

AN «ANALYTICAL» APPROACH TO THE «JUST» RATE OF INTEREST.
A FEW COMMENTS

I deeply thank Luigi Pasinetti for his contribution to the subject of my article. There could not be a better beginning to this joint effort of Christian experts that is hoped for in my introduction. I shall present just brief comments on the context with regard to which the discussion might develop.

Certainly, the question of the just rate of interest is important. But perhaps Pasinetti is putting on it excessive stress when he writes in his section I that, of all the issues on the proper role of finance, the foremost one concerns the extent to which it is legitimate to pay interest on loans. These days, is not at least as important the issue of knowing to which extent it may be legitimate to reward risk taking?

Similarly, at the beginning of his Section II Pasinetti contrasts ancient societies, the wealth of which «was founded principally upon the endowments of material resources», to modern societies in which human labour would be so predominant as a source of wealth that all the rest could be neglected in the analysis. I wonder whether such a view, very widespread during the last five decades including in some of my writings, will not soon appear shortsighted. If the resource pessimism of environmentalists is taken for granted to a significant degree, all those concerned with the fate of future generations should also find it just to pay extra reward to whoever saves non-renewable resources or bears the cost of discovering substitutes. The «pure labor economy» may then miss more and more of what will matter.

About Christian experts who ought to join forces, it would be a pity if they would all be economists, and moreover theorists. This would be a sign that economists failed to transmit their knowledge to moralists, who on their part cannot ignore economic phenomena. Part of our difficulty in this respect results from the fact that economic phenomena are too complex to be fully grasped by a unified theory. Particularly on issues of justice, we should look at all aspects of a concrete question before pronouncing our verdict.

This is why, when turning to the last part of my article here published, I point out that reference to markets leaves ample room for judgement, and why in that part my main reference is not to markets but to business management, not to the theory of market equilibria but to the new institutional economics. This is also why I am giving little weight to, and mentioning just in passing in these comments, the fact that, as a theorist interested in Pasinetti's theses and moral standpoint, I am still unconvinced by his argument exposed in the book where his theory of the just interest rate is best

found¹. This is moreover why I try in my paper to be very careful when speaking of conditions under which the market interest rate could be accepted as a reference in ethical judgements on the terms of loan contracts.

The main concern of moralists is to give proper rules of conduct. Thomas Aquinas was addressing sellers when writing on the just price. Pope Leo XIII was addressing employers in the part of *Rerum novarum* dealing with the just wage. In *Laborem exercens* Pope John Paul II added the State, as «an indirect employer» also responsible for the level of wages in the country. Similarly, in our discussion on the just interest we mean to address governments and central bank, as well as lenders.

Professor Pasinetti signals as «heavily unjust» the high rate of interest that was maintained unchanged during the second half of the 1980s and the first half of the 1990s, particularly so in continental Western Europe. I fully agree with him on that judgement, as well as on many others which matter much more in practice than disputes between theorists. Who was responsible for the injustice of interest rates during a long decade? Who should have behaved differently? And when? These questions should not be ignored. They are clearly too complex to be properly answered in a few words, all the more so as they cannot be isolated from the question of knowing who was responsible for the inflation of the 1970s and early 1980s. Accepting the blame for oversimplification I shall, however, give a too quick answer: during more than a decade trade unions kept asking for pay rises far exceeding productivity increases; employers hardly resisted but raised their prices accordingly; governments overspent and accepted unsustainable increases in public debts; central banks were too slow in reversing the tight monetary policies that inflation had required. I repeat: this is a too simple story. Its main point is to place in perspective the above comments on the most welcome contribution of Luigi Pasinetti.

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¹ See E. MALINVAUD, *Luigi Pasinetti's «Structural Economic Dynamics»: A Review Essay*, in «Journal of Evolutionary Economics», 1995, 5, pp. 59-69.