 puts it in terms of loans to all fellow citizens (cf. v20).

11 Ps.15:5; Ezek.18:13, 22:11,12; cf. Prov.28:8; Neh.5:7-11.

12 E.g. Prov.31:10-31; Eccles.11:1-6.

13 Luke 12:16-21; Jas.5:3; see also Ps.39:6; Eccles.5:13; Zech. 9:3.

Savings alternatives in the real world

These general and specific principles give various pointers to how a Christian should invest. How do the most widely available forms of savings and investment match up?

(i) Bank deposits

The ethical status of moneylending is no longer questioned. Commercial banks lend to a wide variety of ventures, from the smallest of businesses to multinational corporations, in whatever activity that is expected to yield the bank the highest return. Depositors have no control over whether their money is being used to finance employment creation in the inner cities or international arms deals, other than through occasional boycotts (e.g. over Barclays' involvement in South Africa in the 1980s)!⁴ Neither do depositors have any influence over how their bank conducts its relations with its borrowers vis-à-vis the level of collateral, interest rate margins or the severity of foreclosure. Banks have been widely criticised for their non-forgiveness of developing country debt, for lending too freely in booms and foreclosing too harshly in recessions. Yet it is in the interest of the great bank-depositing public that such deeds are done.

(ii) Building society deposits

Fewer of these concerns apply to building society deposits. Regulations ensure that societies can only lend to property-related activities and for consumer purchases. Also, societies are mutual organizations, so depositors are members with a stake in the reserves and assets of the society and voting rights at the AGM. Hence, a greater degree of stewardship can be exercised through a building society deposit whilst there is less chance of involvement in 'unethical' business operations.

Nevertheless, through their involvement in interest-based lending, societies share some of the failings of banks. For instance, in order to keep their savings returns competitive, societies resort to standard repossession procedures despite the membership status of their borrowers and do not lend readily in deprived housing areas. Also, the influence that any one member can have on society policy is marginal.

(iii) Government debt

UK government debt is held directly by the public through National Savings deposits and holdings of bonds ('gilts'). The debt is the accumulated borrowing of governments since the seventeenth century, largely to finance wars but more recently to cover the perennial budget deficit.

The whole gamut of government spending from overseas aid to defence spending is financed by government borrowing since it makes up the shortfall in taxation that would otherwise be needed. Essentially, public borrowing takes current savings and uses them to finance the present and past unwillingness of governments to impose upon their taxpayers the full costs of their spending decisions. As such, buying government debt serves little productive purpose. The interest payments are merely transfers made by taxpayers to current debt-holders for the 'time value' of their money. (Government debt interest is now the third largest expenditure programme, exceeding both defence and education.) There is not even the risk of default to justify this return and future generations of taxpayers are burdened to finance current expenditure.

(iv) Property and other durables

Wealth is often accumulated through durable assets that have either a practical use (housing, antique furniture) or aesthetic appeal (jewellery, art). They are often a hedge against inflation and may offer the prospect of capital gains. Owner-occupied housing clearly serves a useful purpose, contributes towards rootedness, and can be used for the benefit of others. However, other objects acquired purely as inflation hedges or as a speculative gamble provide few practical benefits. As such, they cannot represent a 'stewardly' use of one's savings, and face the criticisms of hoarding and speculation. One of the evils of high inflation is the encouragement it gives to speculate in durables rather than to invest in productive activity.

(v) Company shares

The principles outlined earlier seem to sanction individual investment in shares. Their return is related to the profitability of the business through dividends and is a reward for supplying risk capital. Shareholders can influence company policy – they receive the company's accounts and statements, they can put forward motions and can vote at AGMs on the composition of the board and on the outcome of takeovers. If the company is involved in an unethical practice or product, the matter can be raised formally with the company and the share sold if no change is forthcoming. It would seem therefore that shares are a more principled outlet for a Christian's savings than a bank deposit, especially if they are owned in a small local or family business where sufficient time can be devoted to be concerned with the management of the firm ('business angel' investment).

However, a blanket commendation cannot be given to investment in shares. Buying shares is risky. Their prices are more volatile than those of other assets because the tax system encourages firms to borrow heavily and pay out their return in capital gain rather than dividends. This prompts shareholders to diversify across a number of companies, so diluting their 'stewardship' interest in any one firm.

There are other concerns. Principally, shares can only be widely-traded because the liability of shareholders for the firm's debts are limited to the value of their holdings. In the case of the bankruptcy of such a company, shareholders are not obliged to make good the debts incurred in their company's name. Although limited liability facilitates trading in shares and the growth of large corporations, it breaches one important ethical principle – the small matter of paying one's debts.

This is the root of the other ethical qualms with shares. Limited liability permits the separation of a firm's ownership from the exercise of managerial control. This allows shareholders to treat their shares as purely financial investments and take little interest in how their company is being run. Indeed, they will own so little of a large company that it is not worth their while making the effort to monitor the management. It is easier to sell their shares if they dislike management performance than make an effort to improve it.

In addition, the impression that the stock market is another arm of the gambling industry is strengthened by the prevalence of takeovers as the principal form of corporate discipline in Anglo-Saxon economies. Not only are takeovers one of the least successful forms of improving company performance in practice, they also permit absentee shareholders to determine the destinies of thousands of employees on the basis of the largest speculative return.

Consequently, although individual shareholdings seem to fulfil more of the initial biblical criteria for personal investment, in practice limited liability and the development of a liquid market in shares makes it increasingly difficult for shareholders to discharge their stewardship responsibilities.

(vi) Pensions, endowments and unit trusts

Some of these difficulties of shareholding can be overcome by investing through shareholding intermediaries – notably private pension funds, endowment policies and unit trusts. These hold a diversified portfolio of shares, so reducing risks and dealing costs. Between them, UK fund managers control around 70% of the shares in UK quoted companies and so should, collectively, be able to exercise sufficient discipline over company managers to ensure the long-term efficiency of most businesses.

Unfortunately, this is generally not the case. Diversification of risk means that individual fund managers often hold too small a proportion of shares in any one company to make close monitoring worthwhile in the long run. It is usually easier to sell shares (especially in takeovers) than to try to influence company policy.

The situation is made even worse for the Christian investor through the vast majority of funds being managed with the sole intention of maximizing the funds' return, irrespective of the activities that the companies concerned are involved in. Hence, as with bank depositors, most pension fund holders and endowment policy-holders are given little information on the means by which their profits are made.

14 Since 1992, The Co-operative Bank has followed various ethical criteria in determining which activities it will not finance. These include oppressive regimes and the sale of arms to them, animal experimentation for cosmetic purposes, factory and fur farming and tobacco.

This problem has recently been addressed by the establishment of 'ethical' and 'green' funds for both pension funds and unit trusts. These limit the range of shares that can be invested in through use of a variety of criteria. 'Negative' funds will not invest in companies in certain areas of business (e.g. tobacco, alcohol, arms, pornography etc). 'Positive' funds are those that seek out companies that are a definite benefit to the community or environment, or which operate their trading and working practices according to various ethical criteria. These funds constitute a small (around £1 billion, 0.1%) but growing share of UK funds under management and have tended to perform at least as well, if not a little better, than their competitors since establishment.¹⁵

Ethical funds offer a definite improvement on ordinary funds, but they are not a panacea. Some funds apply mechanistic criteria to particular business activities but do not discriminate concerning business methods (e.g. predatory pricing, late payment of suppliers). Neither do all funds employ a long-term strategy of trying to influence managers rather than simply selling out at an acceptable return. Consequently, care must be taken in the choice of ethical fund, just as in the choice of individual company shares. Nevertheless, the steps taken thus far are in the right direction and offer a more principled alternative for those without the time or expertise to engage in the stewardship of specific shares.

Conclusion

Christian principles for investment rest uneasily with most of the widely available savings media in the UK. That the range of options is not, in general, congruent with the principles of biblical teaching is no coincidence. At virtually every turn, UK laws and regulations are biased against investing one's money on these principles. Banks are effectively underwritten by the taxpayer through deposit insurance and the Bank of England as 'lender of last resort'; the prospect of short-term windfall payouts is sounding the death-knell of a viable building society sector; companies are encouraged to borrow by the corporate tax system; and tax relief for PEPs and pension funds encourage saving through institutions rather than direct share-holdings. CREST, the new electronic share dealing system, is likely to make the responsible ownership of shares even costlier by charging more for individual registration.

Clearly, the ethical drawbacks of the various forms of saving need to be traded off. For instance, scrupulousness on the interest question might lead to forgoing opportunities for charitable lending to credit unions or Christian development agencies (e.g. Shared Interest). Alternatively, sensitivity over the 'gambling' aspects of shares could entail relinquishing the chance to invest in a local company and create employment or aid the cause of ethical investment. To facilitate such choices, the table opposite gives a subjective ranking of the alternatives against some of the criteria discussed here.

As ever, the Christian has the challenging task of living in the world without being part of it. Whilst there are still no easy answers, the Bible gives more down-to-earth financial advice than is usually presumed. It may not offer the secret of financial success but at least reaping and sowing will be more closely related.

15 A full description of ethical funds and their track record is given in Sparkes, R., *The Ethical Investor*, London, HarperCollins, 1995.

Table of investment instruments measured against various ethical criteria

	Personal Stewardship	Knowledge of Use	Equity/Rent vs. Interest	Non-Hoarding	Non-Speculation
'Business Angel' Investment*	✓✓	✓✓	✓✓	✓✓	✓
Owner-occupied Housing	✓✓	✓✓	✓✓	✓	—
Personal Share-holding	✓	✓	✓✓	✓	?
Ethical Unit Trust/Fund	✓	✓	✓	✓	—
Building Society Deposit	✓	✓	X	✓	—**
Pension Fund/Unit Trust	X	X	✓	✓	—
Govt. Debt/National Savings	X	—	X	✓	—
Bank Deposit	X	X	X	✓	—
Cash	—	—	—	X X	—

* 'Business Angel' is the term used to describe an outside shareholder in a small business who also supplies managerial advice and expertise.

** Some building societies are attracting depositors speculating on whether the society is to change its mutual status.

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