The Demon is in Too Deep:

Clashing Orthodoxies of Investment and the Separation Thesis

A comparison of the different rationales directing financial and philanthropic investment suggests that, for many, the moral sensibility which guides philanthropic giving is set aside when investing in securities. This dichotomy in approach reflects the fact-value distinction, or Separation Thesis, *which is at the heart of modern finance. This asserts that moral questions are not germane to investment decisions because such decisions deal purely with facts, primarily return and risk. However, given that shareholders have ultimate moral accountability for the activities of the companies in which they invest, this amoral approach to investment is questionable.* **Ben Nicka** *issues a call to the asset management industry to direct investment to moral ends.*

In Mark 9, after the Transfiguration, the disciples ask Jesus to cast out a harmful demon that eluded their efforts. After the deed is done, the disciples inquire about their own deficiency. Jesus replies 'This one cannot be driven out by anything but prayer.' The pastor Martyn Lloyd-Jones saw this tale as emblematic of the Church's failure meaningfully to engage the 'amoral' or 'non-moral' England of his time. The familiar methods of engagement were insufficient because, to borrow Timothy Keller's memorable summation, 'the demon is in too deep.'[1] The prayer required is perhaps best described as the prayer for the wisdom of God (Ps. 73:16-17 and James 1:5) from which flow the power of God (I Cor. 1:18-2:16). Traditional approaches, moral and political, seem in our time equally ineffectual in their attempts to redirect modern finance and its investment of capital towards moral ends. Despite encouraging activity on the surface (e.g., ESG, CSR, sustainable, and impact investing), the vast depths of investment - hundreds of trillions of dollars – elude moral direction.

Martyn Lloyd-Jones

Photo: Amazon

This elusiveness of finance is paired with a certain hiddenness, because even though the amoral nature of modern investment theory is a deliberate and accepted part of common sense investing, it is 'hidden in plain sight': as we will see 'Too often, what everyone believes, nobody knows.'[2]

This suggests a deeper understanding is needed before effective moral engagement is possible. Simply put, there is little possibility of recommending a useful therapy when one hasn't done the hard work of diagnosis. Surface-level analysis is insufficient here: 'the demon is in too deep.'

The malignancy of finance is multiform. The following engages with *just one facet* of the ethics of finance, the *Separation Thesis*, under three headings. The first will root the discussion in a statement of finance's overall purpose. The second will define the *Separation Thesis* through a comparison of personal investments and philanthropic giving. The final point will suggest a response to the two competing orthodoxies of investment that the *Separation Thesis* spawns.

Augustine of Hippo wrote long ago that only good is inherent in God's creation: sin and darkness are merely parasitic, deformations of the original good. It follows that any criticism of finance needs to be grounded in the essential good which is being distorted. So first, the *objective goods* of finance.

An Objective Good

Finance has a significant role, an objective good, to play in the pursuit of broad-based societal flourishing and justice, which is the proper end of all human work. Finance is charged with the stewardship of capital. This capital is the shared inheritance of humanity and represents the accumulated creation of value through our forebears' work, thrift, creative differentiation, and marshalling of the Earth's given abundance.[3]

While capital is entrusted to individuals and to finance, it is ultimately a shared inheritance and one from God, being rooted in the creative powers he gave to human beings, his sustaining power, and the resources and fruitfulness of the Earth he entrusted to us, provisionally.

This stewardship of finance involves allocation of capital to the best and highest uses, those investments which will most effectively further societal flourishing and justice, and the maintenance and real economic growth of the capital invested. The profession properly carries out this calling as an intermediary, a servant, bringing savers and asset-builders together to amass resources to facilitate scale and duration in public and private investment. It brings buyers and sellers together by enabling flows of value to facilitate trading, and refining processes and markets to efficiently and truthfully conduct these tasks of finance, all toward the end of justice and broad-based flourishing.

This work of finance has a thoroughgoing moral frame. Despite its increasingly technical nature, there is no aspect of the work of finance and investing which is not ethically framed by this calling and the moral frame common to all humanity.

The current ethos of the industry deviates from this calling in significant ways, but not entirely. Finance has done and continues to do much good.

The root causes of the moral deformity of finance are of concern to us all. Many professional and non-professional investors participate in, are marked by, and sustain this deformity - in ways not often noted.

This leads to the second point, the exploration of a single aspect of this deformity, the *Separation Thesis*, through a reflection on our personal investments.

The Separation Thesis

Here, I invite you to pause your reading and conduct a brief audit exercise. Please jot down your investments – the cash, bonds, real estate, and equities you hold - and the institutional and legal structures through which you hold them. There is no need for monetary values, but perhaps a rough estimate of the percentage allocated to each (simply to focus the mind). Next to each

Sin and darkness are merely parasitic, deformations of the original good

Photo: breakingmatzo.com

Open hands Legal Services

Photo: Open Hands Legal Services

category, please add a sentence detailing the rationale for the composition of your investments.

For purposes of illustration, this is how I analyse my own investments, with the caveat that I'm a rather unsophisticated investor. As we will see, my lack of sophistication is not merely a practical issue (though its deficiency is glaring), but primarily a moral one.

Here is my list along with the corresponding rationales:

- *Cash (20%)*: Held at Synchrony Bank, which is convenient and pays high interest rates. The high allocation to cash reflects scepticism about the markets but also savings for a down payment.
- *Equities (40%)*: Held primarily in low-fee index funds from The Vanguard Group ('Vanguard'). Index funds have been shown to generally outperform actively managed mutual funds on an after-fee, long-term, risk-adjusted basis. They are recommended for the 'average investor' by most experts in investment, including Warren Buffet.
- *Bonds (20%)*: Held in mutual funds managed by Vanguard. This allocation, perhaps high given my age, reflects my scepticism. But I recognize that in the current U.S. asset bubble and the associated turmoil of unwinding a decade-plus Federal Reserve experiment in outlandishly loose money, there is 'nowhere to hide', not even in bonds.
- *Cash balance pension (20%)*: I'm fortunate to have a cash-balance pension plan at my employer. I have no knowledge or control over where this 'balance' is invested.

With my apologies and a promise to come to the point, I invite you to compose a second list. This time, please detail your philanthropic investments last year, noting the rationale.

Again, I will offer my own list as an example.

- *My church, Restoration Anglican, Minneapolis (70% of our monthly investment)*: The Church plays an irreplaceable and good role in our cultures, cities, and in my own family's and other families' lives, despite everything, and we are proud of our church.
- *The disadvantaged and unfortunate (23%)*: *Open Hands Legal Services* provides free legal representation in New York City, pushing back against those using the law to abuse and exploit. *Jericho Road Ministries and Community Emergency Service*, here in Minneapolis, Minnesota, each provide goods and services to those in need, physically or spiritually. Both stepped into the gap during the pandemic and the George Floyd Riots.
- *Practical theology (7%)*: *Christian Counseling Education Foundation*, an intellectual think-tank and counselling center in Philadelphia, addresses matters of heart and head, and supported the work of my favourite thinker, Dr. David Powlison.
- *Other*: From bonuses and tax returns we give to *A House on Beekman*, which serves children and families in the South Bronx and a Christian formation center at the University of Minnesota called Anselm House.

What emotions or thoughts arose as you put together these two lists? What differences do you notice in the logic of the allocation of funds?

The two logics of investment on display in my lists illustrate rather well the heart of the fact-value distinction (also known as the Separation Thesis), which can now be defined. This distinction sets forth a positive (or empirical) realm of facts and a normative realm of morals (or values) and asserts that finance operates exclusively in the empirical, factual realm. This is the idea that there are business decisions to be made without moral content, dealing only with the facts, with hard data. Applied to the ethics of finance, investment is

Unnecessary consumption
Photo: medium.com

said then to deal only with the facts, primarily return on investment and risk: moral concerns do not pertain.[4]

You may note that the Separation Thesis, when applied to investment, seems to offend common sense, but I suggest that such thinking is alive and well in the ethics of finance. As evidence, I offer the two orthodoxies on display in my financial and philanthropic investments. Before reviewing my investments through the lens of the Separation Thesis, however, it may be useful to turn to theological ethics for one additional concept to guide our analysis.

The Archbishop of Canterbury, Justin Welby, before his current appointment, wrote a booklet entitled *Can Companies Sin?* in which he inquired after the moral agency of a company. He works through a number of questions with skill and merciful briskness before concluding that behind the employees, behind the executives, behind the board of directors, sit the shareholders. It is, he posits, the shareholders who are ultimately responsible for the company, its ethos and activities, whether beneficial or deleterious, because it is uniquely within their authority to determine the shape and future of the company. Said differently, investors are morally accountable for the actions of the companies in which they invest. [5]

With these concepts in hand – the *Separation Thesis* and *investor moral accountability* – let's investigate the two very different logics on display in my investments.

First, note that with my philanthropic investment, I have a detailed understanding of the activities of each organization, and I morally approve and even boast of their work, which I believe contributes to societal flourishing and justice. If these organizations turned from their core convictions and their commitments to serve, I would cease my investment.

This contrasts with my equity and debt holdings, for which I have no specific knowledge of the companies I am supporting. Why? Because to invest in equity indices or bond funds is a completely passive approach: I cede entirely the ability to direct my investment to specific companies.

My equity and bond investing approach is also morally passive in that it entails simple indifference to the moral quality of the work performed by the companies I support. My investment strategy considers only risk, return, and convenience. Notably, if I leave my funds so invested until I retire, I will have supported the work of these unknown companies for nearly 50 years without truly knowing or engaging with how they impact their customers, employees, suppliers, communities, or the environment… reflecting simple indifference to the flourishing and justice (or their opposite) created and sustained by my investment.[6]

My cash deposits are easier to morally diagnose with specificity. Synchrony boasts it is "the largest provider of private label credit cards in the United States" and that it also helps consumers finance clothing, jewelry, motorhomes, hobbies, and furniture. My cash holdings are being used for credit card and general consumer finance.[7] My personal take is that most credit card lending is morally reprehensible and nearly all consumer finance encourages unnecessary consumption. I was ignorant of the work my money at Synchrony was doing when I opened the account. However, given the ease of discovering how my funds were being used, there is an air of moral culpability here.

If I hold the logic of my financial investments up to the logic of my philanthropy, you can see the fact-value distinction, this Separation Thesis, running right through the middle of my own life. On display is the Separation Thesis's deliberate ignorance of moral concerns and indifference to the actual activities of the companies and activities behind the securities, its narrow focus on the facts of return and risk.

Critically, I take my case to be largely illustrative of the mainstream approach of finance and investment, the 'wisdom of this age' to use the words of the Apostle Paul, rather than uniquely reprehensible.

Lastly, what is to be done? Two things: *further work of discovery* and a *change in investment.*

Discovery

The 'wisdom of this age' eludes engagement and often discovery because the 'demon is in too deep.' Only prayerful meditation on the ethics of finance which animate the investment of capital will result in effective Christian engagement against the largely amoral and nonmoral finance of our time. Would that more work would be done here!

Change in investment

With regard to changing the investments of Christians and other people of good will, what is the surprising wisdom of God, which the Apostle Paul once said is weakness and foolishness in the eyes of the world and yet is the only power which can confront the 'wisdom of the age'? I maintain that Christians should undertake to form an asset management industry aligned with the high calling of finance and that all Christian savings and investments should be directed to moral ends, even at the cost of lower returns and higher fees.[8]

Postscript

While this essay is primarily aimed at provoking a dialogue, perhaps I can anticipate a few potential objections:

Why a charge to the 'asset management industry' and not a charge primarily to individuals? Laying a charge to individuals to sift through the universe of companies and securities to devise a portfolio of investments which are consistent with the calling of finance is not realistic. The task is simply too complex. Therefore, it seems necessary to call for a Christian asset management industry. Just as adherents of Islam have a unique asset management industry which caters to their religious commitments, so too Christianity should have a finance uniquely shaped by Christian theology yet fully utilising the insights of modern finance and portfolio theory – where these do not conflict with Christian faith. Such an industry would be as pluralistic as the Church, with many different approaches.

Why "higher fees"? Low fees are one of the greatest appeals of index funds. The premise is that, since, on a risk-adjusted basis index funds offer better returns long-term than actively managed funds, why pay more? This notion asks too little of investment and of asset managers, as only returns and risk are in view. Significantly more needs to be asked of asset managers, and higher fees would likely result. Could asset managers be mutualised or otherwise structured so as to drive down fee percentages as the assets under management grow? Certainly. Bloated fees are not justifiable but calls for more work must recognise that this work will require remuneration.

Why "lower returns"? Finance is too focused on maximising returns. High returns are good, but they are not ultimate. The moral outcomes made possible by investment should be given sufficient weight in decision-making such that they could justify a lower, even a much lower return. If we cannot contemplate an outcome which could justify a lower return, that might indeed imply a lack of Christian freedom and a corresponding bondage.

1. See Timothy Keller sermon, transcript and recording, at https://www.desiringgod.org/messages/the-supremacy- of-christ-and-the-gospel-in-a-postmodern-world
2 . Stephen Toulmin, *Cosmopolis: The Hidden Agenda of Modernity*, University of Chicago Press, 1992, p.12
3. Pope John Paul II, *Laborem Exercens*, 1981, p.18. John Paul II writes of humanity's two inheritances, nature and the work of those gone before us: I extend work to include the capital accumulated.
4. Domènec Melé, Joseph Rosana, and Joan Fontrodona, 'Ethics in Finance and Accounting: Editorial Introduction,' *Journal of Business Ethics*, Vol. 140 2017, p.612. Also Dr. Brian Fikkert and Dr. Michael Rhodes, 'Homo Economicus Versus Homo Imago Dei,' *Journal of Morality and Markets*, Vol. 20 No. 1, 2017, p36.
5. Justin Welby. *Can Companies Sin?: "Whether", "How" and "Who" in Company Accountability*. Grove Ethical Studies, No.85, Grove, 1992.
6. University of Edinburgh, Centre for Theology Public Issues, Working Group on Finance Ethics, *Capital: A Moral Instrument?*, Saint Andrew Press, 1992, pp.37-45.
7. The Synchrony press releases help (https://www.synchrony.com/synchrony-financial-integrates-private-label- credit-cards.html).
8. University of Edinburgh, Centre for Theology Public Issues, Working Group on Finance Ethics, op.cit., p.39.

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