

# BIBLICAL ECONOMICS TODAY

Vol. XVII, No. 56

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October/November 1995

## CHRISTIAN ECONOMICS IN ONE LESSON

### Part 5: Profit, Thrift, and Tools

by Gary North

*And God said unto Noah, The end of all flesh is come before me; for the earth is filled with violence through them; and, behold, I will destroy them with the earth. Make thee an ark of gopher wood; rooms shalt thou make in the ark, and shalt pitch it within and without with pitch. And this is the fashion which thou shalt make it of: The length of the ark shall be three hundred cubits, the breadth of it fifty cubits, and the height of it thirty cubits (Gen. 6:13-15).*

Noah was given a warning from God: a flood was coming. He was given an assignment by God. To preserve life for the post-flood earth, Noah would have to build an ark. He was given a blueprint for the ark. So far, this was all God's doing. But Noah needed four other things to enable him to complete this assignment: belief in God's ability to bring His word to pass, obedience to God's word, the blessings of God on his labors, and time. By the grace of God, he received them all.

Let us consider what God was saying. First, His long-term goal was to enable mankind to extend the original dominion assignment given to Adam (Gen. 1:26-28). We know this because, after the flood waters receded, "God blessed Noah and his sons, and said unto them, Be fruitful, and multiply, and replenish the earth" (Gen. 9:1). The dominion covenant extended beyond Adam's pre-fall world.

Second, in order to accomplish this task through mankind, God required Noah and his family to devote time, raw materials, and labor to the task of building an ark. Noah and his family would have to apply these scarce economic resources to the task of ark-building rather than to other tasks or to immediate consumption. This meant that the cost of mankind's attainment of long-term survival and economic reconstruction after the flood was the reduction of one family's consumption in the present and the immediate future. They had to re-allocate assets that could have been used for their immediate consumption. They had to forfeit the pleasures of consuming. For example, the time that would otherwise have been available for leisure activities was an obvious re-allocated asset. While completing the ark, Noah would have agreed with John Wesley's words: "Leisure and I have parted company." Noah invested present assets for the sake of future output - or as the case literally was, input: putting himself, his family, and the animals into the ark.

Obviously, there was no market demand for the ark. There was no group of venture capitalists ready to put up their own money to finance the ark. There was not even a government agency ready to fund this project, however ready government

agencies have been in history to fund high-risk crackpot projects with taxpayers' funds.

#### The Covenantal Structure of Profit

God did not reveal to anyone else His plan to kill every creature on land. He told only Noah. Noah was in possession of the most important piece of exclusive information in the history of man. He could profit from it. He could save his life and the lives of his family members. In the investment world, such exclusive information is called **inside information**. Because Noah possessed this inside information, and because he believed it and acted upon it, he was able to profit from it. He received what can safely be called in retrospect an above-market rate of return. It was way above market: several thousand feet of water.

Had he not received this inside information, he could not have profited from it. Had he not believed this inside information, he could not have profited from it. Had he believed it but not acted upon it, he could not have profited from it. Had he acted upon it with a faulty blueprint or with materials insufficient to meet the required quality standards, he could not have profited from it. Had he run out of time before the ark was completed, he could not have profited from it. For him to gain an above-market rate of return, he needed five factors: (1) accurate inside information regarding the future, (2) belief in this information, (3) a plan of action that would deal successfully with the future state of affairs, (4) the willingness and ability to execute the plan, and (5) the time necessary to complete it.

These five factors parallel the five points of the biblical covenant model, although I did not recognize this until I had deduced them from Noah's situation. The presence of inside information corresponds to the God of the Bible, who is sovereign over history yet reveals Himself in history. Belief in the plan corresponds to man's position as God's subordinate, representative agent over the creation, thinking God's thoughts after Him in a creaturely way. The ark's blueprint corresponds to covenant law, which in turn is related to dominion. The execution of the blueprint corresponds to covenant sanctions: in this case, positive sanctions. The completion of the task, which requires a continual investment of capital, especially time, corresponds to succession/inheritance. No greater physical example of succession/inheritance exists in the Bible: the family of Noah succeeded all of humanity. They inherited the whole earth.

#### Saving and Investment

The modern economist distinguishes the act of saving

from the act of investment. This distinction can lead to analytical errors – Keynesian economics is a good example – unless it is carefully qualified analytically at the beginning. The act of saving is visually indistinguishable from the act of investing. They appear to be the same act. Analytically, they should be distinguished.

Saving is an act of deferred gratification. That which could be immediately consumed is not consumed. It is used instead to buy something else. That “something else” is an investment. Saving and investment are two sides of the same coin, i.e., a simultaneous decision. Saving refers to the act of non-consuming; investment refers to the use to which the non-consumed asset is put. It is impossible to save without investing; it is impossible to invest without saving.

Let us say that I have before me a piece of cheese. I believe that the two best uses for this piece of cheese are these: (1) eat it; (2) bait a mouse trap with it. A mouse has been getting into my pantry and ruining food by eating it and leaving behind the results of previous meals. I now must make a decision: to compare (1) the pleasure of eating the piece of cheese with (2) the pleasure of getting that mouse out of my life in the future. One pleasure is very short run; the other is longer run. My decision will be based on how much I want the pleasure of eating that piece of cheese vs. the pleasure of imagining that I will be able to trap that mouse. I call this comparison **imputation**. I impute value to the expected results my decisions.

There is second factor to consider: **uncertainty**. I do not know the future perfectly. The more distant the future return on my investment, the less confidently I can expect it. There is almost no likelihood that I will not enjoy eating the cheese a few seconds from now; there is much greater likelihood that the cheese will not accomplish its other goal. Maybe the mouse will find a way to knock the cheese off the trap without springing it. Maybe he will not like the smell of this variety of cheese. Maybe he has already departed to a different home. Maybe he has died. There is no guarantee that I will catch the mouse with my piece of cheese. I cannot be sure what the mouse will do, so I may invest my piece of cheese poorly. I must act as an entrepreneur if I do not eat the cheese. The entrepreneur invests in the dark in the hope that his investment will bring a positive rate of return. I must forfeit the pleasure of cheese-eating in the hope – the uncertain hope – that the baited trap will kill the mouse.

There is a third factor: **risk**. Risk, unlike uncertainty, can be estimated statistically. What if there were some computer program that estimates the likelihood of mice in general responding in a fatal way to traps baited with this kind of cheese? I doubt that such a program will ever be written, and I doubt that we will ever know that much about mice behavior, but in saying this, I am forecasting an uncertain future. Let's say the program exists. I enter the data into my computer, and out comes an estimate: there is a 72 percent likelihood that the mouse will be killed, plus or minus 4 percentage points for sampling error. I factor this into my decision.

There is a fourth factor: **time**. The pleasure of eating the cheese is immediate. The pleasure of eliminating the mouse is distant. Allow me to consider a different decision in order to make this one more clear. If the question before me were “eat the cheese now” and “eat the cheese tomorrow” – other things being equal, such as my desire for cheese and my daily quota of fat grams – I will eat the cheese now. Only if I expect my desire for cheese to be much higher tomorrow will I delay my one-bite feast. I mentally discount the future value of the pleasure of eating cheese. I must believe that I will experience greater pleasure tomorrow than today in order to persuade myself not to eat that cheese now. This discount is what

economists call the rate of interest. It is sometimes called the time value of money, but it could just as accurately be called the time value of cheese-eating. This discount is applied to everything, not just money.

So, as a saver-investor, I make a decision: I will use the cheese to bait the trap. I refuse to eat the cheese: an act of saving or thrift. I place the cheese on the trap's trigger. I pull back the bar and hook it – an additional high-risk decision on my part. By some near miracle, I do not spring the trap on my thumb when I do this. I put the trap in a place where I know the mouse has been before. Then I wait. This is my act of investing. It took several steps.

#### **Thrift: Necessary but not Sufficient**

There can be no investing without saving, but saving does not guarantee that the investment will pay off. Saving makes possible the investment, but it does not secure a positive rate of return.

Noah had a huge investment project. Any other long-term investment scheme was out of the question. Surely, there was no need for him to buy more real estate. Whatever capital he had under his control would have to be devoted to building the ark and, toward the end, gathering food for the animals and his family (Gen. 6:21).

What was not appropriate for Noah was a diversified investment portfolio. He had been given specific inside information by God. This information said that asset diversification beyond building and equipping the ark would be unwise: a negative rate of return. Noah had what we do not have: access to specific knowledge of the future. That knowledge informed him that all markets would suffer from excess liquidity. The value of money in relation to the value of large water-tight containers would fall to zero. There would be no liquidity preference. There would be anti-liquidity preference, world-wide. The cry would go up as the waters came down: “Cash is trash.”

Mankind no longer faces such a future, as the rainbow attests. We also do not have access to a specific investment portfolio recommended by God. We are warned, however, not to put our trust in the riches of this world.

They that trust in their wealth, and boast themselves in the multitude of their riches (Ps. 49:6).

Trust not in oppression, and become not vain in robbery: if riches increase, set not your heart upon them (Ps. 62:10).

And the disciples were astonished at his words. But Jesus answereth again, and saith unto them, Children, how hard is it for them that trust in riches to enter into the kingdom of God! (Mark 10:24).

Charge them that are rich in this world, that they be not highminded, nor trust in uncertain riches, but in the living God, who giveth us richly all things to enjoy (I Tim 6:17).

Riches are uncertain because the future is uncertain. There is no way to be sure that what constitutes riches today will do so tomorrow. A war, a plague, a revolution, or a natural disaster may drastically change the terms of trade, just as Noah's flood did. Jesus gave us this parable to remind us of the reality of uncertainty:

And he said unto them, Take heed, and beware of covetousness: for a man's life consisteth not in the abundance of the things which he possesseth. 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 12:15-21).

This is not a recommendation against thrift. It is a recommendation against short-changing God in a compulsive passion of thrift. An open hand in the name of God, we are told, is a low-risk, high-return investment. "Honour the LORD with thy substance, and with the firstfruits of all thine increase: So shall thy barns be filled with plenty, and thy presses shall burst out with new wine" (Prov. 3:9-10).

People who believe in the Bible and the God who brings His word to pass possess inside information. It is available to many, but few people read it, believe it, and act in terms of it. This is what enables covenant-keepers to secure an above-market rate of return on their lifetime investments. They know that charity to others and tithing to the local church produce a high rate of return, and not just monetary return. "But seek ye first the kingdom of God, and his righteousness; and all these things shall be added unto you" (Matt. 6:33). Charity is a form of saving: deferred gratification. It is an investment in the kingdom of God.

### Tools and Dominion

God spoke the world into existence (Gen. 1). Man does not. God formed man out of the dust; He did not speak man into existence. Man works with the dust in an analogous way, not to create life but to create tools.

Dust is a raw material, symbolic of the earth. Man is from the dust and, because of sin, returns to dust (Gen. 3:19). But man is more than dust; his soul (life) was breathed into him by God (Gen. 2:7). Man shares dust with the creation, and he shares mortality with the other living things, but he is more than either chemistry or biology. He is responsible before God to subdue the earth in terms of God's word.

God's word preceded the creation. It directs man. It comes from on-high, yet it is down to-earth. God speaks to man in propositional truths. He also speaks to man through images or blueprints: Noah's ark, the tabernacle, the temple, the fire on the altar. God's words are specific in a way that biblical symbols are not. Analogously, a person may provide an image to be used as a guide, as in the case of a blueprint, but the step-by-step procedures to build the thing represented by the image are verbal. This is why God destroyed the blueprint and plans of the tower-builders by confusing their language (Gen. 11).

There are magical techniques known generally as **mind over matter**. Sometimes they are called **the power of positive thinking**. In some charismatic Christian circles, they are called **name it and claim it**. These techniques are misguided because they attribute to man what God did in the creation week: speak things into existence apart from plans and tools.

One of the techniques adopted by the practitioners of magical invocation is called **visualization**. People are told to visualize a new car, a large house, or a gorgeous wife. (Actually, they are not really told to visualize a gorgeous wife - especially since most of the listeners are married - but this is more a matter of convention than technique.) They are told

that thinking it and visualizing it will make it come true. Sometimes people are told to work harder. In churches, they are told to give more to the church. But the emphasis is on visualization, not thrift, careful planning, education, and long, well-informed hard work.

The Bible teaches otherwise. Noah was not told to visualize the ark; the word of God was sufficient. He was given a verbal blueprint, and perhaps even an image, but this was to serve as a guide to construction. Sometimes a picture is worth a thousand words, and this is especially true of a blueprint of an object. A series of rapidly changing blueprints is sometimes better for describing a process. We call such shifting blueprints "movies." It is more efficient to show a movie of how a machine works than it is to describe the process in writing. But a blueprint for manufacturing will always have numbers and a scale attached. This is not magic, for it takes tools, construction materials, planning, and economic capital to go ("move") from the blueprint (symbol) to the completed project.

### What Is a Tool?

A tool is a capital good. We call it a production good. It is used to make consumer goods.

What is a capital good? It is the product of three things: land ("dust"), labor (including ideas), and time. Man is a time-bound creature. He cannot escape from time in history. Time must be paid for. It is paid for by sacrificing the use of the invested item over time. We must give up the use of a consumer good over time in order to obtain even more valuable consumer goods in the future. I make this decision in terms of my personal rate of interest: the discount I impute to my expected value of future goods produced by the production process compared to the value I impute to the goods I possess now.

The Bible encourages tool-making. God told Abraham to circumcise his sons. This required a tool. For the sake of the future inheritance, Abraham had to circumcise his sons. For the sake of circumcising his sons, he had to make or buy a knife. Designing the knife, buying or forming raw materials to make it, forfeiting the use of leisure time: thus did Abraham, or someone who sold the knife to Abraham, create the required tool.

Physical capital is a kind of incarnated labor: design and work expended. But it is more than incarnated labor: it is also made of dust. Furthermore, physical capital is only one kind of capital. Knowledge is sometimes more valuable than physical capital. We ask: Where did the tool's design come from? Where did the production process come from? Knowledge is crucial in tool-building. For example, computer software is a tool. A software program is a series of highly structured numbers and letters, but ultimately ones and zeros according to a formula (machine code). These ones and zeros are imbedded magnetically or optically onto a piece of plastic. Which is more valuable to a bug-free piece of software: the plastic or the formula, the "dust" or the idea? (Notice the faith implied in the phrase: "bug-free software." Some people will believe in anything, and go on believing it, update after buggy update.)

The knowledge of a mathematical formula can be vastly more profitable than any magical formula. Occult man searches in vain for hidden "words of power" that supposedly control matter, when a knowledge of calculus or advanced statistics in a production process is what would give him the wealth he seeks.

The Bible does teach mind over matter - formula, blueprint, plan, wisdom - but only by means of matter: raw materials and labor, including tools (labor + raw materials over time). It teaches prayer over adversity, but only through faith.

The most important formula is the Ten Commandments. The most important blueprint was the tabernacle-temple - no longer covenantally relevant. The most important plan is the plan of salvation. The most important asset is wisdom. "If any of you lack wisdom, let him ask of God, that giveth to all men liberally, and upbraideth not; and it shall be given him. But let him ask in faith, nothing wavering. For he that wavereth is like a wave of the sea driven with the wind and tossed. For let not that man think that he shall receive any thing of the Lord. A double minded man is unstable in all his ways" (James 1:5-8).

### The Value of a Tool

What would you pay me to buy the exclusive rights to a machine that produces buggy whips? (Note: buggy whips are very different from buggy software, for which people pay lots of money.) I already know your answer: "Not very much."

But what if I could show you how precisely and efficiently my machine can produce buggy whips? This machine will produce expensive looking buggy whips by the millions, with minimal resource inputs, and with very few breakdowns. Now are you interested? "Not very."

What is your problem? This is a superb tool. Its design is beyond compare. The value of the materials used to construct it was very high: nothing but the best. Nobody will be able to compete with you in the buggy whip industry. Furthermore, I have spent decades perfecting its design. I poured my dreams into this, as well as my life. What is your answer to this question: How great is the value of my investment? "Not very."

So, the present value of a tool is not the value of the labor which the producer poured into it, although without this labor, there would be no tool. The value of the tool is not the value of the raw materials used to construct it, although the tool would not exist without the raw materials. The value of the tool is not the forfeited interest payments that the producer could have earned had he lent out the money that it took to construct it, including the value of his labor time. Then from whence comes the value of the tool? Answer: from our expectations regarding the future decisions of consumers.

If consumers will not pay money to buy buggy whips, and if everyone knows this, then the value of the buggy whip machine is the scrap value of its materials minus transportation costs and selling costs to deliver it to the scrap dealer. **The value of the tool is dependent on the value of the tool's output.** It will bring no more in the market than the highest bid by a buyer. This buyer believes that he has a way to maximize the income produced by the machine. This buyer also has the money to back up his expectation: high bid wins.

The potential buyers of the tool, if any, impute value to it. Each one declares: "It is worth this much to me, and no more." How do they make this estimation? By estimating what the net value of the output of this machine is in the overall production process. A rational buyer will bid no more for the machine than this expected yield, which is discounted by the rate of interest. If he thinks this machine will net him a hundred ounces of gold over its expected life, he will bid no more than one hundred ounces of gold, minus the interest return which the hundred ounces of gold would produce if he invested it elsewhere.

The machine's potential buyer imputes value based on his expectation of what the final consumers of its output will pay for the machine's contribution to the production process. The

consumers, in turn, impute value to the goods produced by the production process. One by one, consumers and potential consumers estimate the value of a unit of output to them. Each one asks himself: "What benefits will owning this consumer good bring to me? Over what period of time?"

Everyone is guessing. No one knows for sure. We all face uncertainty. The future is dark. But it is not pitch black. We can make estimations. This is one of our most important tasks in life: imputing value to scarce economic resources based on our estimation of the value of the benefits we will receive from owning or renting specific items.

### Profit

"Buy low; sell high": here is the goal of profit-seekers. But how can we do this? Doesn't market competition force us to pay exactly what a thing is worth: no more, no less? Then whence comes profit? If someone gets back more for an item than he paid, minus the interest rate he might have earned, has the market failed to operate properly?

Modern academic free market theory begins - though it had better not end - by comparing the real world with a hypothetical world in which everyone is omniscient about market conditions, present and future. Yet such a world is impossible. We are not omniscient. Only God is. We always make mistakes when we make estimations of future economic conditions: consumer demand, producer supply, costs, taxes, storage fees, etc. Then we decide whether some item is worth the price. But because some people guess more accurately than others about future economic conditions in specific cases, they buy at a price below what it would have been had every potential buyer seen the future as accurately as the high-bidding buyer did. As in the case of Noah, the successful entrepreneur reaps a profit when (1) he has access to better information about the future, (2) he believes in the accuracy of this information, (3) he has a better plan of action to make use of this information, (4) he invests time and money into pursuing his plan, and (5) he brings the finished products to market, whereupon consumers buy all of them at his asking price. Profit is a **residual** left over after all costs of production have been paid, including (1) the wages that the entrepreneur might have earned as an employee elsewhere, and (2) the interest return that his investment would have produced.

### Conclusion

Noah provides us with a good model of a successful entrepreneur who reaped a handsome profit: long life and the whole world. It cost him the resources, including time, that it took to build the ark.

What was the market value of the ark the day before the rain began? Its scrap value minus disassembly and transportation costs. What was it worth the day the rain began? A little more? Perhaps. What was it worth when the flooding became widespread? Whatever the highest bidding buyer would have offered. But what was the market value of what he could offer? Not much. Nobody could offer enough to Noah to persuade him to surrender ownership of the ark. That generation learned the temporal reality Jesus' eternal price comparison sheet: "For what shall it profit a man, if he shall gain the whole world, and lose his own soul? Or what shall a man give in exchange for his soul?" (Mark 8:36-37).

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