Comments from Mervyn King

Mervyn Allister King, Baron King of Lothbury *KG, GBE, DL, FBA (born 30 March 1948) is a British economist and public servant who served as the Governor of the Bank of England from 2003 to 2013. He is School Professor of Economics at the London School of Economics.*

Lord King was appointed as Governor of the Bank of England in 2003. Most notably, he oversaw the Bank during the financial crisis of 2007–2008. King retired from his office as governor in June 2013, and was succeeded by Mark Carney. He was appointed a life peer and entered the House of Lords as a crossbencher in July 2013. Since September 2014 he has served as a professor of economics and law with a joint appointment at New York University's Stern School of Business and School of Law.

Ben Friedman is a long-standing friend. I first met him in October 1966, almost sixty years ago at King's College, Cambridge, home to Maynard Keynes and Morgan Forster, among many others. I was a young, naïve new undergraduate. Ben was a sophisticated, well-dressed, impressive Marshall Scholar from Harvard. Not much has changed really! Even then Ben had the qualities illustrated by his wonderful book *Religion and the Rise of Capitalism* and by his talk today – clarity of thought, lucidity of exposition, and an extraordinary depth of reading and breadth of interests that are quite untypical of most economists. It was not surprising that Ben returned to Harvard and joined the Society of Fellows, a group of scholars across all disciplines for those of the 'highest calibre of intellectual achievement', similar to the interdisciplinary environment in which Adam Smith worked at the University of Glasgow in the eighteenth century. We are privileged to have Ben with us today.

The fundamental questions posed by Ben are: 'Where did western economics come from? Why did it emerge when and where it did?' Ben ascribes, correctly in my view, the key contribution as Adam Smith's *Wealth of Nations*, published in 1776. The general equilibrium theories of Leon Walras, much loved by economic theorists, came a century later. Adam Smith earned the right to appear on the £20 note.

The original contribution of Ben's thesis is to stress the importance of religion in the origins of modern economics. In his fascinating book, Ben starts by saying 'the central argument of this book is that our ideas about economics and economic policy have long-standing roots in *religious* thinking'. In particular, the decline of Calvinism and predestinarian beliefs opened the door to the idea that our own efforts might affect the path of the economy. The intellectual debates in Edinburgh and Glasgow – the heart of the Scottish Enlightenment – were fertile ground for thinkers such as David Hume and Adam Smith.

Out of this ferment of ideas came the *Wealth of Nations* with its extraordinary proposition that, in a competitive market economy, individuals pursuing their own self-interest would lead to an outcome for society as a whole that is the most efficient possible. Left to their own devices, individuals pursuing their own self-interest would lead to an outcome in which it was impossible to make any one better off without making someone else worse off. The rest is history – the idea has been central to economics and politics ever since. Ben describes persuasively the influence that the active debates on religion had on the underlying intellectual structure of thought from which emerged the ideas of Adam Smith and David Hume, even though neither was personally religious.

Economists, like other people, start with a general worldview which then influences their work. Often that influence is subconscious and reflects general intellectual assumptions that are not challenged. Religion was an important part of the world view imbibed by Adam Smith. But the importance of such a world view also has a more modern relevance. The debates over Brexit and Covid revealed the significance of hidden assumptions made by 'experts'. I recall the lesson that the historian A.J.P. Taylor, in his famous 1961 book *The Origins of the Second World War*, drew from the failure of British military experts in the 1930s to assess the relative abilities of the Italian Navy, which they rated highly, and the Italian Army, which they did not. The reverse turned out to be the case, as Italy demonstrated when it invaded Abyssinia. Taylor's conclusion was:

'Every expert is a human being, and technical opinions reflect the political views of those who give them'.

In earlier times, it was the religious views that framed the thinking of intellectuals and experts.

Both Adam Smith and modern economists share the view that we should think of the economy as comprising individuals. Individuals promote their own economic self-interest. But the most significant change in our economy over the past 200 years is the shift away from businesses using physical capital and employees to what is in effect a more cooperative venture. Matthew Boulton and James Watt created the commercial steam engine, and at the same time Birmingham was our second city. In doing so, they earned the right to appear on the £50 note. But modern companies, especially those that have emerged in this century, embody collective intelligence. As humans, intellectual cooperation complements the division of labour in Adam Smith's pin factory. No one person could design and build an aeroplane. But together we can produce jumbo jets that will fly from Europe to Australia. It is the collection of people with different skills who come together to promote a common idea to produce a commercially viable innovation. Crucially, their success depends on collaboration which does not rest on the payment of a market wage, but on the motivation and involvement of those concerned. Think of the teams producing artificial intelligence today and contrast their success with the failures before the financial crisis where the motivation was individual and pecuniary rather than collective and entrepreneurial. The relevant definition of economic self-interest goes beyond money.

There is a fascinating section in Ben's book on free trade versus protectionism. He writes: 'Whether advocating free trade or protection, American political economists in the pre-Civil War period anchored their views in religious argument' (p.267). It is interesting to see John McVickar advocating free trade and Frances Bowen advocating protectionism on the grounds that their preferred policy would deliver God's will. Bowen's argument is based on economic independence and, in Ben's words 'echoed the case that Malthus and others had made for maintaining Britain's Corn Laws, which discouraged grain imports even at the cost of economic inefficiency. It also anticipated the ideas that more than a century later, guided the economic policies of the Soviet Union under Stalin and then China under Mao' (pp.265-66). Of course, we now see that the argument for protectionism based on economic independence, and related to security concerns, has now spread to the United States and the West more generally. 'Securonomics' has replaced comparative advantage.

Let me suggest a couple of questions for general discussion, and two questions that I would like to put to Ben.

Questions for discussion:

1. The idea that an individual pursuing their own self-interest might nevertheless promote the interest of others is a remarkable and unintuitive concept. Nevertheless, there are, as Adam Smith recognised, exceptions. These are often described as externalities, of which the classic example is pollution. A more recent example is the

profitable exploitation of opioid drugs which led to the ‘deaths of despair’. Or the creation of the company Theranos by Elizabeth Holmes selling blood testing kits that did not work. But do we respond to these events in a sensible fashion? The promoters of these damaging products were penalised because of the damage they did to their *investors* rather than to their *patients*. How should we deal with these deviations from the otherwise beneficial effects of a competitive market economy? Are there insights from religious thinking that shed light on this question?

2. Ben argues that the influence of religion on economics declined over time as the discipline matured, and that, especially after the Second World War, its more important impact was on public opinion. America appears to be a more religious country than most other high-income countries. Ben points to the political importance of Evangelical Protestants who have embraced conservative candidates, especially in the South. Richard Nixon’s southern strategy succeeded in replacing a dominant Democratic Party stranglehold on Senate and House seats by a dominant Republican Congressional representation which has persisted. Britain recently had a practising Hindu prime minister, and the Mayor of London is a Muslim. The 2019 successful Red Wall strategy in which the Conservatives replaced Labour in many erstwhile safe Labour seats was reversed in the General Election this year. Compare and contrast.

My questions for Ben are:

Questions for Ben:

1. In your book you focus on the influence of changes in religious thinking on economic ideas. In the chapter on ‘Political Economy in the New Republic’, you say that by the early nineteenth century, ‘America’s religious landscape was changing’ (p.240). And on p.249 you write, ‘Just as changed religious attitudes about the possibilities of human agency had influenced thinking about economic questions for more than a century, now the reality of expanded economic opportunity shaped Americans’ receptiveness to different religious precepts’. Could you say more about how changes in the economy affected the development of religious thinking?

2. You describe religion as 'the inner belief structure that forms an essential part of people's view of the world in which they live'. The Great Depression and the Second World War led to greater scepticism about any set of traditional values, including religion. As you point out, 'because most ordinary citizens are primarily interested in how economic realities affect their lives – not theories about how economies behave, or the methodologies that economists apply in their research – in the modern era the influence of religious thinking on economic thinking has therefore been most visible in affecting public attitudes regarding economic policy' (p.365). Do you think that the decline in organised religion since the Second World War has implications for the way that our economies will operate and how economists will think about that?

Let me conclude on a positive note about the future. Since the financial crisis ended some 15 years ago, productivity growth around the advanced world has declined. A growing sense of pessimism about the economic possibilities not only of our grandchildren but of ourselves has become widespread. I think this is misplaced. We should not extrapolate into the future events of just a few recent years. Instead, we should recognise that we are not capable of forecasting the future. Despite current pessimism we see scientific and medical advances, as well as practical innovations, all around us. I was struck by the words of Francis Wayland who was president of Brown University from 1827 until 1855, and who is described by Ben as 'the first political economist, not just in America but anywhere, to realise – and to articulate clearly, in a form that has survived – the possibility of ongoing economic growth propelled indefinitely by technological progress' (p.269). Wayland wrote, 'there is no reason to suppose that we are now more capable of fathoming the goodness of God, than our ancestors were, three or four hundred years ago' (p.271).

That positive note is a good point on which to end. It is captured by the delightful aphorism which Ben attributes to the modernist pastor at New York's First Presbyterian Church, Harry Emerson Fosdick, a century ago: 'The world is moving so fast these days that the one who says it can't be done is generally interrupted by someone doing it' (p.337).

The last word, however, should go to an adaptation of one of the most cited quotations from King's College's most famous economist, John Maynard Keynes: 'Economists, as well as practical men, who believe themselves to be quite exempt from any religious influence, are usually the slaves of some defunct Protestant priest'.