

BIBLICAL ECONOMICS TODAY

Vol. XVII, No. 45

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August/September 1995

CHRISTIAN ECONOMICS IN ONE LESSON

No. 4: The Rights of Labor

by Gary North

And, behold, I [Solomon] purpose to build an house unto the name of the LORD my God, as the LORD spake unto David my father, saying, Thy son, whom I will set upon thy throne in thy room, he shall build an house unto my name. Now therefore command thou that they hew me cedar trees out of Lebanon; and my servants shall be with thy servants: and unto thee will I give hire for thy servants according to all that thou shalt appoint: for thou knowest that there is not among us any that can skill to hew timber like unto the Sidonians. . . . So Hiram gave Solomon cedar trees and fir trees according to all his desire. And Solomon gave Hiram twenty thousand measures of wheat for food to his household, and twenty measures of pure oil: thus gave Solomon to Hiram year by year (I Kings 5:5-6, 10-11).

Solomon had decided that in order to make the temple more aesthetically glorious, he needed cedars which grew outside the Promised Land. How was he going to obtain them?

One possible way was by military conquest. As the head of the Israelite State, he could have assembled horsemen, chariots, and other implements of war and marched into Lebanon. He might have been able to defeat the king of Lebanon on the battlefield, assessing cedars and workmen as a form of tribute.

This would not have been a cost-free operation. It would have cost in military equipment, dead and injured soldiers, and all the expenses associated with occupying a foreign nation. It also would have cost Israel long-term ill will on the part of Lebanon. Revenge is a powerful motivation in the relations between nations.

Solomon did not use military force to persuade the king of Lebanon to supply him with what he wanted. He used the social institution of voluntary exchange. He went to Hiram, the king of Lebanon, who employed many workers, and suggested a bargain. Hiram would supply trees and workers, and Solomon would supply grain. Lebanon had trees and skilled workers; Israel had food. Hiram had more use for the food than he did for the trees and workers. The opposite was true of Solomon. So, a mutually beneficial exchange became possible. Hiram's laborers supplied a scarce economic resource: finished wood for the temple. Solomon supplied a scarce economic resource: harvested grain delivered to Hiram.

Assessing an Asset's Value

Solomon openly admitted to Hiram what he knew that Hiram knew: "Thou knowest that there is not among us any that can skill to hew timber like unto the Sidonians." The

Sidonians had an acknowledged advantage: they could deliver a unique finished product to consumers. These skilled, specialized laborers had to be paid for their efforts. What pay would they receive? That was a matter for negotiation to determine: between the two kings, and then (in a free society) between the king and his laborers.

To deliver finished products to Solomon, the Sidonians had to use up raw materials (trees), labor time, capital (tools), and transportation services. Hiram agreed: "My servants shall bring them down from Lebanon unto the sea: and I will convey them by sea in floats unto the place that thou shalt appoint me, and will cause them to be discharged there, and thou shalt receive them: and thou shalt accomplish my desire, in giving food for my household" (I Kings 5:9). The combined costs could not exceed the economic value to the king of Lebanon of whatever Solomon was willing to pay, unless Hiram for some reason paid the difference. Solomon's price was sufficient, however. It was then Hiram's task to see to it that his production costs did not exceed Solomon's price; otherwise, Hiram would either have to make up the difference or default on his contract.

What if Hiram's costs were higher than the price that Solomon offered? Hiram would have had to find ways to cut costs or else refuse to accept the contract. If he refused the contract, he would have had to find other ways to generate sufficient income to pay his workers.

What is a cost? Anything a person must give up in order to achieve a goal. By cutting down the trees, Hiram would have forfeited something of value. First, what was the cost of the trees? Unless he was going to give away the trees, when he estimated the market value of the trees, Hiram would have had to ascertain what other buyers were willing to pay for them, either then or in the future. Second, what was the cost of cutting down the trees? Whatever he had to pay the tree-cutters, plus the rental costs of the tools they used. Third, what was the cost to rent the tools? Fourth, what was the cost of hiring floats and workers to ship the finished products?

Furthermore, it was not just his out-of-pocket expenses that constituted his costs, but also his "whatever won't flow into my pocket" costs. He could not sell the trees to another buyer. He had to give up income as well as pay for expenses. If he could have made a profit by selling trees to another buyer, this forfeited profit was a cost. A cost is whatever must be forfeited in order to gain something. Everything of value that Hiram had to give up in order to deliver the finished products to Solomon constituted his cost. All the way down the chain of economic command, costs equal whatever the participants have to forfeit in order to get delivery of goods or services. It is every

participant's responsibility to estimate these costs accurately. Jesus warned: "For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it? Lest haply, after he hath laid the foundation, and is not able to finish it, all that behold it begin to mock him, saying, This man began to build, and was not able to finish" (Luke 14:28-30). He also warned: "For what is a man profited, if he shall gain the whole world, and lose his own soul? or what shall a man give in exchange for his soul?" (Matt. 16:26).

The Labor Is Worthy of His Hire

The price of any item on a free market is established through competition. Buyers compete against buyers; sellers compete against sellers. Out of the interplay of their bidding, a price is established that clears the market: no one is left who wants to sell at this price, and no one is left who wants to buy at this price. A good example of this is a concert hall in which every seat has been sold, and no one is waiting in line.

Buyers of labor services. What was a laborer worth to Hiram? He was worth whatever Hiram could have earned from the laborer's services by employing him to serve another buyer. In this sense, Hiram had to evaluate the value of labor services in the same way that he evaluated the value of trees: What did he have to give up in order to hire these services ("hire 'em")? This does not mean merely their salaries; it means the net income he could have received by employing them to serve another buyer.

If it cost him the equivalent in grain of 100 pounds gold per year to employ them, and Solomon paid him this for their services, then Hiram's labor costs were 100 pounds gold. But if someone else had offered him 150 pounds, it would have cost Hiram an additional 50 pounds of gold to work for Solomon - the gold he would have pocketed on the other transaction. A forfeited income opportunity is a cost.

How could Hiram have established the value of their salaries? By calculating how much it would cost to replace them, one by one, if they quit. The idea of replacement cost is the same as the other kinds of costs: What must a buyer give up in order to achieve a goal? If the goal is to hire laborers, what must the buyer of these services give up?

Sellers of labor services. What of the laborers? What did they have to give up in order to be employed by Hiram? Their time. What did this cost them? Whatever they might have earned by working for someone else, including themselves. If they were paid in grain, then in order to gain this grain, they had to give up whatever they might have earned elsewhere.

The seller of labor services estimates the value of his forfeited labor time by estimating the maximum income he could receive by selling his labor to someone else, including the value of his leisure time. If he believes that he can earn an ounce of gold each week from either of two buyers, then selling his services to one buyer costs him whatever he thinks he would have received from the other. Of course, he may be incorrect. Maybe the second buyer would have cheated him. To the extent that his estimate is erroneous, to that extent he will bear psychological costs that were needless. This is why it pays to estimate costs and benefits correctly. We should strive to estimate the future accurately, so that our present assessment of future costs and benefits corresponds closely to what we discover when the future arrives. We do not want to be like Judas. He sold his services for 30 pieces of silver, only to conclude after the transaction was completed that this price had been far too low to compensate him for the total costs involved. He had forfeited too much.

Another cost is the pain or discomfort we must bear that could have been avoided by abandoning the project. Leisure

is more pleasant than most kinds of work. The cost of gaining one form of income is to forfeit leisure income. That is, the negative cost of gaining our goal should be estimated in two steps: (1) forfeiting the value of the leisure that we might have enjoyed; (2) forfeiting the highest net income (income minus the value of leisure) that we might have earned elsewhere. If we regard leisure as tax-free income, we are back to our original definition: our cost in attaining our goal is equal to the total income that we must forfeit. We must give up **this** in order to get **that**.

The laborer forfeits leisure, i.e., the value of his disposable time. This disposable time is worth something to him. It constitutes his cost of working. Offsetting this is whatever he can buy with whatever he earns. By subtracting the money value of his leisure time from the money value of his pay, he estimates the net benefit of working. The higher the value of his leisure time is to him, the more costly in his mind is his work, and the lower the net income he generates through working. Bums have a high cost of working compared to their potential income from working; so do many children of the super-rich. Both groups choose not to work for wages.

Consumers decide what each aspect of the production process is worth to them. They do not do this directly. They do this through employers, who serve as their economic agents. Hiram decided what the workers were worth to Solomon. Hiram had to pay for replacing cut trees, for tree cutters, for worn out tools, for workers to ship the logs, and for final carpenters who worked on the temple (1 Ki. 5:18). To hire these employees, assuming there was freedom for employees to quit and seek employment elsewhere, consumers of other products had to compete against Solomon for the labor services of the Sidonians.

Neither Underpaid Nor Overpaid

If an employer pays one group of workers more than they are worth in the marketplace, then he is underpaying someone else: raw materials sellers, sellers of capital, other workers, or investors who expect the company to make a profit. The overpaid workers may appreciate the largesse, but one of the underpaid groups may find ways to register a protest. Raw materials sellers may raise their prices. Other workers may quit. Share owners may sell their shares, allowing a corporate "raider" to buy controlling interest and force changes in management.

The goal of the managers should be to keep the production system running smoothly. This means paying all participants what they are worth in the production process. They must count the cost. If a company's managers fail in this task, then managers of other companies, acting on behalf of other consumers, will bid away the underpaid assets. This forces an increase in prices for this type of asset.

An asset's productivity determines its price, but this means **productivity in the estimate of consumers**. Managers make the preliminary estimation of what an asset is worth in a production process, but consumers subsequently ratify or veto the managers' decisions. Managers and owners determine the accuracy of their own estimations only retroactively, by means of profit-and-loss statements. If the business made a profit, then consumers have agreed with the managers' assessments. If the company's profits are less than what shareholders or owners expected, then management suffers the consequences. The managers failed to meet consumer demand profitably. They made mistakes. One of these mistakes was to overpay for certain production goods. This may have been labor costs. It is up to management to find out where they overpaid. This is what owners pay management to discover. Managers continuing employment is at risk at all times. They

must do the bidding of the owners, i.e., make a profit.

Legally Sovereign Owners

We begin our analysis of buying and selling with the concept of legal ownership. God delegates to individuals the legal right to exclude others from using a resource. Ownership is a form of stewardship, for which God holds the steward responsible. The steward's responsibility is to determine who should gain access to the use of a particular resource. By allowing one person to use it, he necessarily excludes others. **The primary economic task of an owner is to determine who gets excluded.** He decides whose competitive bids to reject.

Buying and selling is a single act of voluntary exchange. The seller is a buyer of something; the buyer is a seller of something. This is why an exchange takes place. Because of linguistic convention, we speak of a **buyer** when he is a **seller of money**; we speak of a **seller** when he is a **buyer of money**. But linguistic convention must not be allowed to cloud our economic analysis.

The laborer is a seller of labor services. He sells his services in order to receive something in return. This may be money, but it may be something else. The point is, **the laborer is legally sovereign over his own services.** He can legally refuse to work. He can work in his garden. He can sell his services to someone else. Whatever he does with his time, he does so because he is legally sovereign over its allocation. He chooses what to do with his time from among an array of possible uses. He rents out his services in exchange for something he wants more than the exclusive personal use of his time.

God holds him responsible for what he does with his time. Paul wrote: "Every man's work shall be made manifest: for the day shall declare it, because it shall be revealed by fire; and the fire shall try every man's work of what sort it is" (I Cor. 3:13). There will be a final evaluation of each man's lifetime productivity. Paul also wrote: "Whether therefore ye eat, or drink, or whatsoever ye do, do all to the glory of God" (I Cor. 10:31). Because God has laid this moral burden on each person, it is up to the individual to decide what is the best use of his time, energy, and skills. It is not the God-delegated responsibility of another person to decide this for him, on threat of violence, unless the laborer is a minor or a ward of the State because of his mental incompetence or previous violation of the law.

When a third party intervenes and threatens violence against either the buyer or seller of a service, unless this service is inherently immoral as announced by God's revealed law (e.g., adultery), he has unilaterally arrogated to himself the responsibility of assessing the appropriate use of someone else's property. He has implicitly announced not only that he has superior information about what the terms of exchange should be, but that God has assigned to him the legal responsibility of determining what the terms of someone else's exchange should be. **Such an act of coercive interference is an assertion of delegated legal sovereignty over another person's property.**

The seller of labor services is an owner. For anyone to force him to sell his labor services on terms other than what he has decided is best for him constitutes a transfer of ownership. He who decides the terms of exchange for the seller of labor services has become the owner of these labor services.

If a person intervenes and announces authoritatively that no one may sell a particular labor service for a price higher than a specified amount, on threat of violence, he has created a wage ceiling. He has excluded from the market those sellers

of labor services who are not willing to sell their services at or below this fixed price. The wage ceiling also removes the authority of the buyers of such services to bid up the price and thereby hire the specific labor services they want. This wage ceiling creates a shortage of sellers of labor services in relation to demand. (The word "shortage" should always be qualified: "at some price.")

If a person intervenes and announces that no one may sell a particular labor service for a price lower than a specified amount, he has created a wage floor. He has excluded from the market those sellers of labor services who are willing to sell their services below this fixed price. The wage floor also removes the authority of the buyers of such services to bid down the price and thereby hire the specific labor services at a price they are willing to pay. This wage floor creates a surplus of sellers of labor services in relation to demand. (The word "surplus" should always be qualified: "at some price.")

Economists argue against price ceilings and price floors in terms of the laws' negative information effects and their creation of either shortages or surpluses. These arguments are analytically correct. Price controls do create these undesirable effects. But the fundamental issue here is not the economic issue, e.g., the added information costs of controls or the costs imposed on excluded participants. The fundamental issue is legal and moral.

The primary issue here is **exclusion**. A State-mandated wage ceiling, like a wage floor, forcibly excludes from the labor market potential sellers of labor services and potential buyers of labor services. If a person or a government agency threatens violence in the labor market in order to impose either price ceilings or price floors, he or the agency is necessarily announcing an ownership claim over the property of all those who have been excluded from the market for transactions.

Minimum Wage Laws

When the civil government sets a price floor for wages, those people whose productivity is not high enough to enable employers to hire them profitably will not be hired in those businesses covered by the legislation. They are forcibly excluded from the labor market. This leads to unemployment among those groups that are less desirable as employees in the eyes of those doing the hiring: age groups, racial groups, immigrant groups, linguistic groups, and religious groups. This unemployment, in turn, creates political demands for additional legislation to forbid discrimination by these classifications. The number of coercive restrictions on the labor market tends to increase unless the voters change their minds about the morality or the effects of such intervention.

Businesses seek to evade these additional restrictions by finding ways to hire the most productive workers they can locate. The rules governing employment become unclear, since the real reasons for not hiring someone cannot legally be stated. Thus, the unemployed person cannot easily get around layers of unofficial restrictions. In earlier days, he could have cut through the red tape with one phrase: "I'll work for 30% less than anyone else." But he is prohibited by law from making that offer.

The unstated assumption behind minimum wage legislation is that employers can afford to pay the minimum wage. Many employers can afford to do this, but only to people whose productivity warrants making the job offer. All employers cannot afford to hire every employee who offers to work at the minimum wage. So, employers establish screening systems to eliminate those workers who are expected to perform below that level of output required to justify paying them the minimum wage. The economic issue, as always, is exclusion. Who gets excluded? By what standard?

A minimum wage law is an assertion of ownership by the government. The government asserts title over offers to employ workers. Those workers who are not able to meet the productivity requirements of the government's terms of exchange are forced out of the legal employment markets. Their labor services have been deemed of insufficient value by the government. Employers are blamed for refusing to hire less skilled workers, but they are threatened with negative sanctions for offering less than what the employment legislation mandates. Blame they can handle; criminal sanctions they must avoid.

Jobs: Transactions or Legal Entities?

When a buyer of labor services offers to hire someone to perform specific labor services at a specific wage, we say that he has offered a job. But this offer is not analytically different from a seller of labor services who offers to work for a specific wage. He entices the buyer to create a job. Either party may discover that there are no takers at the price offered. In this case, the job does not come into existence. It remains merely an offer until someone accepts its terms and a contract is signed or is otherwise expedited. **The job offer remains nothing more than an offer until both the buyer and the seller come to a mutually beneficial agreement.** There is no job that exists apart from this agreement. It is a hope, not a product; an opportunity, not a reality.

When an employee claims that he should not be fired or replaced despite the fact that he is demanding new terms of exchange for his labor, he is asserting an ownership claim. He is saying that the job exists independently of the original offer and his own prior acceptance of its terms. The employer created a legal entity, says the employee, when he offered to employ anyone on the older terms. This legal entity now has a separate existence of its own. The original employment terms are no longer acceptable to the employee, but the employer is not supposed to be allowed by law to make the original offer, or a new offer, to other potential employees. The employee now has exclusive - i.e., the right to exclude - legal title to the performance of his original assignment, and he can lawfully exclude anyone who offers to work on terms more favorable to the employer. The State should act as his agent in this exclusion, he insists.

What this argument implies is this: a transaction established by voluntary agreement to one set of terms cannot lawfully cease to exist when one of the parties to the transaction demands new terms. The offer cannot lawfully be withdrawn by one party, the employer (seller of money), yet it can lawfully be withdrawn by the second party, the employee (buyer of money). An economic relationship created in terms of mutually agreeable standards becomes a judicially permanent relationship irrespective of the terms that created it.

Civil governments have threatened fines on employers (sellers of money) who attempt to hire new employees (buyers of money) to replace those employees who presently sell their labor services under a legally expired contract. If the employer decides to offer to employ a competing laborer on terms that the original employee prefers not to accept, the government forces the employer to deal with the original employee. This limits the supply of labor services to one monopoly seller. This is the legal situation when a labor union has been voted by over half of the employees of a company.

The government compels the employer to deal exclusively with the existing job holders. That is, the present employees are allowed to exclude their competitors by threat of State violence against the employer: fines or even imprisonment. The employer is not allowed to replace the old workers. **The job created by the original transaction is said to exist independently of that transaction.** It belongs to the existing employee if he has been joined by a sufficient number of other employees.

Laborers compete against laborers; employers compete against employers. Under modern trade union legislation, the existing workers are allowed to vote to preserve their jobs from competition by unemployed or differently employed workers. If over half of them decide to be represented by the union, the State enforces negative sanctions against their employer if he replaces existing employees with new workers after the original contract has expired. The State restricts the supply of workers available to the employer. It excludes other laborers. Amazingly, this legislation is called pro-labor. Those laborers who are excluded by law from the unionized sector of the labor market have no voice, no visibility, and no spokesmen. They are the forgotten men of the twentieth century.

The employer is not able to employ everyone who is willing to work at the above-market wage demanded by the union. He is only able to employ the union members designated by the union as employable. Excluded workers must seek employment elsewhere if the union does not allow them to join. Those few who are allowed to join are not allowed to work for wages lower than those agreed to by the union in the name of its members. If unions were to accept all applicants as members, not all union members would be able to work at the above-market wage rates (floors) established by the union. The scenes in the 1954 movie, *On the Waterfront*, where the goons hired by the union boss select which union members will be given employment each day were graphic descriptions of the inherent economics of union membership. Not mentioned was the fact that non-members did not even bother to show up. The State granted the union a legal monopoly to exclude.

Conclusion

The individual possesses legal authority under God to use his talents as he sees fit. He owns these skills as a steward under God. This is why God holds him responsible for whatever he does with this property. The Bible's definition of the much-heralded "rights of labor" designates the legal authority of the individual to sell or not sell his labor services to the highest bidder. These are legal rights: a person's immunity from the threat of violence when offering to sell labor services. To preserve these rights, buyers of labor services must be granted the right to make offers to employ others at a price mutually acceptable to both parties. If the employer's right to make an offer to hire labor is denied, then the right of every laborer to accept the employer's offer has been denied.

When the civil government intervenes on threat of violence to set the limits of employment, it has asserted an ownership claim over other people's property: the property of one's labor services and the property offered in exchange to hire labor services. To justify such a transfer of ownership from individuals to the State, a biblical economist must identify what biblical principles or specific passages in the Bible authorize the State to do this.

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