

# BIBLICAL ECONOMICS TODAY

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## CHRISTIAN ECONOMICS IN ONE LESSON

### Conclusion

by Gary North

*Let us hear the conclusion of the whole matter: Fear God, and keep his commandments: for this is the whole duty of man. For God shall bring every work into judgment, with every secret thing, whether it be good, or whether it be evil (Eccl. 12:13-14).*

The author of Ecclesiastes had examined first-hand the various worldviews of self-proclaimed autonomous man, and he had found them all to be vanity. His recommended solution: fear God, and keep His commandments.

This should be the conclusion of every philosophical investigation. It should also be the starting point. In no academic discipline is this conclusion more relevant than economics, for it was the economists of the late seventeenth century who offered as a methodological model the world's first God-ignoring social science. They were self-conscious in their attempt to construct a methodology of investigation that did not refer to God, His covenant, His law, or His historical sanctions. This has become the model for all the other academic disciplines. It is a model that bore much fruit in its youth, when its leading representatives borrowed the conclusions, though not the presuppositions, of Christianity. But as economists have become more consistent with the God-ignoring presuppositions of their formal academic discipline, the once-fruitful tree of economic knowledge has become increasingly barren. Anyone who doubts me should read the first page of every article in the most recent issues of five or six scholarly economics journals, beginning with *Econometrica*.

The despair of Ecclesiastes has not yet afflicted the economists, whose supreme confidence in their formal tools of analysis is maintained by their systematic unwillingness to follow the implications of their epistemology to their logical conclusions. For example, according to subjectivist economic theory, it is impossible to make interpersonal comparisons of subjective utility. Yet subjectivist economists never tire of making policy recommendations that would be scientifically meaningful only if these comparisons were both possible and accurate. The barrenness of modern economics led no less an economist than Nobel Prize winner George Stigler to stand up at a meeting of the Philadelphia Society in the mid-1970's and announce: "It bothers me that I cannot find a single article worth reading in a year's output of any economics academic journal." A few years later, Robert Nisbet told me that he had ceased reading scholarly sociology journals by the mid-1970's. The economists' original model of autonomous social science has done its corrosive work. Autonomous academic man

cannot find wisdom or insight in the pages of academic journals, which are multiplying exponentially. He finds only vanity – and atrociously written vanity at that.

It is time for Christian economists to honor the words of our Lord: "Let the dead bury their dead; but go thou and preach the kingdom of God" (Luke 9:60).

### What Is Christian Economics?

Four decades after he had written *Economics in One Lesson*, Henry Hazlitt told me that he should have called it *One Lesson in Economics*. The lesson is this: **you can't get something for nothing.**

Christian economics teaches otherwise. We do get something for nothing: grace (unmerited gifts). **Grace precedes law.** Adam received life, knowledge, and land before he was assigned a task. In the post-fall world, we can get something else for nothing: eternal life. But this is possible only because Jesus Christ paid the price.

Christian economics begins with five presuppositions. These presuppositions reflect the five-point covenant model. This model governs the structure the Pentateuch: the five books of Moses. It also structures the books of Exodus, Leviticus, and Deuteronomy. The four biblical covenants – personal, ecclesiastical, civil, and familial – have five points. First, the absolute sovereignty of a personal Creator God, who dwells with His people. God created the world and sustains it through His providence. The universe is therefore totally personal. Nothing that takes place happens outside of God's providence. There is nothing random in the universe. Second, the hierarchical authority of all life: God > man > nature. Man is made in God's image and is responsible to God for his actions. Third, the law of God as the basis of dominion. Man is to extend his control over nature by means of God's law. Fourth, predictable, historical, oath-bound sanctions – positive and negative – in terms of God's law. Cause and effect in history are both supernatural and predictable. Fifth, succession in history: inheritance is by covenant. "For evildoers shall be cut off: but those that wait upon the LORD, they shall inherit the earth" (Ps. 37:9).

How does the five-point model apply to economics? First and foremost, the starting point for Christian economics is not the existence of scarcity. Instead, it begins with the concept of God's ownership. As the Creator, God's ownership is original. All subordinate ownership is delegated. Christian economics does not begin with the concept of either the individual's self-ownership or the State's ownership.

Second, God owns nature, but has placed man over nature as His agent. God has placed mankind under a covenant, a dominion covenant: to extend the rule of God in history by means of the rule of man. Man acts as a steward for God, not as the original owner. Man's ownership is by leasehold.

Third, God has publicly revealed the terms of the lease: biblical law. Man's tool of dominion is ethical: conformity to God's revealed law. The laws of nature preceded man, but they were established for man. The stars above were created by God so that men might measure the seasons (Gen. 1:14). Thus, the creation was teleological: forward-looking. We must therefore explain economic order in terms of the assumption that men act purposefully in a law-governed, purposeful universe.

Fourth, God imposes rewards and punishments in terms of men's obedience to His law. Cause and effect in history are personal and ethical, not impersonal and statistical. Grace precedes law. Man begins life as a debtor to God. He remains a debtor to God. Debt is an inescapable concept. The question is: To whom does mankind owe the debt?

Fifth, there can be economic growth. More than this: corporate economic growth is a moral imperative because corporate covenantal obedience to God is a moral imperative. Grace brings responsibility; obedience brings rewards; rewards bring more responsibility; and so on, until the end of time. The compounding process is inherent in the doctrine of progressive sanctification, which applies both to individuals and collectives.

Christian economics is covenantal economics. It views the universe as theocentric and man as made in the image of God. It views ownership as stewardship. It views contracts as analogous to covenants. It views law as created. It views cause and effect as providential. It views time as linear and sharply bounded: creation, fall, redemption, dominion, final judgment.

The covenant as it applies to institutions can be summarized by five questions:

Who's in charge here?  
To whom do I report?  
What are the rules?  
What do I get if I obey (disobey)?  
Does this outfit have a future?

So much for the presuppositions of Christian economics. But what of individual decision-making?

### **Ownership and Stewardship**

Man is a time-bound creature. He does not know what the future will bring. Yet he must deal with it. He sees the future as through a glass, darkly. He guesses. He hopes. And ultimately, he must act. He is responsible for everything he thinks, says, and does.

And if thy right eye offend thee, pluck it out, and cast it from thee: for it is profitable for thee that one of thy members should perish, and not that thy whole body should be cast into hell (Matt. 5:29).

And Jesus said, Are ye also yet without understanding? Do not ye yet understand, that whatsoever entereth in at the mouth goeth into the belly, and is cast out into the draught? But those things which proceed out of the mouth come forth from the heart; and they defile the man. For out of the heart proceed evil thoughts, murders, adulteries, fornications, thefts, false witness, blasphemies: These are the things which

defile a man: but to eat with unwashen hands defileth not a man (Matt. 15:16-20).

Because all of man's life is covenantal, he is inescapably responsible before God, who has delegated much authority to mankind. Everyone is God's agent in some capacity. Thus, everyone is to some degree responsible to other men. A person acts within the context of society. What he does or refuses to do has effects on others, and they have influence on him. Men are responsible to God, not only directly, but indirectly. This responsibility is not merely vertical; it is also horizontal (Matt. 25:31-46).

Man is a steward for God. He is legally bound by the terms of God's leasehold. But because God has delegated authority to mankind, each owner is also a steward for other men. This creates a theoretical problem. Stewardship accompanies ownership. It is an aspect of ownership. If a man's stewardship before God is a judicial relationship, then in what sense is his stewardship to other men also judicial? If the legally delegated owner is responsible before God because of this delegated ownership, how can his ownership be compromised or qualified by the ownership claims of other men? In short: "To whom do I report?"

In the history of Western political theory, there was a doctrine called the divine right of kings. This doctrine, prominent in the sixteenth and early seventeenth century, asserted that the king was answerable to no man. He was answerable only to God. James I, the bi-sexual King of England to whom the King James Version of the Bible was judiciously and preposterously dedicated, was an eloquent academic defender of this doctrine. Late in the century, when his grandson was driven from the throne and out of the country, this doctrine was replaced in English political history by the divine right of Parliament. A century later, a majority of the American colonists repudiated the divine right of Parliament, substituting the divine right of "We, the people."

The biblical position is that there is no divine right inherent in any human institution. No man possesses a divine right, i.e., immunity from a veto by other lawfully constituted authorities. If he did, this would place his word on a par with the Bible, which ultimately means superior to the Bible. All of men's actions are bounded by the threat of a veto by others in history. The practical question is this: Which institution has lawful authority to establish policy most of the time in any area of life? All human authority is shared, but certain God-designated institutions possess the first right of appeal, the first right of veto.

Stewardship is based on ownership. The person who is most responsible for administering God's assets is the primary owner. The Bible is clear about who this primary owner is: the individual. The lion's share of authority is accompanied by the lion's share of the wealth. The local church is entitled to a tithe (Num. 18). The State apparatus - local and above - is entitled to less than this (1 Sam. 8). Thus, over 80% of the net output of capital belongs to those who possess lawful title and those who have contractual arrangements with the owners. Any deviation from this divinely appointed standard constitutes rebellion against God. The twentieth century has been the most rebellious century in this regard since the Noachic flood. It has also been the bloodiest.

This means that the legal property owner acts as a steward for other men in an economic sense, not in a legal sense. Other individuals, in their capacity as consumers, have no biblically authorized legal claims on the property of the owner. **The right of ownership is the right to exclude.** That is, the right of ownership is the right to exclude others without any threat from the civil government. The owner announces: "This

is mine!" Biblically, this declaration means: "God holds me eternally responsible for the administration of this property, and as long as I do not use it to infringe on the property rights of others, no man can lawfully tell me what to do with it." In the words of the employer in Christ's parable of the hirelings, "Is it not lawful for me to do what I will with mine own?" (Matt. 20:15a).

The covenantally faithful owner asks: "To whom do I report?" If the owner is in some way a steward for other men, then in what way does he report to them? Covenantal economics answers: "As a person seeking the maximum rate of return from the assets under his authority." Other men place their requests – not legal claims as consumers – before the owner. They say, "Let's make a deal." If the owner turns down an offer, he thereby forfeits the gains which this offer would have made available to him. The offer imposed an inescapable **cost of exclusion** on the owner.

Thus, ownership is stewardship in two senses: legal and economic. Legal ownership is governed by God in terms of His Bible-revealed law. The legal owner is responsible before God in a judicial sense. The mark of such responsibility before God is legal title to property: the right to exclude. God's delegated covenantal agency, the civil government, is supposed to enforce God's law. It is also supposed to enforce voluntary contracts that were not fraudulently entered into by one of the parties.

Ownership is a social function, despite the fact that private property is individually administered. Its social function is assigned by market forces that impose costs of exclusion on every owner.

### Scarcity

The concept of scarcity is the starting point of humanistic economics. Every rational investigator is supposed to be able to understand that we cannot legitimately expect to get something for nothing. Scarcity is indeed universally recognized. We all want more, and we want it at a discount: as close to 100% as possible.

The intellectual battles that go on endlessly in the area of applied economics center around the issue of the costs of interfering or not interfering with private property: Who benefits, who pays, and how much? Economic theory informs us that economists tend to take sides these debates depending on whether they expect to be beneficiaries or losers in the proposed interference. Yet we find that participating economists never admit that such crass economic motivation underlies their professedly morally neutral and academically objective economic analysis. They insist that they have come to their conclusions only through rigorous analysis of the evidence. Academic economists avoid discussing the anomaly between the economic theory of economists' motivation and their public academic posturing. Economic theory leads us to conclude that it must not be in their self-interest to call public attention to the question of the economic motivation of economists.

The economists' rarified definition of scarcity is this: **at zero price, there will be more demand for a scarce resource than supply of it.** The Christian economist cannot escape the fact that, so defined, scarcity must have existed before Adam's fall. Adam still had allocational decisions. He could be in only one place at any time. He was neither omnipresent nor omniscient. What made the garden of Eden different was that Adam could suffer no permanent capital losses. There was no curse on scarcity. Mistakes reduced his rate of increase; they did not threaten him with permanent capital losses. In this sense, he prefigured the messiah: "There shall no evil befall thee, neither shall any plague come nigh thy

dwelling. For he shall give his angels charge over thee, to keep thee in all thy ways. They shall bear thee up in their hands, lest thou dash thy foot against a stone" (Ps. 91:10-12).

Sin changed all this. The non-threatening scarcity of the garden became the all-too-threatening scarcity of the God-cursed world (Gen. 3:17-19). The practical covenantal question is this: How can mankind progressively overcome the limits that scarcity imposes? That is, how can the dominion covenant be fulfilled on a cost-effective basis? On a personal level, how can individuals increase their wealth in a world of scarce resources? If wealth is defined as an increase in the range of choices available to individuals, how can men increase their range of responsible decision-making? How can they gain more authority in history as covenantal agents?

What is the most valuable resource? Modern economists have more and more come to conclude: accurate knowledge. In this, they have echoed the Bible. "There is gold, and a multitude of rubies: but the lips of knowledge are a precious jewel" (Prov. 20:15). "And by knowledge shall the chambers be filled with all precious and pleasant riches" (Prov. 24:4). Biblically speaking, accurate knowledge means, above all, the knowledge of God's law: its stipulations and sanctions in history.

Because God offers positive sanctions for obedience, the possibility of economic growth is always open to covenant-keeping men. We can overcome the cursed effects of scarcity in history. Things can and do get cheaper over time. Natural resources are a good example. Food may be the best one. The capitalistic West has had enjoyed two centuries without a famine except briefly in Ireland in the late 1840's, when a potato blight hit a mono-crop agricultural society. Food as a percentage of household expenditures has been dropping for two centuries. (Housing expenses have replaced food as the biggest one, but the quality of housing has vastly improved since 1800. The other major increase in expenditures has been taxes.)

### The Division of Labor

Modern economics is generally assumed to have been launched as a separate discipline by Adam Smith's *Wealth of Nations* (1776). The first chapter discusses the division of labor in the pin-making industry. Through the division of labor, Smith argued, the complex, demanding task of making a pin is broken down into several steps that average workers can learn to master. The result is a huge output of pins and a fall in their price. It was Leonard Read's insight into pencil-making that extended Smith's analysis. We can say that nobody knows how to make a pin, any more than he knows how to make a pencil. Yet pins and pencils are plentiful.

The means whereby the West has progressively overcome the life-threatening scarcities of life – famine and plague – have been two-fold: private ownership and the division of labor. Voluntary exchange has flourished because property rights – the owner's right to exclude – have been extended widely. Voluntary exchange has led to the extension of the market and the concomitant extension of the division of labor. As men have become specialized, they have become more productive. Specialization enables men to maximize the return from their own knowledge. The range of mankind's knowledge is so great as to be incomprehensible to any but God.

The free market is mankind's most powerful institutional means of overcoming individuals' lack of knowledge. The free market has encouraged those with specialized knowledge to find ways to sell their knowledge. Those who own assets have been willing to pay others to help them solve their problems. Economic liberty has enabled buyers of information and sellers of information to make mutually profitable exchanges.

Contracts that can be defended in court are the basis of free market transactions. The ability of a person to establish property rights in his knowledge has made all men richer than anyone dreamed possible in 1800. Knowledge is a unique resource: once it becomes public, people who are unaware of its details can benefit from it. The trick is to get people to increase their store of knowledge and then share it. The free market social order's system of temporary patent and copyright for intellectual property has lured profit-seeking owners of knowledge into the public domain with their knowledge. Once released to the public through the profit-seeking economic agents of the public (entrepreneurs), useful knowledge rarely disappears except when superseded. Like the telephone, the FAX machine, and the world wide web, the more people who possess knowledge, the more valuable it becomes, yet the less expensive it is to buy. Millions of people can become "free riders," or nearly free riders, benefiting from knowledge they have not paid for directly.

### Profits, Losses, and Money

Whence arise profits? If every exchange is voluntary, how can both parties gain a profit? In some exchanges, they don't. In a commodity futures contract, the winner profits at the expense of the loser. Yet when men exchange at a moment in time, each expects to profit, and economic theory tells us that both of them do. So did Solomon: "It is naught, it is naught, saith the buyer: but when he is gone his way, then he boasteth" (Prov. 20:14). Since each party is both buyer and seller, each can be a winner.

It was Frank H. Knight's book, *Risk, Uncertainty and Profit* (1921) that supplied the answer: accurate forecasting is the source of all profit. Profit is the residual that remains after the producer has paid for all of the costs of production. This insight is consistent with the Bible's declaration that man is not omniscient. "For now we see through a glass, darkly" (I Cor. 13:12a). Nevertheless, men can and should increase in knowledge over time. "O how love I thy law! it is my meditation all the day. Thou through thy commandments hast made me wiser than mine enemies: for they are ever with me. I have more understanding than all my teachers: for thy testimonies are my meditation. I understand more than the ancients, because I keep thy precepts" (Ps. 119:97-100).

Profit is a positive sanction. It is a success indicator. Profits reveal errors and ignorance in the prevailing system of production. One business's profits tell rival producers that someone has begun to overcome this ignorance. Those investors and producers who seek to increase profits and avoid losses are alerted to an opportunity. If they can find the secret information that has enabled someone to reap profits, they can share in the opportunity. But as more people discover the solution, the rate of profit disappears, as more capital is allocated into this area of the economy. Profits announce the existence of solutions; they encourage producers and investors to shift capital into a section of the economy in which consumers are registering their demand. "Serve us better," consumers announce through their economic agents, i.e., those who are reaping above-market rates of return.

Consumers maintain their sovereignty over producers by means of profit and loss statements.

The basis of the consumer's economic sovereignty is a world of private property is the profit system. The consumer possesses what producers want: highly marketable commodities. The most marketable commodity is money. Producers deal in specialized information and specialized production processes, where they believe they have a competitive advantage. The proof of their advantage comes only after they have exchanged the output of their specialized efforts for money. When producers move from the ownership of specialized commodities to ownership of the least specialized commodity - money - which was formerly in the consumer's possession, they learn whether their knowledge was accurate. The size of either profit or loss - positive or negative economic sanctions - reveals retroactively the degree of accuracy.

When the economic sovereignty of the State is substituted for the economic sovereignty of the consumer, profit-seeking producers will seek to serve the State. This shift in economic sovereignty is the result of a prior shift: from the legal sovereignty of individual owners to the legal sovereignty of the State. When State officials establish the terms of trade by threatening legalized coercion against property owners, they have thereby undermined consumers' economic sovereignty. One group of consumers or producers may benefit in the short run from State coercion, but by undermining the principle of consumer economic sovereignty, the State has reduced the liberty of consumers and producers to seek out mutually beneficial terms of exchange. The State has substituted the wisdom and knowledge of self-interested politicians and bureaucrats for the wisdom and knowledge of self-interested property owners. The free market's great benefit, namely, its offer of economic incentives to unidentified possessors of knowledge to enter the market in search of buyers of their knowledge, is hampered by State coercion. The State announces: "Our monopolistic agents, who are normally immune from dismissal, are in a better position to assess the value of today's available knowledge, and also to call forth the production of new and even more valuable knowledge tomorrow, than profit-seeking buyers of knowledge who are willing to put up their own money to buy knowledge and apply it to meet the demands of consumers." Is this claim believable? Apart from the example of Joseph in Egypt, who had God's direct revelation of the future and whose plan enabled Pharaoh to buy up the land of Egypt at bargain prices, is there any biblical evidence to support it?

### Conclusion

Christian economics informs us of the grace of law which precedes the grace of salvation. It also informs us of the grace of law that extends man's dominion. It warns us not to put our faith in chariots, horses, and economists who begin with the presupposition that God and His Bible-revealed law are irrelevant to economic analysis. "The fool hath said in his heart, There is no God" (Ps. 53:1a). He who says that God is irrelevant to economic analysis is half a fool, at least.

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