

# BIBLICAL ECONOMICS TODAY

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## DOES THIS OUTFIT HAVE A FUTURE?

by Gary North

*And he spake a parable unto them, saying, The ground of a certain rich man brought forth plentifully: And he thought within himself, saying, What shall I do, because I have no room where to bestow my fruits? And he said, This will I do: I will pull down my barns, and build greater; and there will I bestow all my fruits and my goods. And I will say to my soul, Soul, thou hast much goods laid up for many years; take thine ease, eat, drink, and be merry. But God said unto him, Thou fool, this night thy soul shall be required of thee: then whose shall those things be, which thou hast provided? So is he that layeth up treasure for himself, and is not rich toward God (Luke 12:16-22).*

The parable of the barn-builder tells us that the goal of life is not the mere accumulation of wealth. It reminds us that it is easy to become misled by wealth as a visible success indicator for all of life. The farmer of the parable can see nothing but his grain and his barns. He needs more barns to store his grain and his assets. His goal in life is to retire from the pressures of productivity: to eat, drink, and be merry. His is the eschatology of leisure. He imagines that the abandonment of his calling is the ultimate goal of his calling. He has missed the point of both his calling and his wealth. He has substituted the formal success indicator — wealth — for the substantive goal which it indicates: **successful service to God through service to men.**

The parable in no way criticizes economic productivity. The man has clearly been productive. Growing grain in abundance is a productive skill. He has served consumers well by his great productivity. He has filled barns with grain, so consumers will be able to eat. But in focusing on the formal indicator of business rather than its substantive goal — service — he forgot about his own mortality. He forgot about the fifth point of the covenant model: **inheritance**. "Thou fool, this night thy soul shall be required of thee: then whose shall those things be, which thou hast provided?" His retirement from business would be instantaneous and permanent.

Wealth is a positive sanction in God's covenant order; poverty is a negative sanction. There is no glory in poverty; it is a curse: "Ye have sown much, and bring in little; ye eat, but ye have not enough; ye drink, but ye are not filled with drink; ye clothe you, but there is none warm; and he that earneth wages earneth wages to put it into a bag with holes" (Hag. 1:6). How can a farmer serve God effectively if his efforts do not produce crops? He can't, at least not indefinitely. He plants, but no grain appears. He waters, but there is no harvest. He is a poor farmer who is wasting his capital and his time. He is a social agent of the consumer, but he is wasting his assets. Losses tell him that he should go into another line of work, or purchase another piece of land, or try another crop. God is giving him a warning: **stop wasting resources.** This warning is

registered through the profit-and-loss system. His efforts are producing losses.

At the same time, he must never forget that this success indicator refers only to his physical efforts to produce a crop. It does not say anything with respect to his goals respecting the end result of his efforts. The larger question is this one: What should he do with his profits? If there is wealth remaining after he has paid for all factors of production, including his time, what should he do with it? The farmer of the parable decided that this excess was best invested in another round of barn-building. Someday, of course, he would retire. Someday, he would get off the treadmill and enjoy "the better things of life" — eating, drinking, and being merry. Someday. He was incorrect. Someday never came. Eternal judgment did.

### Who Will Inherit?

Nevertheless, his barns were still full on the day after his death. His personal error in judgment in no way shrank the size of his legacy. On the contrary, his one-sided interpretation of life left a large inheritance for his heirs. Furthermore, his heirs could reap the reward of this inheritance only by selling the crop to the public. Thus, the short-sighted farmer became a beneficiary to both his heirs and the general public. The consumer was well served by this short-sighted man. The point is, he did not live to reap the reward of his successful efforts. Someone else inherited.

The Bible teaches that as time goes on, there will be a transfer of wealth toward those who are righteous. "A good man leaveth an inheritance to his children's children: and the wealth of the sinner is laid up for the just" (Prov. 13:22). There is nothing wrong with leaving an inheritance; indeed, it is basic to righteous behavior. But this inheritance will eventually be transferred to the righteous steward. Thus, if a man intends to see his heirs keep the inheritance he leaves to them, he must teach them not only the skills of his trade but also the principles of righteousness. It is not simply formal skills and techniques that produce long-term capital growth; it is also ethical (substantive) behavior.

In every generation, there are people who become masters of wealth-creation. Some become famous; others prefer the shadows. Some want to be rich and famous; others prefer to be merely rich. But what is extremely rare is for an extremely rich person to pass on these skills to his heirs. I can think of only three modern families in the West that have successfully created generations of wealth-producing heirs: the Rothschilds, the Sassoons (who later married into the Rothschild clan), and the du Ponts. Even the Rockefellers have dissipated the family fortune among the many "cousins."

Still, the Rockefeller name persists. How? Because of two institutional developments: the limited liability corpora-

tion and the tax-exempt foundation. The corporation was developed in the sixteenth and seventeenth centuries—the joint stock company—but only came into its own in the final third of the nineteenth century. The tax-exempt foundation was a U.S. development in the years immediately preceding the creation of the income tax. It was a means of transferring closely held wealth—shares of stock in family-dominated businesses—to an institution legally controlled by the heirs but not subject to death duties or other forms of confiscation.

The tax-exempt foundation enabled the heirs to use the funds generated by the shares of stock in order to pursue charitable and ideological goals. The heirs were not able to use this wealth for extensive direct personal consumption, but they were able to pursue personal and family goals of a world-transforming nature. This meant that the heirs had to have goals other than mere wealth-creation and personal consumption. The tax-exempt foundation is therefore closer to the broader goal of Christian service, at least structurally.

These foundations have almost universally been captured by bureaucrats whose goals and ideals are very different from those of the founders who created and then donated the foundation's initial capital base—the Ford Foundation is the classic example of this process of subversion—but there is no doubt that these institutions do survive over time, and they do promote a specific set of ideals. These ideals extend beyond mere profit-seeking.

### Serving Consumers

The biblical purpose of business is serving God by serving the consumer. The profit-and-loss system is the single best means of monitoring the success or failure of any program of serving the consumer. Without the price system and accounting, there can be no universally valid success indicator. The profit-and-loss system is the consumer's carrot and stick; without it, he is nearly powerless to persuade producers to meet his desires at a price he is both willing and able to pay. While he cannot buy everything he wants at a price he is willing and able to pay, he can add his voice to the competitive auction, where all consumers make their bids for society's scarce economic resources. He gets his "day in court," meaning the marketplace.

Success indicators are shorthand representations of a whole array of goals. They allow both the consumers and producers to assess the performance of producers. But being shorthand indicators, all success indicators create a problem: the illusion of autonomy. If an indicator becomes the sole goal, irrespective of that array of goals which an indicator is supposed to represent, then the producer loses perspective. He produces for the indicator rather than the goals it represents. This is true in every calling, but it is most obvious in business.

### Education

Let us consider the case of education. Schools historically have found it mandatory to hand out grades to students, in order to achieve several goals. Grades provide the following: near-term student incentives to gain an education; teacher and student evaluations of student performance, both short term and long term; parental evaluation of student performance; employer guidelines for hiring graduates. Student performance is measured primarily by formal testing. Only to the extent that tests really do measure educational attainment are they legitimate as success indicators. Yet everyone knows that tests are not always guarantors in this regard. Which kind of test is most representative? In which cases? Should teachers "teach for the test"? Should students study for the test rather than for a wider goal of overall education? Should students select courses

that are easier, in order to get better grades?

Is the goal of the student to earn straight-A's? Most of us say no, yet most of us are impressed by straight-A report cards. College admission officers say that they prefer to enroll well-rounded students, yet what they fall back on, again and again, is a combination of numeric achievement on standardized examinations and grade point averages.

Everyone seeks shorthand ways of making decisions. To save time and money, we need representative success indicators. Profit and loss are the appropriate indicators for business, but they do not indicate everything. This is the problem.

### The Corporation

The limited liability corporation deserves careful attention. What the corporation allows men to achieve is **institutional continuity**. It legally survives the death of the founder. Corporations do not have souls. Thus, the criticism that Jesus brought against narrow-minded profit-seeking in his parable of the rich barn-builder does not apply to the same degree. The corporation can continue to grow and store crops, build more barns, buy more land, and generally limit its goals to the narrow task of larger balance sheets, greater market share, and greater output per unit of resource input.

The corporation is a highly specialized economic institution that has as its primary assignment a return on invested capital. It enables its owners—shareholders—to focus on other things in life, leaving the task of strictly economic profit-seeking to the hired managers. It enables investors to segregate this limited area of life and transfer responsibility to managers. Investors can then use the stock market to see how well managers are performing their task of profit-seeking. The share price becomes a handy numerical success indicator, with dividends remaining a secondary indicator. The stock market then becomes an enormously successful tool for rating performance by managers.

Investors are still subject to Jesus' warning. If they spend their entire lives investing money, they become like the farmer who thinks about nothing except increasing his crops. No one can escape this warning. But by institutionalizing the profit-seeking tasks of life, the development of the corporation enabled men to compartmentalize their lives more easily. Investors are less likely to define themselves in terms of the shares of corporate ownership that they possess than the farmer is likely to define himself in terms of his economic calling in life. Investors can sell their shares with a telephone call; the farmer has sunk his life into his land. The shareholder has far less excuse on judgment day than the farmer of the parable did, for investors do not personally till the fields, plant the seeds, water the ground, and harvest the crop, nor do their neighbors evaluate their competence by looking at the crop in the field. The investor should more easily recognize the point at which he begins to worship the false god of numbers, unlike the farmer, who is pressured publicly by both rural tradition and his family name to get in a good crop.

### Church, Foundation, and Corporation

The corporation is analogous to the church. So is the foundation. A local church can survive the death of the pastor. It can survive the deaths of the founding members. This is equally true of corporations and foundations. A church may or may not preserve its adherence to the original goals and creed of the founders; likewise the corporation and foundation. The church also has a dominant success indicator: the expansion of the number of tithing members. No institution can escape financial success indicators.

The founder of a corporation may have had a vision of some kind, but the means of attaining this vision was

the profit system. If he was wise, he knew that he had to meet consumer demand, and this would necessitate changing the firm's output to match changing consumer expectations. The corporation cannot abandon the means of success: profit-seeking.

The local church is more hampered than a corporation or a foundation, if it is God's church. It cannot change so much that it abandons fundamental biblical requirements. If it does, it ceases to be a church, and God will eventually bring negative sanctions against it. But it can and must change in history to meet the needs of members and potential members. Its goal is service, and if it provides no services or the wrong services for its day, it will not survive.

The corporation's investors cannot be held legally responsible for the acts of its managers. Neither can church members be held legally responsible for the acts of its ordained leaders. Thus, shareholders and church members need not live in constant fear regarding "management." Managers can be voted out of office; similarly, church officers can be dismissed; but in neither case can those voting be held legally responsible for the decisions of the managers. We see the same rule politically: voters are not held legally responsible for the acts of their representatives.

Still, there is always the threat of negative sanctions. Corporations can go bankrupt, leaving shareholders with worthless stock. Churches can lose members and go under. Politicians can destroy a nation's wealth through bad economics or bad foreign policy. The representatives do represent people, and those represented cannot escape indirect responsibility and indirect sanctions. But they are spared the threat of direct legal sanctions in a human court of law.

#### Indicators of Business Survival

When an investor, a customer, or an employee examines a business to see if he should remain invested in its shares or employed by its managers, he can look at many factors. He can look at the public balance sheet, if it is a public corporation. This means he needs to be able to read a balance sheet. Unfortunately, few people know how to do this. But investment analysts do, and the result of their skills produces a price per share in the market. Those who think the return is too low can sell their shares.

The evaluator can look at other factors. How long has it been in business? What is its reputation locally as an employer? What is the national reputation of its product line, if it sells nationally? Does it promote people from within the firm or does it recruit from the outside? Does it provide the best tools for its low-level employees, or does it instead spend money on its senior management? Is there predictability between performance and reward at every level of the organization? Do employees know what their jobs are? Is there an operations manual telling each employee what his job requires? Are there agreed-upon success indicators for each job, as well as the promise of positive sanctions for above-average performance?

So much for employees. What about consumers? Are consumers given ways of expressing positive and negative opinions regarding the firm's performance? Are there sanctions, positive and negative, that are imposed in response to consumer opinion? Is senior management insulated from consumer opinion - falling profits - and from shareholder opinion (e.g., the threat of a corporate takeover)? Has senior management become the *de facto* owner of the firm? If so, the continuity of the firm is put in jeopardy because there are no direct sanctions that move managers to change course when consumer demand falters.

#### A Personal Business

Creating small family-owned businesses is the way that most entrepreneurs create wealth for themselves. Most

small businesses go bankrupt, and those that survive generally are bought by larger businesses. This is as it should be. High-risk ventures should be started by people who believe in them, and who are willing to put their own money into the venture. These are the people with the greatest incentive to make the company work. The new firm is by far the most risky business, so it takes dedicated people with a direct stake in the business to give it even a minimal chance of survival. Then, when the owner has proven his point, a larger firm can buy it. This reduces the risk of loss to the firm's shareholders. Someone else has borne the heavy risks of starting a new company.

As the new business grows, the skills needed to administer it change. If the owner cannot or will not develop these skills, then he must hire others who have them or will develop them rapidly. The owner must learn how to decentralize some tasks, yet maintain final control over the firm's operations. This balancing act is very difficult, and most owners fail to develop the necessary skill. Most businesses fail because of this shortage of skilled owner-managers. The standard explanation of a business failure is **undercapitalization**, a fancy way of saying that it ran out of money. But the kind of capital that is most crucial is managerial capital. Every poorly managed business will eventually run out of money, including Fortune 500 firms.

One advantage that the family business has over all other new businesses is the **personalism** of the business. The boss really cares what happens to it, because the boss is the owner. He has the largest stake in its success. This advantage may not be sufficient - in fact, it seldom is sufficient - to compensate for all the shortcomings, most notably the lack of a systematic operations manual for running the business: what Michael Gerber calls the **franchise prototype**. Nevertheless, it is the dynamism of the owner whose capital and dreams are tied up in his business that gives the family business its competitive edge.

The secret of long-term business success is the development of a system of institutional sanctions that will continue to reflect the founder's vision at every level of the business, despite the fact that the founder must steadily remove himself upward into senior management. Even if he retires or dies, this same personalism ought to be carried forward to the heirs. The business must be run according to impersonal market criteria - profit and loss - yet also in terms of the overall vision of the founder. His successors must inherit the founder's vision as well as the business' capital. If they do not, it is unlikely that the business will prosper unless an equally powerful vision can be substituted and imposed from above on the existing firm - a task not easily achieved and for which there are few surviving examples in history.

#### Eschatology and Progressive Sanctification

What a business needs as it moves from a start-up firm to a Fortune 500 company is a vision of what the company is to become. It needs an eschatology. Gerber records a statement of Thomas Watson, the founder of IBM (International Business Machines), regarding the secret of his firm's success. He started the company in 1914; today, it remains America's largest non-public utility company.

IBM is what it is today for three special reasons. The first reason is that, at the very beginning, I had a very clear picture of what the company would look like when it was finally done. You might say I had a model in my mind of what it would look like when the dream - my vision - was in place.

The second reason was that once I had that picture, I then asked myself how a company which looked like that would have to act. I then created a picture of how IBM would act when it was finally done.

The third reason IBM has been so successful was that once I had a picture of how IBM would look when the dream was in place and how such a company would have to act, I then realized that, unless we began to act that way from the very beginning, we would never get there.

In other words, I realized that for IBM to become a great company it would have to act like a great company long before it ever became one.

From the very outset, IBM was fashioned after the template of my vision. And each and every day we attempted to model the company after that template. At the end of each day, we asked ourselves how well we did, discovered the disparity between where we were and where we had committed ourselves to be, and, at the start of the following day, set out to make up for the difference.<sup>1</sup>

This is not some form of occult visualization process. It is not magical. It is not "think and grow rich." It is rather the embodiment – the **incorporation** – of the founder's goal: a systematic program of announced standards, sanctions, and evaluations through time. This is, in fact, the business equivalent of the biblical model for the history of the church: the final goal of Revelation 21 and 22 is placed before the church, a franchise model is developed in terms of this final goal (Acts, I Cor., I Tim.), and people are recruited into the organization who will provide the individual skills for its survival through time (Rom. 12; I Cor. 12).

John Gantz, a specialist in computer technology stocks, writes of IBM: "At the heart of IBM's ability to adapt to change is its culture of consumer contact and employer loyalty. The company retrains its employees with the fervor of the military, and the company listens as well or better than any of its competitors to its customers. It may not act on what it hears right away, but it listens."<sup>2</sup>

The ability to picture what a company should look like when it becomes successful is uncommon. Most new businesses are run by men who plan their businesses the way I play chess: with no more than a few initial moves in mind and hardly any strategy for responding to the opposition. There are very few chess masters; there are very few Thomas Watsons. Still, it is best for a budding entrepreneur to begin early his training in corporate eschatology. The businessman is forced to visualize the future and his firm's role in that future. Most people cannot forecast very far into the future, but they must deal with it nonetheless.

It is not simply forecasting that is crucial; it is the ability to restructure plans on a continuing basis in terms of changing economic forecasts. The prototype model must be able to allow changes in product mix without destroying the stability – the **continuity** – that the operations manual is designed to provide. The sanctions brought by the market must be dealt with structurally. It is as easy to go bankrupt through a growth explosion as with contraction.

### The Continuity of Ethics

Gerber says that a company must develop a strategy for handling its people. He calls this the "people strategy." The goal of every firm must be to get extraordinary results

from ordinary people. The way to do this is through the game plan.

He lays down this key rule: "**Change the game from time to time – the tactics, not the strategy.** The strategy is the ethic, the moral underpinning of your game's logic. This must remain sacrosanct, for it is the foundation of you and your peoples' commitment to each other. But change is necessary. For any game can become ordinary, no matter how exhilarating it may be at the beginning."<sup>3</sup>

The game is not self-sustaining, he reminds us. People need to be reminded of it constantly. This means feedback: sanctions. They need to know how well they are doing. (This is also the reason why God requires holy communion: covenant renewal, the time for self-evaluation prior to God's evaluation.) Participants in any institution need reassurance that they are performing their assignments well, and that this performance is worth continuing. If they lose this confidence, their performance will decline, or else they will leave the company.

So, sanctions must be applied in terms of the agreed-upon standards – those announced in the operations manual. People within the organization must know at least what to expect from management, since no one can ever be sure what to expect from consumers.

The consumer is not under the authority of the firm. The firm issues no performance standards to its customers. The unpredictability of individual customers must be offset by the predictability of the customer base as a whole. This can only be achieved through corporate internal order and rapid responses to new market conditions. That internal order is first and foremost the vision of what the company is to accomplish. The market's sanctions – profit and loss – are guides to past performance, not substitutes for the ethical vision of the firm.

### Conclusion

The corporation has not been successful because of a gigantic conspiracy against the public or because of government subsidies. It has been successful because it enables men to institutionalize their vision, to increase the odds that this institutionalized vision will survive them beyond the grave, to achieve economic goals on a cost-effective basis through the division of labor, and to define employee performance narrowly so that appropriate economic sanctions can be applied. The stock market in turn enables owners (shareholders) to evaluate the performance of managers.

The corporation is successful because it is analogous to the church. The church is a separate legal institution that harnesses the productivity of the division of labor, and which also survives the deaths of its members. The main structural difference between the church and the corporation is that the economic sanctions applied to the church are tied directly to the success and faithfulness of its members: the tithe. The corporation's success is less directly tied to the success of its consumers. It operates in terms of profit and loss on an open market; in contrast, the church possesses a monopoly: the sacraments. But the basic legal structure is the same: members and investors are not legally liable for the decisions of the leadership. This makes possible the institutional continuity of both organizations.

1. Michael Gerber, *The E-Myth* (Cambridge, Massachusetts: Ballinger, 1986), p. 39.

2. John Gantz, "Tech Street," *Infoworld* (Nov. 6, 1989), p. 57.

3. Gerber, *E-Myth*, pp. 124-25.