

BIBLICAL ECONOMICS TODAY

Vol. IX, No. 4

© Gary North, 1986

June/July, 1986

BANKRUPTCY AND REVOLUTION

by Gary North

The wicked borroweth, and payeth not again; but the righteous sheweth mercy, and giveth (Ps. 37:21).

All over the Western world, there are signs that people's confidence in the promises of the welfare State is fading. Political leaders who once staked their reputations on the long-term expansion of government-provided benefits are now talking about "the new austerity" and a "new era of private responsibility." It is not their new-found commitment to the principles of economic freedom that underlies this transformation of their rhetoric; it is the looming bankruptcy of the welfare system. The costs keep rising, while tax revenues do not keep pace. **A massive default is coming, and the politicians do not want to be left holding the empty bag.**

The shift in thinking is also in part ideological. We are a civilization based on pragmatism. "If it works, do it," has been the motto of this century, at least outside the Communist nations. (Even in Communist China and Russia, the governments have been forced to reduce many of the older Marxist controls, especially in the area of agriculture, just to feed their populations.) But now everyone knows that socialism is not working. Thus, the opinion makers are desperately searching for some alternative—an alternative that will preserve their influence over events, however.

Visible Failure

The defenders of free market capitalism for over a century have warned against the inescapable effects of socialism: reduced economic incentives, non-cooperation by the average worker, black market activity, lethargy on the job, reduced quality, reduced ability to compete in world markets, reduced output per capita, and most of all, a vast expansion of the dead hand of bureaucracy. All of this has taken place in every society that has adopted socialism. There may be a few examples of high quality production—the Swedish automobile industry, for example—but these examples will normally be those industries that face international competition. In the case of the English automobile industry, even international competition did not save it.

The debate over the efficiency of capitalism vs. socialism went on until the 1960's. After that, the defenders of socialism began to shift the argument. Instead of continuing to promise that socialist economies would at last outproduce capitalist economies, the socialists began to discuss the immorality of the initial (and subsequent) distribution of wealth, and therefore the illegitimacy of capitalist output, despite its unquestioned superiority of volume of goods and services. The socialists began taking refuge in slogans such as "the reduced quality of life under capitalism" and "the injustice of the existing distribution of wealth." The philosophical materialists started talking about the **unmeasurable** quality of life

and equally unmeasurable morality when it became clear to everyone that all the statistics concerning increased output favored capitalism.

The socialists have now adopted a new tactic: the attempt to fuse together the economic incentives of capitalism with the central planning of socialism. They have been willing to give up some degree of centralized control in order to increase the size of the national economic pie. Even in cases that have involved alienating certain segments of the voting population that created the democratic socialist parties, socialist leaders have been willing to scrap some of the older ideology, as well as the promises of government protection, if the economic (and therefore political) pay-off has seemed high enough.

New Zealand

A good example of this transformation is the tiny nation of New Zealand. New Zealand is a picture-postcard nation split into two large islands, with a climate and terrain close to western Oregon's, and a population (3 million) and geographical area (103,000 square miles) almost identical to the state of Colorado, except that it's shaped more like California.

Almost from the beginning of the nation, it has clung to the principles of Fabian socialism. It was perhaps the first "laboratory" for the Fabians to point to. Its mild climate, its vast (and now depleted) forests, its small population density which was made up of mostly educated, white, and vaguely Christian residents, its sheep farms, its remarkable agricultural output, and its geographical isolation (tiny defense budget) gave New Zealand all the resources it needed to compete in world markets. Did it compete?

In some areas of the economy, yes, especially agriculture. But it never did without subsidies and tariff protection. Since the great depression of the 1930's, the New Zealand economy has relied on protection for producers at the expense of urban consumers and taxpayers. The nation has had a marvelous quality of life, so long as that quality of life was not based on high-quality, low-cost imported consumer goods. The trouble for socialist ideology is that New Zealanders, like everyone else in the West, wanted all those Japanese electronic goodies. And to get access to them, they had to compete in international markets. But their government-protected economy did not encourage this sort of competition.

The Experiment

Very quietly, and with little public awareness outside the country, New Zealand is now experiencing a major economic experiment. The Treasury has begun to adopt policies that can fairly be described as free market monetarism. All of this would be interesting even if there weren't one strange ringer

in all of this: the Labor Party is conducting the experiment. The New Zealand Labor Party is made in the image of the British Labor Party. That is to say, it is dominated by the trade unions and is committed to the principle of welfare State.

The country has been dominated by Fabian socialist ideas throughout the twentieth century. The two political parties have forged a working relationship: the conservative National Party has protected the farmers and local businessmen from world competition by means of agricultural marketing boards, direct subsidies to agriculture, and tariffs. The Labor Party has done its best to protect union members from world competition by keeping tariffs high, imposing other import quotas, fixing exchange rates, refusing to allow currency and other futures trading in world markets, and using the taxing power of the federal government to redistribute wealth (which really means keeping the existing distribution of wealth pretty much fixed: if you got there early, you are locked in for life, or close to it).

All of this has been familiar to New Zealand's voters for many decades. Then, almost without warning, the revolution began in 1984. Since then, the top marginal tax rates have been lowered from over 65% to under 50%. Tariffs have been reduced sharply, and numerous import quotas have been removed. Then the New Zealand dollar was floated, and currency trading was legalized. Subsidies to the farming industry (the National Party's constituency) were curtailed sharply, creating temporary havoc for heavily indebted farmers. Interest rates were allowed to float without government restrictions. Then the money supply was tightened sharply from the high teens to the low teens.

But, as in the United States, all this was accompanied by a large increase in the government's debt.

Immediately, two things happened. First, the old, established businesses started suffering unprecedented losses. Second, a wave of new businesses began to spring up. There are winners and losers whenever an economy is freed up.

Interest rates soared to 22% early in 1986, but then began dropping slowly. The rate of price inflation dropped to under 13% and appears to be headed toward single-digit rates. Economic logic tells us that interest rates will follow.

There has been a recession, but nothing like a depression. This is the remarkable benefit of freedom. When a nation's economy has been strangled by bureaucratic controls for many years, and suddenly it is freed up, even tight money and high interest rates are only marginally depressing. The tremendous reserves of entrepreneurship and productivity that are unleashed by freedom can compensate for the otherwise depressing effects of tight money.

In April of 1986, 10,000 farmers marched on the capital city. With a population of 3 million people, this is the equivalent of 783,000 U.S. farmers. Yet the government ignored them.

The New Zealand stock market has been booming for over three years, despite the disruptions of the recent economic changes. The New Zealand dollar has firmed in a range which fluctuates around .60 U.S. dollars, or 60 cents. This is a true free market price, now that exchange controls have been removed.

Traditional industry has been sloppy because of the protective tariffs, but companies are learning to cope with cheap Japanese imports. Its export base has been agricultural products (60 million sheep now reside there) and timber products. This has got to change because of the reduction of the remaining available forest products and because the world has learned to feed itself.

This is now an international revolution. The welfare State's proponents are now beginning to sense the shift since 1980. The writings of the free market economists have

begun to make an impression. More important, I suspect, is the present level of deficits created by political promises that can't be met. **The politicians are seeking to get out of many of these political deals.** They can't pay for what the programs are going to cost.

Cutting the Subsidies

In the case of New Zealand, the Labor government is doing politically what the conservative National Party wouldn't do: it is cutting the subsidies. It is cutting subsidies to the long-term supporters of their rivals, the farmers and protected businessmen, but they are sticking with the program even when their own constituents in the trade unions are forced to bite the bullet and cut their demands.

In effect, the Labor government is breaking the hold that the unions have had on the economy by allowing non-union producers in Asia and elsewhere to send their goods into New Zealand. While the Labor government isn't able to say it in public, this is "union busting." While the unions may continue to control the lion's share of the **visible, easily policed labor market**, their stranglehold is wrapped around the neck of an economy that cannot be squeezed by labor without collapsing. Thus, out of self-preservation, labor union leaders have to moderate their demands. Besides, their members are buying the Toyotas and Sony Walkmen and Mitsubishi videocassette machines, **just like most union members are buying all over the Western world.** The unionists are voting with their paychecks for the economic output of foreign producers.

They like these goods. To raise tariffs again would dramatically reduce the size of the import market, and an island economy without the ability to produce many of these goods (automobiles, for example) would feel the pinch very fast. Thus, the Labor Party has to a great extent locked its programs in.

This is the key. The taste of new-found economic freedom is now widespread. The opposition conservative National Party will have to alienate a lot of yuppies (young urban professionals) if they campaign on a platform of rolling back freedom of choice and reimposing the subsidies. Some of the older firms have learned to compete, while newer ones that have sprung up because of the relaxation of the controls are now beginning to establish themselves. Another two years (unless there is a crash), and it will be politically suicidal for the National Party to launch a full-scale frontal assault against the free market.

Rays of Hope in the Thunder Clouds

What we are seeing, though perhaps dimly, is a true revolution—a revolution in declining (government) expectations. The modern voter has been corrupted by the promise of government benefits, but **the politicians would still like to find a politically acceptable way to renege.** They have begun to appeal to new constituencies to gain support for **preliminary privatization on the fringes of the economy.** Witness, for example, airline deregulation, trucking and shipping deregulation, and communications deregulation. Take a look at the fares for round-trip flights that are made a few weeks in advance. Take a look at People Express and other "no frills" airlines. Take a look at their revenues. Where is the well-organized political constituency for a return to the airline industry of 1975? It doesn't exist.

There is another factor to consider. There are a lot of Third World immigrants pouring into the United States, England, and New Zealand (from Commonwealth protectorates). Immigrants are innovative people. It takes vision and a sense of daring to leave home and strike out on one's own in a foreign country. This is why immigrants are hated by stodgy local workers all over the world. They are persecuted in Africa and most of the East Indies. In the West

Indies, however, Jamaican immigrants do most of the work, and the natives on the other islands have come to accept it.

If they are allowed to produce and establish their little businesses, these people will be opponents of the welfare State. The best ones are the illegals. They are afraid to register to vote. They are afraid of doing anything except working for 15 hours a day, making as much money as they can, avoiding all contact with bureaucrats (including welfare workers), and avoiding trouble. **Illegal immigrants want to work, not to vote.**

Sometimes in my wilder flights of imagination I think that what we need is to have the government establish a program that pays large cash bounties to anyone presently on welfare who will agree to become an illegal alien. The government will give him six months "free ride" to hide himself, and after that we deport him to Newark if he gets caught.

What we are seeing is the looming bankruptcy of the welfare State, both in practice and in theory. The leaders of the present welfare states really have no idea what will replace the present systems, but they are slowly becoming aware of the financial problem: **the promises cannot be paid off.** What they need is a politically acceptable escape hatch.

That's what privatization in England is all about: the selling off of loss-producing government enterprises to private citizens, including the employees of these enterprises. It is also what at least part of the Reagan revolution has been about. But it has not yet resulted in a political confrontation. The main reason is that **the economic pain of cutting budgets has not yet been inflicted on the politicians by the reality of the debt build-up.**

A Historic Opportunity

When the operating presuppositions of an existing civilization are steadily called into question by the opinion-makers of that civilization, it is usually because the system is showing signs of not being able to perform as promised. Embarrassing anomalies start appearing, both theoretical and practical. "Why isn't the system performing as promised?" the intellectuals ask. The more they ask this crucial question, and the more "renegade" intellectuals present evermore compelling evidence that the system is not delivering on its promises, the more vulnerable the existing leadership becomes. When the existing leaders turn primarily to power to defend the system rather than by appealing to the public's shared faith in the system's official first principles, we can confidently point to a breakdown in the system. Power may sustain it for many years, but at bottom it is finished. It will be replaced. It is only a matter of time.

This is precisely the situation facing the rulers of today's socialist empires. They have promised prosperity and have delivered only bureaucracy. They have promised freedom for the masses and have delivered only cheap, crowded housing and substandard food. They have promised technological miracles and have delivered domestically produced junk and a few imports from capitalist nations, generally for sale only to the leaders.

Consider the Soviet Union. A couple of years ago, it was caught trying to smuggle in a VAX computer. The shipment was intercepted by U.S. authorities. The VAX computer they were trying to import was the same model used by U.S. film-makers to produce special effects for movies like "Star Wars." But the Soviets needed it for far more serious applications. The longer they go on without striking the West militarily, the more risky their military dominance appears, which is why the West faces war more than ever before. They keep falling behind technologically, as the 1986 nuclear reactor melt-down indicated to the whole world. Their official reaction was predictable: they insisted that they do not intend to make any changes in the engineering of

their nuclear plants. They do not have to: citizens never march in front of Soviet nuclear power plants to protest—or they only do it once. The Soviets have soldiers, sailors, and nuclear missiles; they have little else.

Thus, the failing self-confidence of socialist politicians all over the world points to a looming intellectual revolution. But revolutions are always more than merely intellectual: they are moral, religious, and judicial transformations. They are also almost invariably financial.

In the 1630's, King Charles I kept pressing Parliament to pass money for him to build ships. Parliament refused. The conflict broke out into a revolution which brought Charles I to the chopping block.

In the 1760's, Parliament was in debt. Half the tax revenues went to pay interest on the British debt. Parliament began to tax the colonies. They protested, and in 1775 the revolt became a revolution.

In 1789, half the French government's revenues went for interest on the government debt. Without warning, King Louis XVI's finance minister informed him that the government was bankrupt. He called the *Estates General* (a kind of legislature) together for the first time in over a century, so that they would pass new taxes. Instead, they launched the French Revolution.

In 1917, Czar Nicholas II had bankrupted Russia as a result of World War I expenses. The result was a socialist revolution in February, and a Communist revolution the following October.

When governments go broke, they risk revolution. Debt has costs attached to it that are a lot more serious than interest payments.

There is no question that the majority of today's national civil governments are economically bankrupt. Their actual debt loads are creaking under the strain. They require huge doses of people's voluntary savings each year just to stay even. These voluntary investments will continue only as long as investors think that they can get their money back as promised. Yet everyone knows that these debts cannot be repaid. Everyone knows that governments have operated for 50 years in terms of the thief's slogan, "We owe it to ourselves." So each investor is playing a giant game of musical chairs. He is betting his money on the dream (which is impossible for every investor to achieve) that he will get his money out before they shut the window.

When their hopes are dashed, as they will be, we will see revolution. This time, it could be worldwide, for the "magic" of debt is now worldwide.

Law and Revolution

Revolutions also involve a widespread rejection of the previous era's operational first principles, and a radical modification of them. If a revolution is successful, it involves a transformation of the very legal foundation of the society.

Prof. Harold Berman, a Harvard scholar, has written a provocative book, *Law and Revolution* (Harvard University Press, 1983). Its introduction is one of the most profound essays in social theory that I have ever read. He argues that in the history of the West, there have been six major revolutions: the Papal Revolution (1075-1150), the Protestant Reformation, the English Revolution (Puritan, 1640-60; "Glorious," 1688), the American Revolution (1776-89), the French Revolution (1789-1815), and the Russian Revolution (1917). He writes:

The history of the West has been marked by recurrent periods of violent upheaval, in which the preexisting system of political, legal, economic, religious, cultural, and other social relations, institutions, beliefs, values, and goals has been overthrown and replaced by a new one. There is by no means a perfect symmetry in

these periods of great historical change; yet there are certain patterns or regularities.

What are these patterns? First, each has been marked by change—fundamental, rapid, violent, and most of all, lasting—in the social system as a whole.

Second, each has sought legitimacy in a fundamental law, a remote past, and in an apocalyptic future.

Third, each took more than one generation to establish roots. Without this, the revolt was really nothing more than a coup.

Finally, each new system produced "a new system of law, which embodied some of the major purposes of the revolution, and which changed the Western legal tradition, but which ultimately remained within that tradition" (p. 19).

In short, the six major revolutions involved a vision of the legitimizing past, a vision of a legitimizing victorious future, and a transformation of law. All six revolutions took more than a generation to ratify and complete the violent transformations.

But there is an exception, a seventh judicial revolution, and it is this one which most disturbs him. After 1914, all over the West, a new system of law emerged: **centralized, bureaucratic, administrative law**. This new system of law has broken with the Western legal tradition, he argues, and is draining the foundations of Western liberty. (The great German sociologist-historian Max Weber devoted the second half of his academic career to a study of this process, which he described as a bureaucratic cage.) It also broke with the violent nature of the other six. It has come in rapidly, universally, yet without revolutionary violence. It has been evolutionary rather than revolutionary. If it is not halted, he argues, it will destroy the Western legal tradition, but he offers no suggestions as to how it can be reversed. He is totally pessimistic in this regard.

Christian Reconstruction

What the Christian reconstruction movement represents is a self-conscious attempt on the part of a handful of Christian scholars to lay the foundations of a return to the Western legal tradition, yet without the Greek and rationalistic intermixture that led to the advent of statist administrative law. What we are attempting to do is to call men back to the foundations of Western liberty: trinitarian creedalism, biblical law, and self-government under God's law. Christian reconstructionism bears the marks of Berman's revolutions:

fundamental law (biblical law)
past-orientation (biblical history)
future-orientation (optimistic eschatology)

It is not marked by a commitment to violence, however. In that sense it resembles more the ongoing revolution of twentieth-century administrative law. It would impose it by reversing the process adopted by this century's legal revolutionaries: **judicial decentralization**, which would accom-

pany decentralization in every other area of life.

One of the reasons why those of us who are providing the theoretical underpinnings of this movement are so confident in our cause is that we recognize very clearly that **no other present-day Christian movement is self-consciously offering a world-and-life view that provides Berman's three characteristics**. Whether we are speaking of fundamentalism, neo-evangelicalism, or even liberation theology, one or more of the three key features is missing.

Fundamentalism and neo-evangelicalism share a commitment to premillennialism. They have no vision of a long-term future. They both share a hope in Christ's personal physical return as a **discontinuous event** that will break the chains of the present world order. There is to be no deliverance from the bondage of this world through the day-to-day efforts of the church and Christian citizens.

Furthermore, both reject biblical law as the fundamental law that is designed by God to undergird society, and which must serve as a tool of dominion. Thus, they pick and choose any legal and social traditions that seem comfortable to them. Fundamentalists seem to think that going back to 1953's humanist-dominated culture would do the trick (public schools that are "safe," television situation comedies that are harmless, etc.), while neo-evangelicals want to go back to the liberal dreams of 1967 (without drugs, of course). But neither group can ground its appeal in the specific categories of biblical revelation. They appeal simply to "it seems good to us."

Liberation theology at least has a vision of the future: a revolutionary transformation of the capitalist economy into socialism. But it has no concept of fixed biblical law—no fundamental law—to appeal to. It lacks a key element in any program of consistent biblical social transformation. It substitutes power for ethics, and therefore partakes of the essence of today's failing humanist religion.

Conclusion

What we need at this crucial point in history is an awareness of the weakness of our humanist opponents. Their recommended economic policies are leading to worldwide bankruptcy. These policies simply do not work. This can no longer be hidden.

This visible failure has led intellectuals and even some voters to rethink the older faith in salvation by legislation. But so far, there is no systematic alternative. There is only fiddling around at the edges of power and the edges of academic wisdom. There is no full-scale challenge to the first principles of humanism. The recent adoption by a few neo-evangelical thinkers of warmed-over humanist neo-conservatism is a stop-gap position. Neo-conservatism has no explicitly Bible-based defense, as is freely admitted by the neo-evangelical leaders involved. This is why the Christian reconstruction movement has a theological monopoly. We have the only self-conscious alternative that appeals directly to the Bible.

Now what we need is some demand. Without demand, monopoly ownership doesn't get you anywhere special.

Biblical Economics Today is published six times a year, alternating with **Christian Reconstruction**. It is published by the Institute for Christian Economics, a non-profit, tax-exempt educational organization. A free six month subscription is sent to those who ask to be put on the mailing list. **Subscriptions:** P.O. Box 8000, Tyler, TX 75711. All donations are fully tax-deductible; checks should be made out to **Institute for Christian Economics**.