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CHRISTIAN ECONOMICS IN ONE LESSON

Part 9: Consumer Sovereignty

by Gary North

So when even[ing] was come, the lord of the vineyard saith unto his steward, Call the labourers, and give them their hire, beginning from the last unto the first. And when they came that were hired about the eleventh hour, they received every man a penny. But when the first came, they supposed that they should have received more; and they likewise received every man a penny. And when they had received it, they murmured against the goodman of the house, Saying, These last have wrought but one hour, and thou hast made them equal unto us, which have borne the burden and heat of the day. But he answered one of them, and said, Friend, I do thee no wrong: didst not thou agree with me for a penny? Take that thine is, and go thy way: I will give unto this last, even as unto thee. Is it not lawful for me to do what I will with mine own? Is thine eye evil, because I am good? So the last shall be first, and the first last: for many be called, but few chosen (Matt. 20:8-16).

Jesus' parable of the laborers in the vineyard is one of His kingdom parables (Matt. 20:1). It illustrates a biblical principle: the absolute sovereignty of God in offering the terms of salvation. The Jews had been given this offer first. The gentiles came later. Those Jews who complained that the gentiles were being given access to the kingdom, despite the fact that Jews had been laboring in God's kingdom for generations, were missing the point, the parable teaches. God's absolute sovereignty governs the granting of special grace to whomever He chooses.

The Jews, He knew, would complain that they had worked the whole day under the blazing sun of redemptive history, whereas the gentiles had come into the field only at the end of the day. Why should the gentiles be paid as much as the Jews? The answer was straightforward: the Jews had agreed to work for that wage at the beginning of the day. The man doing the hiring had made a different offer later in the day to others, but what legitimate concern was that to those who had arrived in the fields first?

The employer, as a buyer of labor services, had made a series of offers. Throughout the day, the hired laborers had accepted his offer. He kept hiring more of them for their sake and his: "And about the eleventh hour he went out, and found others standing idle, and saith unto them, Why stand ye here all the day idle? They say unto him, Because no man hath hired us. He saith unto them, Go ye also into the vineyard; and whatsoever is right, that shall ye receive" (vv. 6-7).

He paid these late-comers a full day's wages. They had not been told exactly what wage to expect. The employer had promised only to pay them what was right. They had taken a chance with him, and they had been well rewarded for their venture. They surely were not complaining. The complainers were those who had received a specified wage contract. Yet they had been paid exactly what they had been promised.

The theological point - that God is sovereign in offering salvation to those who are called either early or late - was conveyed by what I call a pocketbook parable. Men understand employment contracts far more readily than they understand theology. Jesus taught a kingdom principle by way of an economic principle.

Legal Sovereignty

We should examine the economics of this parable in greater detail. The employer had jobs to offer. The laborers had labor to sell. It was, as they say, a buyer's market. There were laborers standing around throughout the day waiting for some employer to make them an offer. Those who accepted this man's offer early in the day locked in a day's wage. They did not take a chance that they would receive a better offer later in the day. They assessed the job market in the morning, and they decided that the employer's offer was the best one likely to become available that day. They took it.

They had the right to turn down his offer. "No thanks," any of them might have said. "You're going to be out here trying to hire other workers later in the day. I would prefer to lounge around in the shade until the last hour. Then I'll work for you for what you're offering me now for a full day's labor." There are those who say the same thing in their youth regarding their eternal salvation. "I have my life to live. I have wild oats to sew. When I'm old and infirm, I'll take you up on your offer of salvation. That way, I'll have enjoyed this world to its fullest, and I'll enjoy the coming world, too." He wants the benefits of heaven at the lowest possible cost in terms of what he must forfeit in this world.

Such a person has not considered the possibility that God may not resubmit the same offer to him later on. God can make the offer of salvation to anyone else on the same, better, or worse terms. The question is: Is the person receiving the offer ready to accept it immediately? "Behold, now is the accepted time; behold, now is the day of salvation" (II Cor. 6:2b). The decision is his responsibility at the time the offer is made.

Similarly, the laborer is not legally compelled by the employer to work in his field. The offer is an offer, not a

demand. The laborer has the legal right to refuse to accept it. He is sovereign over his own labor. The employer has no legal claim on his labor until he agrees to work for the employer on the terms they have mutually agreed to.

Each party to the employment contract makes a judgment regarding the present and future state of the job market. Each assesses what the other is willing to accept. The employer makes an offer; the laborer must decide. Each is legally sovereign over his own assets.

Consumer Sovereignty

The term "consumer sovereignty" was coined in the 1930's by W. H. Hutt, a South African economist. He was not speaking of a consumer's special legal sovereignty. He was speaking of economic sovereignty in the free market economy. The market is propelled by the money offers of consumers. More to the point, the market is driven by producers' expectations about what future consumers will offer him for whatever it is he plans to sell.

If producers are legally sovereign owners of labor services and physical assets (labor and land), why are consumers said to be sovereign? Because consumers are the owners of the goods desired most by producers. The most universally desired good is money: the most marketable commodity. This is what consumers possess. Sellers of highly specific and less marketable consumer goods want money in exchange. Consumers are economically sovereign because they have money to spend.

They intend to buy the consumer goods or services for their own use. That is why we call them consumers. They are not middlemen. They look to their own desires when making their decision to buy or not to buy. They evaluate the value to them of their present array of assets and decide whether to rearrange them by giving up some assets to gain for others.

The consumer acts on his own behalf or those economically dependent on him. He has the legal authority to make and reject an offer. "I'll buy that for this much money," offers the consumer. The seller can reject the offer, but only at the cost of forfeiting ownership of whatever the consumer is willing to give up. Similarly, the early morning laborers in the parable could lawfully have rejected the employer's offer, but only at the economic cost of forfeiting a guaranteed day's wage.

The employer in the parable probably was not the final consumer, although he may have been. If the laborers were harvesting a crop that the employer intended to consume in his own household, then he was acting as a consumer: the final buyer. If he was acting as an entrepreneur who planned to sell all or part of the output of the laborers' work, then he was a producer to the extent that he intended to sell. Someone was sovereign over him, i.e., the consumers who would either accept or reject his offer to sell him a portion of his crop.

Marketability

The producer faces a narrow market. He produces one item or class of items. To do this, he must enter the producer goods markets and buy specialized production goods and services - raw materials, labor, space - that can be used in many ways. He makes these purchases by offering sellers an even more marketable commodity: money. That is, he moves from ownership of the most marketable good to ownership of less marketable goods. His goal is to produce an even more specialized, less marketable good or service.

Human labor services are widely marketable because humans are very flexible. So is land. But a specific crop is much more narrowly marketable. The market for fresh turnips is narrower than the market for freshly printed paper money, except in times of mass inflation. The reason why someone will

forfeit money in order to buy the inputs that produce turnips is that he believes that he has a special advantage of some kind in the turnip market. He thinks that he can gain more income in the future through this specialized knowledge than he can by investing his money.

The employer in the parable forfeited ownership of money in exchange for somewhat specialized agricultural labor services. The laborers in turn gained access to a more marketable commodity - money - than the asset they surrendered: agricultural labor. The person with the money - the most marketable commodity - was the driving force in the marketplace. He could buy more things with his asset than sellers could buy with theirs. In other words, for as long as he possessed money, he possessed a wider range of options. He was economically sovereign because of the nature of the asset he owned.

In this same sense is the consumer sovereign. Not only does he purchase goods and services to satisfy his own desires, he makes his purchase with the most marketable good: money. Because his ownership of money opens the widest range of choices to him, he is in a better position to turn down an offer from any particular seller. An exception would be the seller who is in a position to provide life-giving services or goods in a narrow market in which competing sellers were either unavailable or unknown to the buyer. Money is more marketable than life-saving services, but the short time horizon of the buyer makes its value less specific to money's owner. Money does not offer him a wide range of services if he thinks he will not live long enough to locate other sellers. In this case, the seller of life-saving services becomes a quasi-priestly figure. All societies recognize that sellers of life-saving services are governed by a compensation principle other than the free market's rule: "high bid wins."

Let us return to the employer in the parable. He has money to offer laborers. The morning laborers were in a market that did not provide better opportunities for service. Later in the day, there were still laborers standing around earning nothing except leisure (which at least is tax-free). While human labor is a highly flexible resource, it does not match the flexibility of money. Because the employer had money to offer in exchange for labor, he was economically sovereign in that labor market, and he knew it.

In the area of eternal salvation, the "employer" - God - is surely a priest. He is a high priest. He alone allocates the grace of eternal redemption. He possesses the ultimate monopoly. This is why the parable raises the issue of the righteous wage. The full-day wage-earners complained that the part-timers had received the same wage. But in this case, there would be no earthly tomorrow. There would be no opportunity to assess the employer's subsequent offers, if any. Information regarding the comparative rates of compensation was available only retroactively, at the end of the working day.

The reward - access to the eternal kingdom of God - is enormously valuable. In fact, it is so valuable that no man can buy it out of his own resources. "For what shall it profit a man, if he shall gain the whole world, and lose his own soul?" (Mark 8:36). In other words, the transaction in the parable symbolized a priestly exchange. It was not "high bid wins." It was not "all the market will bear." It was simply a full day's labor from the time that the laborer accepted the offer and went into the field to work until the end of the day.

The employer was in fact offering eternal salvation. He was not extorting money from the dying. On the contrary, he was making the same offer to people throughout the day because he hated to see men standing around idle. He was allowing late-comers into the field. Put differently, he was offering the eternal kingdom to those who would work in the fields of the

kingdom in history. Their work did not pay for a ticket into the eternal kingdom; it merely showed that they valued the opportunity to serve. The complainers had misinterpreted the offer. They thought it was a strictly market offer. It was not. It was a gift, not just to those who were hired late in the day but also to those who were hired early. The gracious employer hated to see men standing around idle without a legitimate hope of a final reward. But this priestly application of the parable does not change the analytical insight that the person who makes the final market transaction with the most marketable good is the economically sovereign agent.

The consumer makes an offer to a seller. The seller may accept it or reject it outright. If he rejects it outright, he pays a price: whatever the offer would have brought him, minus the value to him of whatever it is that he is selling. If he is selling his time, then he loses that. This is why consumers find that sellers make counter-offers.

The seller makes an estimate. What is the present market value of the item he is trying to sell? What is the likelihood that another consumer will walk through the door and make a better offer? How soon? What rate of interest is applicable to this potential waiting period? All of these factors and more may enter into his decision to sell or not to sell.

It costs him not to sell. Every decision has a price tag attached to it. There is no escape from this cost. This is what gives the consumer his economic sovereignty over legally sovereign producers. The consumer has a far wider range of choices of what to do with his money than the producer has with his specialized good or service. The cost of turning down an offer weighs more heavily on the seller than the cost of being refused does on the buyer, unless there is an almost perfect match between what a buyer wants and what the seller owns – and a monopoly for the seller on top of this. For the consumer to be at a disadvantage, he would have to be like a collector looking for that one item which will complete his collection, and the seller had better own the only one. In this case, the alternative uses of the consumer's highly marketable money are of less value to him than owning that one missing part of his collection. The seller then owns the more marketable commodity – in this very peculiar instance.

The power of money is its power to buy so many different things. This is why so many people want it and are willing to give up what they own in order to get it.

Political Sovereignty

What if the parable's early morning laborers had learned that the employer had left the farm and had returned to the town square to see if anyone else wanted to work? What if they had learned that he planned to pay these late-comers the same wage that the early comers had been promised for a full day's work? What would have been the ethically proper response?

First, an appeal to the right of contract. "We were hired, not compelled. We agreed to work for a particular wage. He will not cheat us. This is a fair man. Let us work exactly as we promised, irrespective of what our employer does with his own money." This defense of private contract would preclude any attempt to force the employer to re-negotiate the contract.

Second, a refusal to criticize late-comers. "Let us not make late-comers feel guilty for having arrived late. Let them enjoy the fruits of their labor without criticism from us." Surely, this would preclude any attempt to force the late-comers to give up a portion of their wages to those who arrived early, all in the name of fairness.

There are more laborers in this life than employers. In a democratic system, there are more wage-earners who vote than employers who vote. Any attempt on the part of well-

organized laborers to get the politicians to pass laws favorable to them is a violation of contract. If, for example, they can get politicians to threaten violence against the employer for paying a full day's wages to late-comers, they harm both the late-comers and the employer.

More than this, such legislation shifts economic sovereignty from the consumers to a particular group of sellers. In this case, the politically favored group is the better organized voting bloc of laborers. They call in the State to enforce regulations that preserve their economic position as workers. This is done in the name of fair labor laws.

The consumer loses some of his sovereignty when the State imposes the threat of violence against those who will work at a wage lower than what the politically favored group has achieved through State coercion. The employer must now look to the threat of negative sanctions from the State – fines or even jail sentences – as well as to the positive sanctions offered by consumers in the form of money. The future clout which the consumer exercises in a free market economy is diluted by the future clout which the State exercises in a mixed-market economy. Political sovereignty has been substituted for consumer sovereignty. Those who have skills in mobilizing voters have substituted their desires for the desires of those individual consumers who possess the most marketable good and whose decisions reward producers.

Political sovereignty is based on coercion: the legalized monopoly of violence. Consumer sovereignty is based on voluntarism: the decision to exchange or not to exchange. These are two very different forms of sovereignty. Political sovereignty is based on a civil covenant under God. Consumer sovereignty is contractual rather than covenantal. There is no oath-bound promise involved. The promise to pay has ethical implications, but it is not a sacred monopoly in the sense of a self-maledictory oath taken in God's name. To invoke civil sanctions in a market transaction is to invoke God's civil law and its appropriate negative sanctions. If God's law does not authorize such a substitution of civil sovereignty for market sovereignty, such State-invoking political action must be avoided. To invoke such coercive sanctions without biblical authorization is to take God's name in vain, a violation of the third commandment (Ex. 20:7). It is a misuse of God's delegated monopoly of violence. It is also to steal, a violation of the eighth commandment (Ex. 20:15). (The third and eighth commandments parallel each other: the third of five points of priestly covenant law and the third of five points of kingly covenant law.)

From the Consumer to the Bureaucrat

The State always acts in the name of God, whether the politicians acknowledge this or not. The civil magistrate is a minister of God whose God-assigned task is to suppress evil-doers (Rom. 13:1-7). But the senior executive agent of the State cannot act directly on every individual at once. He is neither omniscient nor omnipotent. He must therefore exercise his rule administratively. In the modern world, as in ancient Egypt, ancient Mesopotamia, and China throughout its recorded history, he exercises his authority through bureaucrats.

The bureaucrat is an agent of the State. Legally, he is under the authority of the representative civil agent who acts in man's name and God's name. But bureaucrats steadily increase the range of their own decision-making authority through a series of techniques. The main technique is the creation of complex layers of arcane laws that only highly specialized lawyers can understand. Bureaucrats hide in the fine print of administrative law and dare anyone to prove them wrong. Each bureaucracy then seeks the right to establish its

own administrative law court, where the arguments of outsiders who have challenged a bureaucrat's decision will be decided.

The primary goal of each bureaucracy is administrative autonomy: autonomy from politicians and civil courts above, and autonomy from citizens below. The secondary goal is growth: of jurisdiction, employees, and budgets. A bureaucrat rises in power, prestige, and salary in terms of how many employees work under his jurisdiction: the larger the number, the higher his position. (This is known as **Parkinson's Law**, named after C. Northcote Parkinson, a British student of bureaucracy in the 1950's and 1960's.)

Both the consumer and the bureaucrat maintain their authority by their ability to say yes or no. The consumer's legal right to buy or not to buy is the source of his economic sovereignty. The bureaucrat's right to say "approved" or "not approved" is the source of his sovereignty. The consumer's positive sanction is his own money. The bureaucrat is prohibited by law from using his own money to influence anyone. He must speak in the name of the sovereign State. He must not speak on his own authority. But this restriction is very difficult for higher bureaucrats to enforce, let alone politicians.

Bribes are familiar throughout history, and there are many forms of bribery other than money. Another familiar face in history is the power-seeking bureaucrat who enjoys proving his sovereignty over those beneath him, including private citizens. Power granted is power used. The bureaucrat who spends his career mastering the rules that govern him is in a better position than anyone else in the selection, interpretation, and application of these rules to specific cases. The more detailed the rules, the more ways he has of breaking them. Instead of hampering his actions, thick rule books authorize him to do whatever he wants without any major threat of reprisals.

The bureaucrat can keep producers from offering to consumers new products and services. The bureaucrat's power resides in his authority to say no. Robert Townsend, the former president of Avis Rent-a-Car, has put it this way: "It's a poor bureaucrat who can't stall a good idea until even its sponsor is relieved to see it dead and officially buried."

The more that the State sets the rules of market transactions, the more sovereignty flows from the consumer to the bureaucrat. The more times that a majority of citizens votes to substitute political sovereignty for consumer sovereignty, the less freedom they will retain as private consumers. Their authority as political sovereigns steadily works against them as economic sovereigns.

The Carrot and the Stick

In free market transactions, the carrot is whatever benefit that the money or the item being offered for sale can bring to both of the bargainers. The stick is the reciprocal of the benefit: those benefits that are forfeited by not making a voluntary exchange. The carrot and the stick in a market transaction are intertwined. The stick is the loss of the carrot's benefits. Each side presents a choice to the other: "If you buy this, you'll be ahead. If you don't buy it, you will forfeit this advantage." The stick is inherent in the offer to trade. Each party has a stick; each party has a carrot.

There is also a hidden benefit - a carrot, if you will - that is rarely discussed: the benefit of freedom. This benefit extends to both parties and to all the other non-presently participating parties who might decide later to suggest an exchange. In every voluntary transaction there is a lesson: there are benefits

attainable through voluntary exchange, even a poor one.

In politically coercive social orders, the carrot and the stick also depend on who gets what and who sacrifices what in order to get it. But what is sacrificed above all is freedom. Freedom's benefit - a carrot for both parties - is lost by both parties. There is no lesson in non-market transactions that voluntary exchange benefits both parties. The lesson is quite different. Each party believes that if he could have gained an advantage through the exercise of political power, he would now be better off. Furthermore, each knows that if he loses this influence, he could be worse off. The goal of each party is therefore not to extend liberty, which benefits both parties and others besides, but to extend power, which can benefit only one party, and only for as long as he retains his influence in the political process.

The fate of a social order is heavily dependent on the lessons learned from these two economic systems. If freedom multiplies because participants learn that the range of opportunities open to them increases when others are allowed to make offers, everyone's wealth increases. After all, what is the meaning of wealth? It means control over those resources that increase one's range of opportunities.

If coercion through politics multiplies because participants learn to seek it and expand it, the stick gets ever larger, and the supply of carrots diminishes. Until the power-seekers learn a more subtle lesson - that too many people wielding sticks drive away those who produce carrots - the wealth of most people diminishes. Only those at the top of power's pyramid get rich, and only in relation to those trapped in the system.

In 1980, the Soviet Union hosted the summer Olympics. From all over the world, those who lived outside the bureaucratic tyranny of Soviet Communism streamed into Moscow, bringing cameras, watches, stylish clothing, and all the other portable carrots that capitalism produces in abundance. Communist Party members living in Moscow, who were the richest, most privileged people in the U.S.S.R., observed first hand for the first time that they were poor compared to those visitors. Not just poor - laughably poor. The tourists were laughing at them. A decade of deaths in Afghanistan then was added to this realization. In 1991, the Soviet Union collapsed. The Communist leadership had lost faith in the system's ability to make them rich. It had been a very long lesson: 74 years. Most Russians still have not learned it very well.

Conclusion

The consumer is economically sovereign over the legally sovereign producer because the consumer possesses the most marketable commodity: money. His range of choices is wider than the producer's. He can better afford to say, "take it or leave it," than the producer can.

When consumers invoke the power of the State on their behalf, in order to require producers to do it their way, they surrender sovereignty to the bureaucrats and those few consumers who know how to get their way with bureaucrats, such as lawyers and politicians. When voters substitute political sovereignty for consumer sovereignty, they reduce their own options. They turn over to the government their economically dominant stick of the threat of forfeited profitability. They seek more carrots through a political stick. They will eventually discover that there are fewer carrots being offered for sale, and more bureaucrats with sticks telling them what they can't do.

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