

CHRISTIAN ECONOMICS
VOLUME 2: TEACHER'S EDITION

BOOKS BY THE AUTHOR

An Economic Commentary on the Bible (31 volumes, 1982–2012)

Marx's Religion of Revolution (1968, 1989)

An Introduction to Christian Economics (1973)

Puritan Economic Experiments (1974, 1988)

Unconditional Surrender (1980, 2011)

Successful Investing in an Age of Envy (1981)

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Covenantal Structure of Christian Economics (2015)

Christian Economics: Student's Edition (2017)

CHRISTIAN ECONOMICS
VOLUME 2: TEACHER'S EDITION

Gary North

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This book is dedicated to
Sacha Walicord
who teaches Christian economics
to future business movers

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PREFACE

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish.' Or what king, going out to encounter another king in war, will not sit down first and deliberate whether he is able with ten thousand to meet him who comes against him with twenty thousand? And if not, while the other is yet a great way off, he sends a delegation and asks for terms of peace. So therefore, any one of you who does not renounce all that he has cannot be my disciple (Luke 14:28–33).

Introduction

You have somehow come across this book. If so, you have a problem: this book is designed to help people teach other people the material in the first book in this series, *Christian Economics: Student's Edition*. That book is much shorter than this one. It sets forth the basics of Christian economics. This book is supplemental. It builds on the previous book. So, if you have not read the previous book, you are at a disadvantage. You have a lot of catching up to do. You are missing crucial information. You can download it here for free:

<http://bit.ly/cestudent>

On the other hand, maybe you have read the student edition. You were intrigued by it.

You are curious. You want confirmation. This book provides confirmation.

Maybe you were convinced by the student edition. You want more information in order to increase your expertise. This book will do this for you. But there is a looming problem: *with greater information, you will have greater responsibility.*

And that servant who knew his master's will but did not get ready or act according to his will, will receive a severe beating. But the one who did not know, and did what deserved a beating, will receive a light beating. Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more (Luke 12:47–48).

It is insufficient to pour information into your head without sharing what you have learned. It is not good enough to become an absorber of information. You must become a doer of the word.

But be doers of the word, and not hearers only, deceiving yourselves. For if anyone is a hearer of the word and not a doer, he is like a man who looks intently at his natural face in a mirror. For he looks at himself and goes away and at once forgets what he was like. But the one who looks into the perfect law, the law of liberty, and perseveres, being no hearer who forgets but a doer who acts, he will be blessed in his doing (James 1:23–25).

So, if you believe what this book teaches, you will have to become a teacher. Count the cost of this responsibility. Jesus said: “No one who puts his hand to the plow and looks back is fit for the kingdom of God” (Luke 9:62b).

My Targeted Audience

I have been a direct-mail copywriter ever since 1974. I had to learn this skill to market my brand-new newsletter, *Remnant Review*. I taught myself this skill. I am still learning. One of the rules of direct-response copywriting is this: *never write for a committee*. If you do, your copy will be less intense and therefore less persuasive. Also, your copy will not press the reader's hot buttons, which is essential for response rates high enough to roll out another mailing.

A professional copywriter first targets a specific audience. Second, he pictures a mental image of a representative member of this audience. He hopes that he gets this mental image correct. Then he writes for this fictitious but hopefully representative person.

I have a target group in mind: Christians who read serious non-fiction

books. Second, these people think that the Bible has answers for life's problems. Third, they are searching for explicitly Christian answers to economic issues. Fourth, they are concerned about the state of the economy. Fifth, they are willing to take action if they discover these answers. They are activists.

Is this you?

I am missing crucial information. I do not know who you are. I do not know where you are. I do not know when you are. I do not know what you have accomplished in life so far. In short, I do not know your main motivations.

Here is a valid universal goal: *greater wisdom*. Wisdom is the skill of good ethical judgment. To gain wisdom, you must build on biblical foundations. Christians need reliable foundations, no matter what they are doing with their lives. They should not expect covenant-breakers to provide these foundations.

Everyone then who hears these words of mine and does them will be like a wise man who built his house on the rock. And the rain fell, and the floods came, and the winds blew and beat on that house, but it did not fall, because it had been founded on the rock. And everyone who hears these words of mine and does not do them will be like a foolish man who built his house on the sand. And the rain fell, and the floods came, and the winds blew and beat against that house, and it fell, and great was the fall of it (Matthew 7:24–27).

This book provides a theological foundation for understanding economic theory. It uses the five-point biblical covenant structure as a way to understand economics. Generally, the covenant is structured in terms of these categories: God, man, law, sanctions, and time. I explain this in my book, *Unconditional Surrender: God's Program for Victory* (2010). There is a short version: *God's Covenants* (2014). You can download it for free here: www.bit.ly/gncov. I have also written an advanced book on this topic: *The Covenantal Structure of Christian Economics* (2018). Download it here: www.bit.ly/gncovecon.

As you should know by now, the best way to learn something new is to implement whatever you have been shown. You learn by doing. You start a small project. But whenever the material is more theoretical than technical,

the best way to learn it is to teach it. I want you to learn this material. So, I want you to teach it.

I have written a third volume, an activist's edition. I show how to implement at least some of this book's material locally. Learn by doing. Then I have written Volume IV: the scholar's edition. It is longer than this one. It is my magnum opus, the culmination of my life's calling.

This book is not a workbook. It is not an outline for a series of lessons. It is an intellectual tool that will help you gain the confidence of your first student. The student needs to know that you really do know what you are talking about.

If you are self-disciplined enough to read this book, you should become a teacher. You should train others. What kind of training? That depends on your abilities. But there is no doubt that you should become a teacher. You are needed. You may not yet be wanted, but you are needed.

Dedication and Leadership

In a series of lectures in 1962 to a group of Catholic activists, an ex-Communist organizer named Douglas Hyde described how the British Communists in the 1930s and 1940s recruited and trained people, who in turn became organizers. Hyde was among the most successful of these trainers. His lectures were published as a book, *Dedication and Leadership Techniques* (1962). This material was updated in a later book, *Dedication and Leadership* (1966). Here is his description of this training. The new recruit was sent out to sell the Communist Party's newspaper, the *Daily Worker*. They did not expect him to sell many papers. They had far more important goals. One was to force him to take a public stand for his new-found faith. Second, they wanted him to be ridiculed by the public. This would be his daily experience. Here is why this was important.

Sooner or later, too, someone who is not just an abusive critic but an intelligent critic comes along and starts to ask questions: Why did you join the Communist Party? How can you join the Communist Party when you know what Russia did in Hungary? Or, how Joe Stalin concluded a pact with Hitler?

Someone else comes along and says: How can you be an atheist? And starts to argue atheism with him. This is tremendously important because he has not got the answers. He is not supposed

to have answers at that stage. This is all part of the operation.

He discovers his own inadequacy. He thought he knew quite a lot about communism. He had been mixing with communists, reading the *Daily Worker*. Perhaps he discovers that he does not really know as much about communism as he thought. When he has been doing this for two or three weeks, someone described as the education secretary comes to him at a Communist Party local meeting, and says: "Don't you think you ought to learn more about the communism which you have accepted? Wouldn't you like to attend some classes? We are organizing some classes for beginners now. We won't make enormous demands upon you. They will be pretty simple, geared to the state that you have reached, but we'd like for you to attend."

He heaves a sigh of relief, and says: "Thank God or whatever gods there may be. Here is a chance of getting the answers to the questions I have been asked. Here is a possibility of getting ammunition, shot and shell, for the battle in which I am already involved."

In other words, he already feels the need for this—and so it meets a need. This means in turn that he goes to the classes in a receptive frame of mind.

It means that he feels the tutor has something which he needs, urgently needs, desperately needs, and, therefore, he is going to pay attention to what he is given, he is going to put in whatever work is required. Incidentally, no very great demands will be made on him at the start in the way of reading. All this is a sort of psychological preparation for future training.

Maybe you are a former student who has read my student's edition. You are therefore intellectually ready to advance to the next level of knowledge. This book will provide what you need intellectually to become a teacher. Is this your goal?

What is your main goal for becoming better informed? If it is not to recruit others and train them, then you have missed the point—of this book and of Christianity. I did not write this book and 45 other support volumes merely to satisfy your intellectual curiosity. I wrote it to help you change your share of the world. The world needs changing.

My Goals for You

The study of economics can become a lifetime task. Mastering anything requires an abnormal degree of commitment. Studying economics may be worth this degree of commitment. Something should be worth it. If it is not economics, then find something else.

In any academic discipline, a Christian must do double duty. He must first re-think both the categories and the content of the discipline from the point of view of the Bible. This is a lonely task. Second, he must master the major rival views. He must understand rival views so well that he could debate an issue from the point of view of the rival view, and the listeners would think that he held the rival view. Then he takes the Christian side and demolishes what he has just presented. This is not easy, but this is what serious intellectual commitment requires.

When you hold an unpopular view, you must do double duty. Are you ready to commit to this degree of responsibility?

After you make this self-assessment, it will be time for a leap of faith, either away from a study of Christian economics or toward it. You cannot know much about the future. If you commit, then much of this commitment will be based on faith. “And without faith it is impossible to please him, for whoever would draw near to God must believe that he exists and that he rewards those who seek him” (Hebrews 11:6).

You will have to run a series of tests along the way. You are looking for positive feedback. It may be financial. It may be intellectual. It may be both. Set some temporal goals for the next year, five years, and lifetime.

Next, I want you to become a recruiter. This may require a systematic program of inviting people to discuss the information you receive in this book. It may be teaching a Sunday school class. If you teach, and you are good at it, you may want to go take the next step: train to become an activist. Finally, you may decide to become a scholar. You may want to extend or modify what you read in this book.

Conclusion

I have a sales task with this book. I am trying to persuade you to change your life.

Changing your habits is never easy. Neither is changing your mind. There are inescapable costs associated with changing your mind. There is, above all, this cost: *re-thinking much of what you have believed*. Why? Be-

cause of this rule: "You can't change just one thing."

I hope you will keep reading this book until the end. Then, if I have persuaded you to commit, you should read it again. That's correct: re-read the entire book, start to finish. Why? First, because any book that is not worth reading twice is not worth teaching. Second, in the second reading, you will begin to understand the auction process. This is crucial for teaching free market economics.

After the second reading, you should search for teaching opportunities. If you then decide to plow ahead, don't look back.

INTRODUCTION

See to it that no one takes you captive by philosophy and empty deceit, according to human tradition, according to the elemental spirits of the world, and not according to Christ. For in him the whole fullness of deity dwells bodily, and you have been filled in him, who is the head of all rule and authority (Colossians 2:8–9).

Introduction

Even an introduction sometimes needs an introduction.

This book is the second in a series. The first book is *Christian Economics: Student's Edition*. It introduces people to the fundamental concepts of Christian economics. These concepts are tied to the biblical covenant model: God, man, law, sanctions, and time. I summarize this model in my short book, *God's Covenants* (2014). You can download it for free here: <http://bit.ly/gncov>.

In the field of economic theory before the fall of man, these covenantal categories were these: creation, stewardship, property, imputation, and inheritance. These were challenged by the fall of man. The rival categories are these: chance, autonomy, theft, bureaucratization, and disinheritance. Christ's redemption has restored the original structure in terms of the post-fall economy: providence, service, protection, entrepreneurship, and compounding. These concepts are easy enough to understand, but they are not intuitive. It takes an understanding of covenant theology to identify them. I assume that you have read the student's edition. You are ready to go to the next phase: teaching.

Here, I develop the details of Christian economics. The categories in this book are familiar to anyone with an introductory understanding of economic theory. Note, I do not say "textbook understanding." I have in mind something different: an understanding of economic causation that allows Christians to understand and explain the day-to-day operations of the national economies around them, wherever and whenever they live. They must understand these day-to-day operations in terms of biblical eco-

omic categories if they are ever to become successful teachers. My goal is to persuade readers of this book to become teachers. I am, in short, trying to recruit you.

Academia

Introductory books are always concerned with recruiting. This is surely true of economics textbooks. An economics textbook, as with all textbooks, is a tool to recruit and train future academic specialists. Every textbook is written to be acceptable to most members of an academic guild. The guild is always divided into warring camps of competing scholars. A textbook is written to conceal this war from naive and trusting students. Economics textbooks for high school students are written to prepare readers to become familiar with the terminology of a generic lower-division college textbook. A lower-division college textbook is written to prepare students for upper-division textbooks. These in turn are written to prepare students for graduate school. Each economics textbook removes the reader further from the real world of economic processes and institutions.

The vast majority of articles published in the most prestigious scholarly journals in economics are incomprehensible to intelligent readers. They are rarely read by scholars. They are published in order to persuade old men who run academic departments to grant tenure to assistant professors. Tenure guarantees a person lifetime employment by his university. Tenure is the product of a system of financing that does not exist in a free market. It is the product of state intervention into the higher education market. Tenure is based on the production of articles that no one in a free market would pay for. The standards of performance are not imposed by the free market. The reward is not granted in a free market: immunity from being fired. Tenure is a suitable goal for a person who is a poor teacher, or someone who fears the competitive marketplace of ideas. He is a person with low self-confidence in matters intellectual. He seeks deliverance from market competition. He gains it through employment by a non-market institution that is shielded by the state from competition.

If you accept the principles of my books on Christian economics, you will not be granted tenure. It is unlikely that will get a job offer in a tenure-track program. But you will have this advantage: you will understand economics. You may not understand academic economics, but this is not a liability in the real world, where there is no tenure.

The dominant interpretation of economics today is Keynesianism. The main rival school of interpretation is known as monetarism, or Chicago School economics. Other schools of opinion are public choice, rational expectations, and the newest major school of thought, behavioral economics. On the fringes of academia are the last remaining defenders of Marxism, which never had many university professors in the West, and the defenders of what is known as the Austrian School, which also had very few representatives, and none on any Ivy League campus. There were a few economists who had been followers of Ludwig von Mises in the 1920s and 1930s, but they de-emphasized or abandoned this position in the 1940s. Only then were they invited to teach in Ivy League universities. I have in mind Gottfried Haberler at Harvard and Fritz Machlup at Princeton. No Austrian has been on an Ivy League faculty since 1983, when Machlup left Princeton. Haberler left Harvard in 1971.

Christian economics is closer to Austrian School economics than it is to the other schools of opinion. Why is this? Because Austrian economics begins with a theory of purposeful action. It places purpose at the center of economic analysis. So does Christian economics. Austrian economics discusses purpose in terms of personal goals. So does Christian economics. The issue of purposeful action inescapably raises the issue of personal responsibility for the outcomes of purposeful action. Both Austrian economics and Christian economics focus on responsibility.

Austrian economics also places private ownership at the center of economic analysis. So does Christian economics. The crucial difference lies in this: Austrian economics sees the individual as autonomous. Christian economics does not. It proclaims autonomy as an incommunicable attribute of God, along with omniscience, omnipotence, and omnipresence.

To this Christian framework should be added some of the insights of behavioral economics. These insights are much closer to the real world than to the rarefied models of the non-Austrian schools. There is no comprehensive theory of behavioral economics. It consists of a series of observations about how people act in the real world. It offers explanations of why people act this way. It rests on psychology in a way that all other school of economics do not. The realism of behavioral economics can be considerable. It should be taken seriously by all economists on a case-by-case basis.

Structure

This book is divided into six parts.

Part 1 is **The Auction Process**. I argue that to understand the free market, you must understand an auction. If you understand an auction, you can extend this understanding into every nook and cranny of the economy. If you do not understand an auction, you will not understand the economy. The more equations and graphs that you understand, or think you understand, the less you will understand the economy.

Part 2 is **A Moral Auction**. It explores the moral and legal principles that support the auction.

Part 3 is **Protecting the Auction**. The auction is not an agency of coercion. The state is. The state must protect property rights by the threat of violence.

Part 4 is **Manipulating the Auction**. Every intervention by the civil government is a disruption of the auction process. It should be justified only as a way to preserve the auction or to preserve the moral order of the society that sustains the auction.

Part 5 is **The Non-Profit Sector**. All institutions are part of the auction process, but all non-profit institutions are governed by non-market principles and practices. To confuse these arrangements with open-bid auctions is to misunderstand them.

Part 6 is **Rival Worldviews**. The worldview undergirding secular economics is Darwinism. I discuss the fundamental incompatibility of these views as they apply to economics.

There is no previous book on economics that has adopted anything like the structure of this book. The content will be familiar to anyone who has read widely in Austrian economics, but not the presentation. That is because this book is geared to teaching. It will prepare you to answer questions regarding the applications of the student's edition. It will give you greater confidence about your potential to become a teacher. It will help you to make connections that you may not have considered before: connections between theory and practice, and also connections within the economy.

Part 1

THE AUCTION PROCESS

INTRODUCTION TO PART 1

If I have told you earthly things and you do not believe, how can you believe if I tell you heavenly things? (John 3:12).

A. From Simple to Complex

Jesus warned Nicodemus that he did not understand heavenly things. How did Jesus draw this conclusion? Because Nicodemus did not understand Jesus' words about things in history.

We sometimes call this teaching approach "dumbing down." This was one reason why Jesus spoke to the masses in parables. He wanted to teach them about the kingdom of God. He used analogies from the world of daily economics in order to explain the theology of the kingdom.

I have adopted the same teaching strategy in this book: from simple to complex. I have done this because I am convinced of this fact: our minds are severely limited. *We have great difficulty following long chains of reasoning.* Even when we can follow them, we cannot remember them. Even when we remember a few of the arguments, we may be ignoring a crucial link in the chain of reasoning. This is why we all need complex ideas or processes to be dumbed down by someone who understands what is going on.

Despite these limitations, we eventually draw conclusions. We decide that A is true and B is false. So, we commit to A. We commit a portion of our lives, such as time or money, to pursuing A, developing it, and telling its story to others.

You may be about to commit to Christian economics. You are in the learning phase. You are trying to figure out what Christian economics is. You want to know how it differs from other forms of economics, which are in turn divided.

I want to help you draw a conclusion and then commit to it. To do this, I have adopted a strategy. I am not going to ask you to follow long chains of reasoning. That task must wait until the *Scholar's Edition*. You may choose not to accept that challenge. But you are willing to commit to this challenge: understanding enough about Christian economics and its main ri-

vals to be able to make an informed judgment as to the truth or falsity of Christian economics. If you decide that Christian economics is true, you will then be responsible for committing to teaching it. Why? *Because there are no free lunches in life.* There are no benefits without comparable responsibilities, as you will learn in Part 1.

B. A Lowly Pencil

I begin Part 1 this book with a classic essay written by Leonard E. Read in 1958: “I, Pencil.” Read was a great believer in the free market. He had been a political activist in the mid-1930s, but he gave up on politics in the 1940s. He went into education. He founded the first libertarian “think tank” in 1946: the Foundation for Economic Education. It was small and underfunded. It had no influence. He kept at it until his death in 1983. He got out the message of economic liberty. I was one of his converts in the same year that FEE published “I, Pencil.”

Read it carefully. You will never forget it. That is why it has survived: it is truly memorable. He began with something that appeared to be simple: a pencil. As he shows in just a few pages, this simple consumer good is the product of an inconceivably complex system of production. It is so complex that no one understands it. We can barely explain it.

Read did not attempt to explain the complex market process that produces a pencil. He merely described it. I do my best to explain it in Chapter 2: “Pencils and Providence.” To explain it, I copied Read’s example. I begin with something simple: an auction.

C. The Auction Process

I use an auction as an analogy of the entire free market. I move from the simple to the complex. But my use of the auction is far more fitting than Read’s use of a pencil to describe the market’s process. This is because the free market really is a giant auction. An auction is not an analogy of the market. It is the market writ small. *The macrocosm of the international free market is accurately reflected in the microcosm of a local auction.* If you understand a local auction, you understand the market economy. You just don’t know this yet.

Most people are familiar with auctions. They exist in many societies. They are organized sales. An auctioneer invites potential buyers to attend his auction. Then, one item at a time, he offers them for sale. People bid on

them. The entire procedure is governed by one simple rule: *high bid wins*.

There are other rules, however. This is a crucial rule: *open entry*. In the American South, this used to be known as “y’all come.” Everyone is invited, with this recommendation. “Bring money.” The concept of open entry also applies to auctions. Anyone should be able to hold one. Auctioneers do not like this rule. They have persuaded politicians to set up legal restrictions on who may lawfully hold an auction. This benefits existing auctioneers. It holds down competition, thereby holding up final prices. The highest bids get higher.

The free market makes possible a pencil. It makes possible a lot more than pencils. Eric Beinhocker’s 2006 book, *The Origin of Wealth*, was published by the Harvard Business School Press. On page 9, he tells us that retailers of goods use ID markers for inventory control. These are called stock keeping units: SKU’s. He estimated that in the New York City region, the number of SKU’s was in the tens of billions. This did not include services. Yet no human being or committee guides the market process that delivers these goods to buyers.

I favor the free market. But I do not place my trust in it as Read did: in terms of man’s autonomy under a highly limited civil government. Civil governments never stay limited, once they are granted autonomy by the voters and the intellectuals. In contrast, I place my trust in God’s *delegated covenantal sovereignty* to individuals, families, churches, and civil governments. Christian economic theory is not humanism’s economic theory. It denies autonomy to the creation, including mankind.

I believe in the auction process as the best moral arrangement for creating wealth. I also think it is the most efficient (least wasteful) arrangement for the production and distribution of this wealth. Morality and efficiency are linked in God’s created social order.

This process governs the internationally known website, eBay. Every day, 24 hours a day, people offer goods for sale, and other people bid money to buy them. These goods are often used goods. They are one of a kind. There can be only one buyer. The rule is clear: *high bid wins*.

Everyone at an auction understands this rule. Everyone agrees to it in advance.

Here is an example. My wife purchased a used Viking sewing machine in 1976. It was a high quality machine. It was expensive despite being used. She bought it from a local high school. She used it until 2015. She got used

to it, just as skilled craftsmen do with their tools.

Then a part broke. She was told that this part was no longer being made, which was hardly surprising. To buy a new machine of comparable quality would have cost \$1,500, and it would have been computerized. She would have had to re-learn sewing. I suggested that she go on eBay and see if she could buy the same model and year. She found several for sale. She offered the top price to one seller: \$166, delivered to our door by UPS a few days later. The machine works fine. She kept a few spare parts off the old machine. She gave away the remainder to a local repairman. He will use it for parts. In this exchange, there were four winners. My wife is better off with the replacement machine. The woman who sold it was better off with \$145 after shipping. The local repairman got a donation. eBay received a commission. eBay changed the world in less than two decades. It did so because it is the largest organized auction in history. But the unorganized auction is vastly larger: the free market.

If you think through the auction process, you will understand the free market. Things that have confused you about the free market will no longer confuse you.

It gets better. When you read about some new economic development, you will have a mental strategy to make sense of it. You will be able to break it down into its component parts by asking this: "How would this work in an auction?" That is because the free market is an auction.

The auction is not autonomous. Other institutions provide the free market with moral support and even physical protection in the case of the state. This protection must be paid for by someone. There are no free lunches. This is why any discussion of the free market as if it were autonomous is incorrect. It is incorrect because it is incomplete. It relies on a concept of the free lunch, a distinctly non-economic concept.

The auction process has built-in sanctions: profit and loss. These sanctions provide feedback to market participants. This feedback sends one of two messages. The first is the message sent by profit: "Do more of the same." The second is the message sent by losses: "Stop doing whatever you have been doing." The feedback is accompanied by meaningful sanctions in the form of money or lack thereof: "black ink" or "red ink." *Analytically speaking, the profit-and-loss system is the distinguishing institutional feature of the free market.* This distinguishes the free market from all other institutional arrangements: *constant information feedback accompanied by mean-*

ingful sanctions. This is why we can analyze the free market as a functioning institution that has no central planning agency. It is a bottom-up system of sanctions that operates predictably. Customers apply the positive sanctions: purchases that benefit customers and sellers. The positive sanctions are in the form of money payments: profits. The negative sanctions are applied by the accounting system: losses. At some point, either the unprofitable seller changes or else the customers change. Otherwise, the unprofitable seller runs out of money.

What does every market transaction have? A buyer and a seller. Therefore, in each chapter, I cover both the buyer and the seller.

I also have a section in each chapter on how a pencil fits into the picture. Leonard Read began with a pencil. I follow through on this.

I keep the chapters short.

I cover 21 topics. These are short links in the chain of reasoning. They are not connected in an unbreakable order. But they are connected.

When you finish Part 1, you will have a better understanding of the free market than the vast majority of voters do.

1

I, PENCIL

Leonard E. Read (1958)

These are introductory remarks a 1964 reprint of the article in Read's book, *Anything That's Peaceful*.

As I sat contemplating the miraculous make-up of an ordinary lead pencil, the thought flashed in mind: *I'll bet there isn't a person on earth who knows how to make even so simple a thing as a pencil.*

If this could be demonstrated, it would dramatically portray the miracle of the market and would help to make clear that all manufactured things are but manifestations of creative-energy exchanges, that these are, in fact, spiritual phenomena. The lessons in political economy this could teach!

There followed that not-to-be-forgotten day at the pencil factory, beginning at the receiving dock, covering every phase of countless transformations, and concluding in an interview with the chemist.

Had you seen what I saw, you, also, might have struck up a warm friendship with that amazing character, I, PENCIL.

Being a writer in his own right, let I, PENCIL speak for himself:

I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.

Writing is both my vocation and my avocation; that's all I do.

* * * * *

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril.

For, the wise G. K. Chesterton observed, "We are perishing for want of

wonder, not for want of wonders.”

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that’s too much to ask of anyone—if you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, not a single person on the face of this earth knows how to make me. This sounds fantastic, doesn’t it? Especially when it is realized that there are about one and one-half billion of my kind produced in the U.S.A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there’s some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

Innumerable Antecedents

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness.

These are kiln dried and then tinted for the same reason women put rouge on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydroplant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation.

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon [Sri Lanka]. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involve the skills of more persons than one can enumerate!

Observe the labeling. That's a film formed by applying heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as "the plug," the part man uses to erase the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rapeseed oil from the Dutch East Indies [Indonesia] with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives "the plug" its color is cadmium sulfide.

No One Knows

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far-off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the type of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods

and services he needs or wants. I may or may not be among these items.

No Master Mind

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

It has been said that “only God can make a tree.” Why do we agree with this? Isn’t it because we realize that we ourselves could not make one? Indeed, can we even describe a tree?

We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and in the absence of any human masterminding! Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

The above is what I meant when writing, “If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing.” For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: a faith in free people. Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn’t know how to do all the things incident to mail delivery. He also recognizes that no other indi-

vidual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation's mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of faith in free people—in the unawareness that millions of tiny know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental “masterminding.”

Testimony Galore

If I, Pencil, were the only item that could offer testimony on what men and women can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it's all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person's home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one's range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.

For a short video on how pencils are made, using old technologies that are still in use, go here:

bit.ly/PencilVideo

2

PROVIDENCE AND PENCILS

He is the image of the invisible God, the firstborn of all creation. For by him all things were created, in heaven and on earth, visible and invisible, whether thrones or dominions or rulers or authorities—all things were created through him and for him. And he is before all things, and in him all things hold together (Colossians 1:15–17).

Analysis

The Apostle Paul made it clear that God the Son created the universe. The passage identifies Him as the God of creation in Genesis 1. This is definitive: “And he is before all things, and in him all things hold together.” This is the source of all coherence. This is the origin of all cause and effect. This is the Christian doctrine of God’s providence. He not only created the universe, He sustains it, moment by moment.

This biblical doctrine rests on the biblical doctrine of God’s creation of the universe out of nothing. The universe was not an emanation out of God’s being. It was also not formed out of pre-existing stuff. As surely as the nothing preceded the Big Bang, nothing preceded God’s creation of the universe. As surely as cosmologists cannot answer the question, “What preceded the Big Bang?” and therefore they dismiss it, so creationists dismiss the question “How can something come out of nothing?” It is a variation of the child’s question: “Who created God?” It is this: “Who created the stuff that went ‘bang’?” When we come to the question of cosmic origins, the evolutionary cosmologists and the Christians creationists cannot answer a question that children raise. Origins are scientifically and logically unexplainable.

The difference between the Darwinian evolutionists and the Christians is profound. It is the question of purpose. The Darwinist denies that there was any purpose in the universe directing evolution. The Christian cre-

ationist begins with the assumption of God's purpose as preceding the creation. There is no logical way to reconcile these worldviews. They are at war with each other. On this point, read Chapter 51: "Design vs. Darwinism."

There have always been multiple theories regarding the source of the coherence of the universe. By far the most important non-Christian theory in modern times is the doctrine of evolution through natural selection. It was made famous by Charles Darwin in his book, *On the Origin of Species by Means of Natural Selection, or the Preservation of Favoured Races in the Struggle for Life*, which was published in November 1859. He offered a theory of biological evolution that did not rely on any doctrine of God or cosmic purpose. He was not the first evolutionist, by any means. But he and his co-discoverer Alfred Russel Wallace, in 1858, were the first to attribute biological evolution to natural selection: the purposeless process of the cosmos. They did this in a little-known academic journal. Their articles, received no attention. A year later, Darwin's book did.

Darwin got this idea from a contemporary of Adam Smith, Adam Ferguson. Smith and Ferguson were friends. They were participants in what today is called the Scottish Enlightenment. Ferguson wrote a book, *An Essay on the History of Civil Society* (1767). In Section II, "The History of Political Establishments," Ferguson wrote this: "Every step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design." Therefore, no human being looked into the future to design institutions. Ferguson did not use the word "evolution," but this is the meaning of his sentence. It offered a theory of unplanned social evolution. Darwin took this idea of unplanned social evolution, and he applied it to biological evolution. This was the opinion of F. A. Hayek, the libertarian social theorist and Nobel Prize-winning economist. He offered this opinion in an essay published exactly two centuries after Ferguson's book: "The Results of Human Action but not of Human Design" (1967). He was not the first scholar to hold this view of Ferguson's social evolution as the original source of Darwin's theory of evolution through natural selection.

Smith adopted Ferguson's theory to explain economic order in his 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*. He spoke of an invisible hand as guiding economic processes. He had also invoked the invisible hand in his 1759 book, *The Theory of Moral Sentiments*.

Smith was a deist. He believed in God's providence. He wrote of the economic decisions of rich people:

They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition (*Theory of Moral Sentiments*, Bk. IV, Chap. 1, Para. 10).

In stark contrast to his earlier invocation of a providential invisible hand, Smith never mentioned providence in *Wealth of Nations*. Here, the invisible hand was a mere metaphor.

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention (Bk. IV, Chap. 2, Para. 9).

He has been followed in this by virtually all free market economists. They attribute the orderliness of the free market to autonomous forces within the free market.

This is the background to Leonard E. Read's essay, "I, Pencil." Read was not an atheist. He was a believer in evolution. He spoke of God with a capital G. He believed in a spiritual realm. But he did not invoke God's providence as the source of economic order.

I worked for Read from September 1971 to late 1972. I had many opportunities to speak with him. He told me this story. He said that he got many of his ideas for articles in his dreams. A woman appeared to him in these dreams and gave him suggestions. When he wrote down each suggestion the next day in his daily diary, he ended the summary with this: RSVP. This is the acronym for a French phrase, “répondez, s’il vous plaît,” meaning “please reply.” He told me that this was his invitation to her to visit him in another dream. He was a mystic. He was no atheist. But it is not easy to determine from his writings what his idea of god was. It was closely associated with human creativity. But he attributed much of his own creativity to a spirit that appeared to him in his dreams.

Milton Friedman won the Nobel Prize in economics. In an introduction to a later reprinting of “I, Pencil,” he wrote this:

Leonard Read’s delightful story, “I, Pencil,” has become a classic, and deservedly so. I know of no other piece of literature that so succinctly, persuasively, and effectively illustrates the meaning of both Adam Smith’s invisible hand—the possibility of cooperation without coercion—and Friedrich Hayek’s emphasis on the importance of dispersed knowledge and the role of the price system in communicating information that “will make the individuals do the desirable things without anyone having to tell them what to do.”

Friedman was commenting on Read’s discussion of market processes as unplanned. But Read also spoke of the market as a miracle. Friedman and other economists who appreciate Read’s essay do not use such language to describe the market process—not even Israel Kirzner, who is an Orthodox Jewish rabbi and a follower of Ludwig von Mises.

In the following presentation, I contrast Read’s description of the free market with my own. I am a providentialist. Read was not. I explain market order as the product of God’s absolute sovereignty and human beings’ full responsibility. The free market is not autonomous. Read did not think so, either. But “I, Pencil” is a defense of what appears to be an autonomous market, bounded only by a limited civil government to protect private property.

A. Miracle

Point one of the biblical covenant is God's transcendence, but also His presence. How does this relate to Read's concept of miracle?

How should we conceive of the free market? As something miraculous or as something predictable? As something unexplainable or as something explainable? As something providential or as something autonomous?

1. Read

In his 1964 introduction, he spoke of "the miracle of the market." In the 1958 essay, he wrote this:

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask of anyone—if you can become aware of the miraculousness that I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Read spoke of the pencil as representative of a process: "the miraculousness that I symbolize." This is the basis of the power of the essay. But there is an inherent problem with this description of the market as a miracle. It reverses the meaning of the word "miracle." A miracle is a rare, unexpected deviation from the expected. It interrupts familiar processes in our lives.

This is why atheists do not use the word. It implies that someone with consciousness has intervened into the laws of nature or the laws of society. *A miracle is a personal God's violation of a seemingly impersonal series of events.* The atheist speaks of a random event or the appearance of something statistically odd. He may speak of something not yet explained. But he does not speak of a miracle. Read did.

The market is a continuous process, as Read described it. In this sense, there is nothing miraculous about the market. Its results are amazingly predictable. We go to a store and expect to find just the product we are looking for. We are surprised when the store is out of stock. "What's this? An empty row on a shelf!" Why are we surprised? Because this rarely happens.

This is why secular economists do not speak of the miracle of the market. They see the market as reliable, predictable, and routine. But Read saw it as a miracle.

2. North

I believe in miracles. I agree with the Roman Catholic layman and writer, G. K. Chesterton: “The believers in miracles accept them (rightly or wrongly) because they have evidence for them. The disbelievers in miracles deny them (rightly or wrongly) because they have a doctrine against them.” Secular economists have a doctrine against miracles. Almost all economists are secular.

The market is a process governed by law. This is a law-order. It is coherent. It is part of a system of laws. This law-order is comprehensive: personal (God), providential (God), judicial (civil law), and self-reinforcing (feedback from endogenous, built-in market sanctions). There may be an occasional miracle, but this is supplemental to the market process. God’s gracious miracles have impact in our lives because of the regularities in our lives, including the regularities of the market. In this sense, *miracles have leverage*. The regularities of our lives amplify the positive impact of miracles.

The free market is the result of societies that honor and enforce God’s ethical laws, such as the laws protecting private property. These laws are covenantal. They govern the individual covenant, the family covenant, the church covenant, and the civil covenant. There are negative sanctions against thieves. These sanctions are institutional. They are also eschatological: the final judgment. So, they are individual. They are also institutional. How can they be both? Because they represent the Trinity, who is both one and many.

The market is not autonomous. Only God is autonomous. God makes His own laws. He also makes laws governing the cosmos. The world is under God’s law-order.

B. Mystery

Point two of the biblical covenant is man’s authority under God’s sovereignty. How does this relate to Read’s concept of mystery?

We live in a predictable world. We have routines. These routines work. We survive. Yet we understand little of the world around us. How can we make sense of its mysteries? After all, they are mysteries. How can we ac-

curately describe the effects of mysteries? How can we explain mysteries and their innumerable interactions with the world we do understand, or think we understand? How can we exercise dominion if we do not understand the world around us?

1. Read

The pencil speaks.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril. For, the wise G.K. Chesterton observed, “We are perishing for want of wonder, not for want of wonders.”

Chesterton believed in the God of the Bible. He wrote a book on theology, *Orthodoxy*. He died in 1936. When he spoke of wonder, he meant the wonder of a God-created world. He believed in providence and miracles. He dismissed wonders as marginal. These are the wonders of modern inventions. He instead focused on wonder.

Read correctly saw that the free market is a wonder, but he did not believe in the providence of God. He did not think that the generally unknown and generally unrespected processes of the market order were designed by God and implemented by God when He laid down His laws. He did not think that the internal sanctions of the market order—profit and loss—were designed. He respected these processes. He was in awe of these processes. But he was not in awe of God.

The genius of Read’s essay is that he went from the simple to the complex. A pencil seems simple, but it is the product of an enormously complex institutional arrangement: the free market. He wrote this: “Simple? Yet, not a single person on the face of this earth knows how to make me. This sounds fantastic, doesn’t it?” It does. But when you finish the essay, it doesn’t. That is why it is a great essay.

A pencil would be a mystery if it were not the product of the free mar-

ket. It would be more than a mystery. It would be a miracle. Yet it is commonplace. This is an amazing fact, but only if you do not understand the market process.

2. North

The Bible teaches that we must start with what is simple and work to the complex. That is why God told Adam to name the animals of the garden before he began to exercise dominion over the garden, let alone the world outside the garden. The Bible also teaches the idea that the created realm represents God. Paul wrote:

For the wrath of God is revealed from heaven against all ungodliness and unrighteousness of men, who by their unrighteousness suppress the truth. For what can be known about God is plain to them, because God has shown it to them. For his invisible attributes, namely, his eternal power and divine nature, have been clearly perceived, ever since the creation of the world, in the things that have been made. So they are without excuse (Romans 1:18–20).

This is why Read's strategy of beginning with a simple pencil was a stroke of genius. It honors the biblical principle of representation: point two of the biblical covenant.

The universe is a mystery to us. It is not a mystery to God. God is omniscient. He understands everything exhaustively. Nothing surprises God. So, people do not need to understand the world exhaustively in order to understand it accurately. There are degrees of understanding among mankind. There are appropriate levels of understanding, person by person. Most of all, *there is an intellectual division of labor*. The free market lets us buy access to highly decentralized but accurate knowledge. It also provides economic incentives for people to sell their information.

The fact that market participants understand almost nothing about its operations is not an argument for central planning by government bureaucrats. The fact that the market is a mystery to men is not an argument against it. Nevertheless, it has proven difficult for defenders of the free market's legitimacy to persuade the common man, the common politician, and the common Keynesian economist of this fact. They all want order. They are afraid to trust in mystery to provide this order. Instead, they trust

state bureaucrats and central bankers to provide top-down economic interventions to provide missing elements of order. This is how they understand order.

The Bible teaches clearly that there is a top-down economic order. All order is top-down. God is sovereign. He is transcendent. He is on top. He is the Creator. He is the Sustainer. He is the final Judge. But these are not arguments for socialism. The Bible teaches covenant theology. There is a cosmic hierarchy. Man is second in command under God. He has access to reliable general laws. These laws are revealed in the Bible. When individuals are self-governed by these Bible-revealed laws, they generally prosper. (Job was an exception temporarily.) The same is true of families, churches, and civil governments. The same is true of businesses, which are contractual, not covenantal.

In a covenantally faithful social order, order is bottom-up as well as top-down. Society is governed by three hierarchical systems of courts: family, church, and state. Most authority is initiated locally in each legal system. Difficult cases are appealed up two of these court systems: church and state. (Baptists and independents say that only one government has an appeals court: civil.) The Bible teaches this in Exodus 18: Jethro's advice to Moses about creating a bottom-up civil court system. So, the fact that there are mysteries does not mean that we should not trust the Bible's mandated bottom-up multiple court systems. We have access to biblical law. This is what God teaches. "The secret things belong to the Lord our God, but the things that are revealed belong to us and to our children forever, that we may do all the words of this law" (Deuteronomy 29:29). What could be more clear?

Biblical law sets up an economic system based on private property. The laws of the market process are therefore reliable and trustworthy. Mystery is not a threat to covenant-keepers. God protects covenant-keepers from the effects of destructive mysteries. "And we know that for those who love God all things work together for good, for those who are called according to his purpose" (Romans 8:28). Covenant-breakers are not called according to His purpose. They are in rebellion against God. So, they are tempted by the lure of the idea of a sovereign civil government that replaces God at the top of the social order. This is the lure of socialism. The Bible mandates a rival economic order, one based on self-government under God's Bible-revealed laws.

C. The Auction Process

Point three of the biblical covenant is ethics. This is related to law. How does this relate to Read's concept of the unseen regularities of the free market?

Central to the free market are markets for information. This is the main theme of Read's essay. How is it, he asks, that a pencil comes into existence despite the fact that no one knows how to make one? The answer is the market for highly specialized information. Knowledge is widespread. Highly specialized knowledge is possessed by billions of people. How can people who do not possess this knowledge get access to it? The answer is this: the free market.

1. Read

He wrote about this in this section: "No One Knows."

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far-off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the type of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a byproduct of petroleum.

These people are not in direct contact with each other. How can they gain access to the specialized knowledge that they all need? Through the free market.

Here is an astounding fact: neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants

me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

This is an astounding fact to those who have never thought about this. Read does not describe how each person gains access to the knowledge he needs. The main source is the price system, which Read does not discuss here. People can buy information or products with money. They use prices to guide them.

The free market economist F. A. Hayek wrote about this in a 1945 article, “The Use of Knowledge in Society.” But Read’s discussion drove home the point far more graphically.

Read invoked the invisible hand. He capitalized it.

There is a fact still more astounding: the absence of a mastermind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

Adam Smith did the same, twice: in 1759 and 1776. In *Wealth of Nations*, he did not explain what this Invisible Hand is or how it works. Neither did Read. Both of them expected their readers to exercise faith in the market process—faith in mankind—not faith in a providential God.

The above is what I meant when writing, “If you can become aware of the miraculousness that I symbolize, you can help save the freedom mankind is so unhappily losing.” For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive masterminding—then one will possess an absolutely essential ingredient for freedom: a faith in free

people. Freedom is impossible without this faith.

This is a religious statement of faith. But secular economists do not see this as a religion. They see this as strictly logical. They reject Smith's deism and Read's mysticism. They are naive.

2. North

Each person possesses unique knowledge. This knowledge is dispersed in society. The key question is this: "Can we trust the free market process of price setting to provide us with the knowledge we need?" Next question: "Does this knowledge benefit society?" It benefits individuals, or else they would not sell their ideas for money. But what about in the aggregate? Humanistic free market economists cannot legitimately say, even though they do say. Free market economics rests on the assumption that individuals can judge best what they want and how much to pay. But there is no logical way to jump from the individual to society, given the theoretical foundation of free market economics: methodological individualism. This limitation does not hamper Christian economics. Christian economists have a theoretical foundation justifying their God-given ability to draw conclusions regarding collectives: God's law. This law is part of a coherent law-order for all of society, not just for economics. Knowledge is both individual and collective, just as the Trinity is. God knows everything. He holds this knowledge as part of a covenantally integrated order. This is a created order. It is personal.

D. Creativity

Point four of the biblical covenant is sanctions. How does this relate to Read's theory of creativity?

The central figure in a free market economy is the entrepreneur. He discovers ways to serve customers. He is the source of creativity. He is guided by the lure of profit. Profit is the positive sanction derived from the decisions of customers to buy. Profit-and-loss accounting guides the market process.

Read

The pencil speaks.

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles that manifest them-

selves in nature an even-more-extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and in the absence of any human masterminding! Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

This happens naturally and spontaneously, he said. Adam Smith said the same thing. But is this accurate? Men naturally fight against each other. They naturally kill each other. They naturally steal. They organize to get the state to steal on their behalf. These are negative sanctions. Isn't this also natural?

The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.

This takes faith to believe. Most people have trouble understanding the theology of this faith. Read did not make clear the foundations and details of this theology.

North

God is originally creative. Man is subordinately creative. This creativity is inherent in people. It is the dominion covenant in action. It defines mankind. This faith has been taught by Christians and Jews. It rests on the testimony of Genesis 1:26–28. *The case for freedom in the case for personal responsibility before God.* Responsibility means to be under God's sanctions. God holds all people responsible to exercise dominion. He has allocated property to specific people and institutions in specific time periods. To exercise this God-given assignment faithfully, each person needs liberty.

To whom is man responsible? To God. But secular economists deny this. They leave God out of their theories. Covenant-breaking men then search for this missing god. Most of them in my day conclude that the state is God. It is the highest court of appeal. They conclude that people are responsible to the state and its designated agents. They fear negative state sanctions. The only other plausible source of sovereignty is the unregulated free market. This is pure anarchism.

Almost no one has ever held this position.

Creativity involves finding solutions to existing problems. This discovery process is not understood. Even people who come up with solutions do not know how they do it. Entrepreneurs somehow imagine what they think are below-market costs for future solutions. It takes great faith to trust a supposedly impersonal universe, a supposedly impersonal free market, and autonomous entrepreneurs to keep coming up with workable, cost-effective solutions to billions of problems. This is not a commonly held faith.

In contrast, Christianity teaches that God is aware of all of these problems and their solutions. Men are not. But men do not live in a random universe. They live in a universe in which God is totally sovereign. God can and does help people find cost-effective solutions. It does not require an enormous leap of faith for Christians to accept the premises of continuing creativity in human affairs. When Christians learn how biblical law was designed by God to promote creativity through private property, they can accept what Read called a miracle: a coherent market order that enables people to achieve their personal goals by becoming creative in a system favoring voluntary exchange.

E. Capital

Point five of the biblical covenant is inheritance. It has to do with the extension of the kingdom of God in history. How does this relate to Read's discussion of capital?

Capital is the combination of raw materials—land and labor—over time. The time factor is crucial. Capitalism is well-named. It is a system of private ownership that encourages capital formation, which in turn favors economic growth.

1. Read

Read visited a pencil factory in preparation to write his article. It

amazed him.

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

Without thrifty investors, there would have been no factory and no low-cost pencils. But Read did not say anything more about thrift. He did describe the tools of production.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

Read described the structure of production. He also described the structure of delivery, i.e., distribution.

Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person's home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one's range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

It takes capital to accomplish this. Read did not discuss the stock mar-

ket, the bond market, or the banking system that allow entrepreneurs to raise capital. That was not the focus of his essay. He wanted to convey two things: the complexity of the task of manufacturing and then delivering a pencil to a buyer, and the fact that no one knows how to do this. Only through market coordination can this be done.

2. North

Point five of the biblical covenant is inheritance. Each generation is supposed to leave more behind to heirs than it inherited. “A good man leaves an inheritance to his children’s children, but the sinner’s wealth is laid up for the righteous” (Proverbs 13:22). This mandates economic growth: compounding. It therefore mandates capital accumulation. Christians who believe this are future-oriented. They are willing to save at interest rates lower than present-oriented people. This helps transfer wealth to them over time.

And the Lord will make you abound in prosperity, in the fruit of your womb and in the fruit of your livestock and in the fruit of your ground, within the land that the Lord swore to your fathers to give you. The Lord will open to you his good treasury, the heavens, to give the rain to your land in its season and to bless all the work of your hands. And you shall lend to many nations, but you shall not borrow (Deuteronomy 28:11–12).

F. Creativity and Responsibility

Read’s article is about creativity. Read defends liberty in the name of creativity. I defend it in the name of responsibility: before God, before conscience, and before other people. The biblical goal is to build the kingdom of God in history (Matthew 6:33). This takes capital. It takes time. It takes people who are willing to accept added responsibility.

Ownership fosters both creativity and responsibility. God is the original owner. He is creative. His creativity is the model. He is also responsible: to Himself. “If we are faithless, he remains faithful—for he cannot deny himself” (II Timothy 2:13).

1. Ownership and Creativity

A person looks around and sees how a few things work. He concentrates on one extremely narrow sector of the market. He sees the economic results

of the status quo: legal, economic, and cultural. He sees that some people write things down on paper. Even in the age of computers, they still use pencils. Until the advent of word processing in the late 1970s, pencils possessed a unique advantage for writers: erasers. Apart from the expensive IBM Selectric III, typewriters did not. Pens did not. School children learned how write using pencils. They still do.

There is a popular American phrase: "Build a better mousetrap, and people will beat a path to your door." Two things pose a challenge to this assertion. First, there has been no commercially successful improvement in the design of mousetraps since 1897. Over 4,400 American patents for mousetraps have been issued since 1838. Only one is remembered: the 1897 "little nipper." Second, I quote Mac Ross, a great marketer. "If you build a better mousetrap, but you fail to allocate money for marketing, you will die alone and broke with a garage full of mousetraps."

The same is true of pencils. Read's "I, Pencil" article works well because just about everyone recognizes a pencil. Pencils are universal. This is another way of saying that a pencil is a traditional product. It is as difficult to break into the market for pencils as it is to break into the market for mousetraps. What unique selling proposition could anyone come up with for a new pencil? Pencils are pretty much the same. Brand loyalty may not be strong, but it is stronger than switching to a brand-new brand of pencils. How could a new company break into this stable market? Most people would avoid entering this market as a producer.

But maybe there is an unseen opportunity here. This is why successful entrepreneurship makes a few people rich. Competitors do not see the opportunity. It may be an opportunity to lose money, but it may also be an opportunity to make money. It begins with an idea: "I can do this better." "Better" may mean cheaper. It may mean technologically advanced. It may mean more exciting. Above all, it means more profitably.

Economics teaches the law of scarcity: "At zero price, there is greater demand than supply." This is the definition of a scarce resource: greater demand than supply. But sometimes a valuable idea is a free resource. This is because no one wants to pay for it. If no one ever pays to put a new idea into production, it will have no effect on the market. It will remain only as a dream or an obsession in the mind of the discoverer.

The person who comes up with his innovation may choose to patent it. This may not work as a strategy for making profits. Patent infringement is

widespread. Some infringers have expensive lawyers on retainer. Profitable patents must be defended in courts.

The person may have to raise funds. He can borrow money. He will retain ownership of the idea, but he will owe money. Or he can sell partial ownership of the idea, but he will be less rich if the idea turns into a winner in the market. He can also try to sell the idea to a manufacturer or venture capitalist. Or he can fund production out of his own resources. This is all about ownership. Who owns what? On what terms? For how long?

2. Ownership and Responsibility

The great motivation for innovation has to do with ownership. Necessity is not the mother of most inventions. Other goals have proven far more effective in bringing new products to market. Who will have his name on it? Who will get rich? Who will negotiate the terms of sale to a huge conglomerate? Who will leave a legacy? In short, there are goals associated with inventions. These goals are part of an inventor's purposes.

When you have an idea, you get to dream big. You get to set personal goals that are associated with your big idea. Some innovators are willing to risk a great deal to achieve goals they have selected as their primary goals in life. I say "risk," but I mean "bear uncertainty." They are willing to sacrifice time, money, relationships, and other goals in order to attain specific goals that are high on their list of priorities.

A goal always has a cost associated with its fulfilment. Jesus warned:

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish' (Luke 14:28–30).

The owner bears the cost. He has an opportunity for gain, but he necessarily also has an opportunity for sustaining a loss. These are economic sanctions, not legal sanctions. Ownership is primarily a legal category, not an economic category. It identifies the person who must bear negative sanctions for breaking the civil law. The economist is normally concerned with economic sanctions imposed by the free market rather than legal sanctions imposed by the state.

In terms of motivation, the owner has greater incentive to pay attention to details than anyone else. He will reap profits or suffer losses. This means that the owner is the most likely decision-maker to pay in order to gain knowledge that is associated with the production and distribution of a particular product or service.

Conclusion

Read's essay raises that crucial question: "What is to be done?" That is why it is a good essay.

How are we supposed to further the free market social order? If we need more liberty, how can we get it? Through politics. Through legal education. Through formal education generally.

1. Read

He ended the essay with a call to action.

The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society's legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth.

This sounds good, but how can it be achieved? He offered one vague sentence: "Let society's legal apparatus remove all obstacles the best it can." Who should design this legal order? Who is trustworthy? How should it be done? Read showed how no one designed the free market. How can he logically call on readers to design the legal system that enables the market to operate? He implies that these creative know-hows are not always permitted by the state to do their work. How can his readers change politics in order to make creativity legal? He did not say. He never said in 50 years of writing. He did not trust political action. But political action is what changes a law from "not permitted" to "permitted."

2. North

There are four covenants that people publicly affirm: individual, family, church, and state. They all are marked by law: point three of the biblical covenant. All four must be reformed if we are to benefit from the market order, as described in “I, Pencil.” But in that essay, we are not told what to do or how to do it. There is no discussion of reform.

It has to start with the adoption of a replacement blueprint for society. Read did not offer such a blueprint in this essay or in any other. He dismissed social blueprints. But blueprints are inescapable concepts. It is never a case of blueprints vs. no blueprints. It is always a question of which blueprint.

The free market is just as effective in producing wealth as Read indicated. People do not understand how it works. Read did not discuss the basics of how it works: pricing, interest rates, capital markets, money, labor markets, and so forth. That was not necessary. He showed how the division of intellectual labor makes possible mass production of goods that could hardly be produced one at a time. He showed how the coordination of millions of people’s efforts is accomplished without central panning. Even his one example of government planning is today almost dead: the government-run mail service. Email and overnight delivery have eliminated the mails except for government subsidized advertising: “junk mail.” Catalogues arrive in our mail boxes. Not much else does.

The problem with Read’s essay is that it is not grounded in cause and effect beyond the market itself. The absence of grounding makes the free market order vulnerable to intervention by the state: political coercion. Read invoked mystery and miracle. But most people want to believe that something other than individual decisions holds together the social order. They want to believe in design. They are not Darwinian evolutionists. When they get into big trouble, they pray. Or maybe they appeal to the civil government for aid. They do not trust their own efforts or the efforts of their neighbors. *There is no providence in Read’s system.* People want to believe in God’s providence. Free market economists reject the concept out of hand. They want the market’s invisible hand to guide things. Read wrote this:

There is a fact still more astounding: the absence of a master-mind, of anyone dictating or forcibly directing these countless

actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work. This is the mystery to which I earlier referred.

But there is no Invisible Hand. It is a just a metaphor. Few people will trust their lives to a metaphor, nor should they.

3

PURPOSE PRECEDES PLANNING

Then God said, "Let us make man in our image, after our likeness. And let them have dominion over the fish of the sea and over the birds of the heavens and over the livestock and over all the earth and over every creeping thing that creeps on the earth." So God created man in his own image, in the image of God he created him; male and female he created them. And God blessed them. And God said to them, "Be fruitful and multiply and fill the earth and subdue it, and have dominion over the fish of the sea and over the birds of the heavens and over every living thing that moves on the earth" (Genesis 1:26–28).

For God knows that when you eat of it your eyes will be opened, and you will be like God, knowing good and evil" (Genesis 3:5).

But seek first the kingdom of God and his righteousness, and all these things will be added to you (Matthew 6:33).

Analysis

The economic principle of purpose before planning is an implication of point one of the biblical covenant: God's transcendence, yet also His presence. It has to do with sovereignty.

Sovereignty is a legal classification. In economics, it refers to ownership. God was the Creator.

He created the world out of nothing. He did not purchase or rent the "stuff" of creation. Rather, He spoke it into existence. So, He is the cosmic Owner. The owner possesses sovereign control over his property. In God's case, He possesses absolute control.

The New Testament teaches the doctrine of the Trinity. This means three Persons, yet one God. Paul identified Jesus, the Incarnation of the second Person of the Trinity, as the creator.

He is the image of the invisible God, the firstborn of all creation. For by him all things were created, in heaven and on earth, visible and invisible, whether thrones or dominions or rulers or authorities—all things were created through him and for him. And he is before all things, and in him all things hold together. And he is the head of the body, the church. He is the beginning, the firstborn from the dead, that in everything he might be preeminent. For in him all the fullness of God was pleased to dwell, and through him to reconcile to himself all things, whether on earth or in heaven, making peace by the blood of his cross (Colossians 1:15–20).

What about purpose? There was purpose before the creation, Paul wrote. God then implemented His purposes by means of a plan.

Blessed be the God and Father of our Lord Jesus Christ, who has blessed us in Christ with every spiritual blessing in the heavenly places, even as he chose us in him before the foundation of the world, that we should be holy and blameless before him. In love he predestined us for adoption to himself as sons through Jesus Christ, according to the purpose of his will, to the praise of his glorious grace, with which he has blessed us in the Beloved (Ephesians 1:3–6).

This is a clear passage that reveals the biblical economic principle that purpose precedes planning. God had a purpose for mankind before the creation. He had a purpose for the select/elect portion of mankind before there was mankind.

God announced: “Let us make man in our image, after our likeness. And let them have dominion over the fish of the sea and over the birds of the heavens and over the livestock and over all the earth and over every creeping thing that creeps on the earth.” This was His purpose for mankind. This defines man. This is the dominion covenant. It establishes the judicial foundation for the four other covenants: individual, familistic, ecclesiastical, and civil.

God announced this before He created Adam and Eve. Their lives would be an unearned gift. That is to say, their creation would be an act of God’s grace. Only after the gift of life did God impose a law: do not eat of a spe-

cific tree (Genesis 2:17). This establishes a foundational principle of biblical interpretation: *grace before law*.

Man is made in God's image. Therefore, what applies originally to God applies derivatively to men. Men have purposes because God first had purposes. He is the model. He is personal, not impersonal. He has purposes as well as plans. So does man. *Purpose precedes planning*. Man is a creature.

The covenantal battle began when the serpent presented an alternative view of man's destiny. By disobeying God by eating from the forbidden tree, Adam and Eve would become as God, the serpent promised. That is always the ultimate temptation: to be as God independent of God and in disobedience to God. This is the lure of autonomy: to make the laws for oneself and then exercise dominion for oneself.

Autonomy is the assertion of man's place at the top of the cosmic hierarchy. It is an assertion of man's original creativity. The Bible says that God created the heaven and the earth (Genesis 1:1). Covenant-breaking men deny this. Nature is said to be autonomous. Out of nature came man. Now man is in charge. Why? Because he alone has purposes. This is the theology of Darwinism. Mankind evolved in a purposeless universe. Every man has purposes. His purposes are marks of his divinity: divinity by default. I have discussed this theology in Appendix A of my book, *Sovereignty and Dominion: An Economic Commentary on Genesis*. The appendix is titled, "From Cosmic Purposelessness to Humanistic Sovereignty." (<http://bit.ly/gngenv2>)

When covenant-breaking man ascends to the throne of sovereignty, he has rivals: other men. The war over sovereignty never ends. The grand prize is this: power. This is the supreme purpose of covenant-breaking man. He wants to exercise power on his terms, his laws. He wants to establish the covenants as the creator. He wants to imitate God. Therefore, what would be man's position as an intermediary between God and nature becomes man's authority over nature. But since men are part of nature, power necessarily involves authority over other men. Leaders need followers. Rulers need servants.

But Jesus called them to him and said, "You know that the rulers of the Gentiles lord it over them, and their great ones exercise authority over them. It shall not be so among you. But whoever would be great among you must be your servant" (Matthew 20:25–26).

When man asserts autonomy, he thereby asserts a transfer of the covenantal categories of transcendence and presence, which are exclusively God's, to mankind. In other words, the categories of point one are shifted to point two: hierarchy. For example, God's ownership is the product of His creation of the universe. In humanistic economics, original ownership is shifted to mankind. Some humanists argue that the state is the sovereign owner. Free market economists assert that individuals are sovereign self-owners. All are agreed that God is not the owner. They ignore this fact in their economic analyses: God has delegated ownership to individuals and institutions. Their ownership is derivative and temporary. For humanists, point two of the biblical covenant, hierarchy, becomes point one: sovereignty. This is the inescapable implication of the doctrine of man's autonomy. Trusteeship becomes original ownership.

Jesus told His listeners to seek first the kingdom of God. He also said that there are positive sanctions in history associated with this endeavor: "all these things will be added to you." As surely as God's kingdom has covenantal authority in history, so do the kingdom-pursuing plans of covenant-keepers. Covenant-keepers are required to formulate their personal plans in terms of building God's kingdom in history.

A. God's Plan, Men's Purposes

God has purposes. We do not know most of them. He has plans. We do not know most of them. "The secret things belong to the Lord our God, but the things that are revealed belong to us and to our children forever, that we may do all the words of this law" (Deuteronomy 29:29).

God brings His plans to pass through men's purposes. "The king's heart is a stream of water in the hand of the Lord; he turns it wherever he will" (Proverbs 21:1).

Changes in covenantal administration take place through God's intervention in history.

God had a purpose for Noah.

Now the earth was corrupt in God's sight, and the earth was filled with violence. And God saw the earth, and behold, it was corrupt, for all flesh had corrupted their way on the earth. And God said to Noah, "I have determined to make an end of all flesh, for the earth is filled with violence through them. Behold, I will

destroy them with the earth (Genesis 6:11–13).

He had a plan: a blueprint for an ark. “Make yourself an ark of gopher wood. Make rooms in the ark, and cover it inside and out with pitch. This is how you are to make it” (vv. 14–15a). Noah obeyed. But he initially had no plan to implement God’s command and blueprint. He had to do this within the limits of existing technologies and capital. This was a change in covenant, marked by a rainbow (Genesis 9:12–13).

God had a plan for Abram. He called Abram out of Ur of the Chaldees.

Now the Lord said to Abram, “Go from your country and your kindred and your father’s house to the land that I will show you. And I will make of you a great nation, and I will bless you and make your name great, so that you will be a blessing. I will bless those who bless you, and him who dishonors you I will curse, and in you all the families of the earth shall be blessed” (Genesis 12:1–3).

Abram was wealthy. His wealth was mobile: gold, silver, and flocks (Genesis 13:2). Mobility was important for his obedience. He could move easily. He had no plan, but he could buy what he wanted along the way. He had money and sheep to barter. He would have capital when he arrived at Canaan. His purpose was God’s purpose. In Canaan, God launched a new covenant (Genesis 15, 17).

God called Moses out of his comfortable life in the desert as a herdsman. He gave him a new responsibility as a leader in a new hierarchy. Moses would now represent God. Pharaoh represented Egypt’s divinities. There were two covenants involved: God’s and Pharaoh’s. There were two hierarchies. The exodus made it clear which hierarchy was God’s. But God did not give the details of His plan to Moses at the beginning. God started a new covenant with Israel (Exodus 19). It established a new law-order (Exodus 20–23).

The next covenantal transformation was through Jesus. Jesus had a purpose. This purpose had existed before the foundation of the world (Ephesians 1:3–6). Jesus also had a plan. It was God’s plan. Jesus had understood this plan as a young man. He told His parents: “Why were you looking for me? Did you not know that I must be in my Father’s house?” (Luke 2:49). This is the only information we possess about His youth.

God has purposes. He has a plan. He has a decree. His decree is in per-

fect conformity to God's purposes and plan. Nothing can prevent the implementation of His decree (Isaiah 45:1–13). Men's individual purposes and plans exist within the confines of God's decree. God is sovereign. Men are not (Job 38–42).

B. Purposeful Action in Economic Theory

Jesus did not present to His listeners a comprehensive plan for their lives. He was specific regarding their purposes. The context of His command was this: "No one can serve two masters, for either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve God and money" (Matthew 6:24). The King James translation is more accurate: "Thou cannot serve God and mammon." What was mammon? It was more than money. It was a way of life: "more for me in history." This goal is inherently suicidal, Jesus said. "What will it profit a man if he gains the whole world and forfeits his soul? Or what shall a man give in return for his soul?" (Matthew 16:26).

By placing the kingdom of God at the center of his thinking, a covenant-keeper establishes his priorities. God's kingdom is at the top of his list. This is hierarchical, which points to point two of the biblical covenant. But the key to understanding this passage is its theocentrism. God is to be at the center of our thinking. More than this: His kingdom is to be at the center. The mystic has it wrong. The monk has it wrong. Christianity is about God and His kingdom in history. To the extent that personal mysticism or prayer bottles up the expansion of kingdom of God, to that extent it is a false goal.

The economic issue is this: purposeful action. Ludwig von Mises placed this at the center of his economic theory. More than any other economist, Mises relied on the explanation of purposeful action to explain, first, economic decision-making, and second, the interdependence of economic causation and economic theory. The opening words of Part I, Chapter 1 of *Human Action* (1949) make this clear.

Human action is purposeful behavior. Or we may say: Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life. Such paraphrases may clarify the definition given and

prevent possible misinterpretations. But the definition itself is adequate and does not need complement of commentary.

This is why Austrian School economics is closer to Christian economics than any other school of economic opinion. Mises was a Darwinist and a follower of Immanuel Kant. Most economists are followers of Darwin and Kant. Murray Rothbard was an exception. He was a follower of Thomas Aquinas. He believed in natural law and natural rights. Few economists agree with him. What made Mises unique was his commitment to personal responsibility for the outcomes of human action. He placed the autonomous individual at the center of his analysis.

He argued that the intervention of the state to reverse the outcomes of human action within the legal and institutional framework of the free market would lead to conditions that would make most men poorer, meaning less able to achieve their goals with the resources in their possession. He was a great believer in the social and individual benefits of the auction process.

Mises did not appeal either to God or morality to defend his support of the free market. He appealed to the goals of each individual. He argued that in order to attain their purposes, men must rely on the market process. State intervention will thwart the vast majority of individuals in their pursuit of their goals. State intervention will disrupt the system of economic causation that enables the vast majority to achieve their goals, given their limited wealth. At the end of *Human Action*, Mises summarized his position. State intervention into the market process reduces wealth. The various myths of intervention reduce men's wealth when put into practice.

For economics does not say anything either in favor of or against myths. It is perfectly neutral with regard to the labor-union doctrine, the credit-expansion doctrine and all such doctrines as far as these may present themselves as myths and are supported as myths by their partisans. It deals with these doctrines only as far as they are considered doctrines about the means fit for the attainment of definite ends. Economics does not say labor unionism is a bad myth. It merely says it is an inappropriate means of raising wage rates for all those eager to earn wages. It leaves it to every man to decide whether the realization of the labor-union

myth is more important than the avoidance of the inevitable consequences of labor-union policies (Ch. XXXIX: 2).

In other words, when men's plans are based on incorrect ideas regarding economic cause and effect, the outcomes of their plans will not be what they hoped for: greater personal wealth, subjectively determined. The outcomes will also not be greater wealth per capita. Mises believed in the market process, meaning the auction process, as the only way to enable people to achieve their ends with the least expenditure of economic means. He understood the connection between people's goals and their plans. He did not confuse these intellectual categories. *Purpose precedes planning.*

Mises did not criticize people's goals, as long as they are achieved peacefully. He did criticize their plans if these plans involved state coercion. He did not say that such coercion is immoral. He said coercion is inconsistent with people's stated purposes: greater satisfaction. But there was a serious problem in his theoretical system. He did not discuss this purpose: *envy*. Envy is the desire to tear a successful person down, no matter what the costs. Here, state coercion may be appropriate. The existence of envy is a stumbling block for all free market economics. It undermines this principle: "when two people make an exchange, both are better off, and no one is worse off." If the exchange produces an increase in satisfaction and therefore wealth for wealthy people, envious voters see themselves as worse off. State coercion may be just what they need to make rich people worse off.

Conclusion

Men have purposes. These purposes, like God's, exist prior to the development and implementation of their plans. Men do not go into the market place and purchase purposes. They make plans in terms of their purposes. Then they go into the market place and buy goods and services that they hope will enable them to complete their plans. The free market is where people make bids for ownership. These bids are made in terms of their plans and their existing stock of money and capital. They exchange ownership for the sake of their plans. Their purposes precede their plans. The origin of purposes is independent of the auction process. These purposes are prior to and superior to their plans. They are as aspect of point one of the biblical covenant. This has to do with the image of God in man. This is the source of men's vision: their mission statements, their creativity, and their entrepre-

neurship. These are not the product of the market process, which is governed by this principle: *high bid wins*. We do not buy our purposes in the market. We bring our purposes to the market.

Covenant-keepers should see their purposes as an aspect of God's grace. Grace is not earned. It is not purchased. It is granted free of charge by God to His people. *Grace precedes law*. It also precedes the market.

4

OWNERSHIP AND RESPONSIBILITY

If a man causes a field or vineyard to be grazed over, or lets his beast loose and it feeds in another man's field, he shall make restitution from the best in his own field and in his own vineyard. If fire breaks out and catches in thorns so that the stacked grain or the standing grain or the field is consumed, he who started the fire shall make full restitution (Exodus 22:5–6).

Now when those hired first came, they thought they would receive more, but each of them also received a denarius. And on receiving it they grumbled at the master of the house, saying, 'These last worked only one hour, and you have made them equal to us who have borne the burden of the day and the scorching heat.' But he replied to one of them, 'Friend, I am doing you no wrong. Did you not agree with me for a denarius? Take what belongs to you and go. I choose to give to this last worker as I give to you. Am I not allowed to do what I choose with what belongs to me? Or do you begrudge my generosity?' (Matthew 20:10–15).

Analysis

Man's ownership is always delegated ownership. It is therefore an aspect of point two of the biblical covenant: hierarchy. The hierarchy is this: God > man > nature. It is part of the dominion covenant (Genesis 1:26–30). With respect to economics, this is trusteeship. Another term is stewardship. It is service to a superior. God possesses original sovereignty (point one). This is a legal category (point three). Delegated sovereignty (point two) establishes strict legal liability (point four). God holds each owner responsible for his stewardship of God's property (point two), including the life of the individual (Matthew 25:14–30). There is no self-ownership in the Bible, except

with respect to God's ownership of Himself. All human ownership is derivative (point two). It is therefore judicially representative (point two). Original sovereignty belongs only to God (point one).

You may get tired of my constant references to the five points of the biblical covenant, but the five points are central to all explicitly biblical social theory, including economic theory. *Christian economics is structured by God's special revelation and also by His original creation and His providential control in terms of the five points.*

Delegated sovereignty establishes legal authority of individuals and institutions. Authority is a matter of God's designated legal jurisdiction. It is therefore legitimate. God mandates that people respect hierarchical authority (Romans 13:1–7). Authority means lawful control over something or someone, but only in a law-bound chain of command. There are legal limits to authority. There are legal boundaries: point three.

In the Exodus case law regarding legal liability, the owner of the cattle is legally liable for any damage they inflict on another owner's property. There are legal boundaries. In this case, these boundaries are geographical. The limit of lawful movement of the cattle is the boundary line separating the two plots of land. The cattle are mobile. They eat grain. They trample sprouts. Therefore, it is the legal responsibility of the owner to see to it that his cattle stay inside the legal boundaries of his ranch. One way to limit their mobility is to build a fence. Biblical law does not mandate that the cattle owner build a fence, but it clearly encourages this because of the threat of a restitution payment every time his cattle stray onto the farmer's land and eat grain or damage the crop. One thing is clear: there is no economic pressure on the farmer to build a fence to keep the cattle off of his land. The law's negative sanction threatens the cattle owner, not the farmer. Any attempt to lessen this liability in the name of humanistic economic theory must be rejected by Christians. I have in mind the Coase theorem. I wrote a 1992 book on this: *The Coase Theorem*. The book was an extension of a long appendix that I wrote in my 1990 economic commentary on Exodus, *Tools of Dominion*: specifically, commenting on Exodus 22:5–6.

In the case of Jesus' parable of the land owner who hires workers, it is clear that Jesus upheld the principle of the private ownership of the means of production. The man who hired the workers had come to an agreement with them earlier in the day. Now some of these workers grumbled about low pay. They had not considered this pay to be low before the work began,

but the post-contract conditions for other workers re-framed the economic aspects of the contract in the thinking of these workers. Other workers who were hired later in the day had just been paid the same wage. But this *subjective economic re-framing* did not affect the objective legal terms of the original contract. The owner reminded them of this. He asserted his legal right to pay them only what they had legally agreed to. The authority of his ownership overruled their economic complaint. He had the legal and moral right to do whatever he wanted with his money. He asked what was in Israel a rhetorical question: "Am I not allowed to do what I choose with what belongs to me?" (Matthew 20:15) *This is the strongest verse in the New Testament regarding the right of private property.*

We learn from the two case laws of Exodus that there are inescapable legal liabilities associated with ownership: the threat of legal negative sanctions. We learn from the parable of the employer that there is a legal benefit associated with ownership: the owner's right to do whatever he wants with his money.

This provides the background of my analysis of the initial step in making a pencil. That initial step is to gain ownership of specific assets.

Remember this principle: *grace precedes law*. Life is a gift. This establishes a person's initial responsibility. He gains knowledge. He gains self-discipline: responsibility. This is an ethical process. Unless he is a slave or a legal ward, he eventually gains a legal claim to the God-delegated ownership of his person. At some point, he is designated by civil law or by custom as an adult. An adult is legally responsible for his actions.

Ownership establishes responsibility.

All of this follows from the biblical doctrine of delegated ownership: from God to individuals or institutions. God holds the recipients legally responsible as His stewards. *Biblical economics begins with ownership and its implications*. Why? Because Genesis 1 teaches that mankind is responsible to God. He uses mankind as His collective economic agent. He uses individuals, too. God is one and many. Mankind, made in God's image, is also one and many.

Christian economics emphasizes the private ownership of property because this is what God has established. *God has linked ownership and final judgment. Final judgment is individual*. "Anyone whose name was not found written in the book of life was thrown into the lake of fire" (Revelation 20:15). It also deals with residence in the new heaven and the new earth (Revelation 21; 22). Jesus' parable of the talents appears as the second para-

ble in His presentation of the doctrine of the final judgment: the parable of the virgins and their lamps, the parable of the talents, and the description of judgment day (Matthew 25).

Socialists have faded in influence because of the collapse of the Soviet Union in 1991. Their position is that the state, not individuals, should own the means of production. They undermine the idea of private ownership. They substitute politicians and bureaucrats for private owners. *Socialism severs the concept of ownership from personal responsibility.* It substitutes collective responsibility for personal responsibility. This was why it failed. People want to escape personal responsibility for plans that turn out badly. Adam and Eve attempted to evade personal responsibility for their sin. Adam blamed Eve. Eve blamed the serpent. This is typical throughout history. *The biblically mandated system of private ownership establishes an unbreakable legal connection between ownership and responsibility.* This system makes it easier to identify causation. It also allows paying customers to reward successful plans. This leads to an increase in the number and percentage of successful plans.

The politics of the welfare state has survived the collapse of the Soviet Union. The welfare state allows private ownership, but it sets up a rival system of state-administered rewards and punishments. This system elects politicians who pass laws that take wealth from sellers who have been rewarded by customers. It transfers this confiscated wealth—after high handling costs by the government—to people who have not been rewarded by customers. This political wealth transfer reduces the economic ability of customers to impose economic sanctions, both positive and negative, on sellers. Customers whose decisions rewarded those sellers who had served them well now see the incentives associated with these rewards reduced by the government. At the same time, customers whose decisions penalized sellers (reduced sales) who had not served them well now see the disincentives associated with these penalties reduced by the government. *The politicians judicially veto the economic decisions of customers.* This reduces customers' economic authority. It simultaneously increases the power of politicians and bureaucrats who enforce politicians' laws.

From this point on in Parts 1–4, I divide chapters into five parts: analysis, buyer, seller, pencil, and conclusion. The section on pencil applies the categories.

A. Buyer

The buyer owns money, which is the most marketable commodity. He has a wide range of choices. He is limited only by the amount of money he owns. This means that he has considerable freedom. *The defining evidence of freedom is a wide range of choices.* This is why money and liberty are closely linked.

Because the buyer has so many choices, he has great responsibility. He must decide what to buy with his money. The ownership of money imparts liberty. Liberty in turn imparts responsibility. The decision-maker must decide the highest uses of his money. Here is where the spiritual battle begins. Mammon promises this to his disciples: “more for me in history.” Christ promises this: “But seek first the kingdom of God and his righteousness, and all these things will be added to you” (Matthew 6:33). Both promise blessings.

The owner of money is responsible for its use in four directions: upward to God, outward to sellers or non-profit fund-raisers who are constantly asking for his money, downward to anyone under his legal authority, and inward to himself. This four-way responsibility is inescapable. It is an aspect of all ownership. *The more money that someone owns, the greater his responsibility.* “Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more” (Luke 12:48b).

Some people forget this responsibility in their quest to accumulate wealth. They find when they are successful that the demand for their time and money increases. They find it difficult to say no. If they do say no, they feel guilty. They are not sure what to do with their money. The number of choices keeps increasing.

Jesus’ parable of the former rich man in hell and the former poor man in heaven is a warning.

The poor man died and was carried by the angels to Abraham's side. The rich man also died and was buried, and in Hades, being in torment, he lifted up his eyes and saw Abraham far off and Lazarus at his side. And he called out, ‘Father Abraham, have mercy on me, and send Lazarus to dip the end of his finger in water and cool my tongue, for I am in anguish in this flame.’ But Abraham said, ‘Child,

remember that you in your lifetime received your good things, and Lazarus in like manner bad things; but now he is comforted here, and you are in anguish (Luke 16:22–25).

B. Seller

The seller also has problems with setting priorities.

And he told them a parable, saying, “The land of a rich man produced plentifully, and he thought to himself, ‘What shall I do, for I have nowhere to store my crops?’ And he said, ‘I will do this: I will tear down my barns and build larger ones, and there I will store all my grain and my goods. And I will say to my soul, ‘Soul, you have ample goods laid up for many years; relax, eat, drink, be merry.’” But God said to him, ‘Fool! This night your soul is required of you, and the things you have prepared, whose will they be?’ So is the one who lays up treasure for himself and is not rich toward God” (Luke 12:16).

The seller must pay attention to business. The details are complex. The pressures are endless. The time that it takes to deal with these issues is unrecoverable. There is no going back. This is the tyranny of the urgent. It is easy to get sidetracked.

Ownership links ability and performance. Consumers are constantly searching for better deals. They are not content with the status quo. Competitors are constantly improving their performance in order to retain their customers and also to attract competitors’ customers. There is a saying, “There is no rest for the wicked.” There should also be this saying: “There is no rest for the productive.” Customers entice productive people to ever-greater levels of performance. How? By waving money in front of them.

The link between success and responsibility is a warning to those who would pursue wealth or success as an end in itself. There is a price to pay. There is no such thing as a free lunch, let alone a free banquet.

The market order is an engine of productivity. Yet there is no coercion involved. Sellers are not compelled to respond diligently to customers who wave money in front of them. They can post signs: “Closed—On Vacation!” “Going Out of Business Sale!” “Retired!” But they rarely do.

C. Pencil

The purchase of one or more pencils is a peripheral skirmish in the war of the worldviews. Pencils are inexpensive. They are used as tools of production. There is nothing inherently immoral about owning a pencil. Using a pencil is not addictive. So, the shopper goes to a store and spends a few minutes looking for the aisle where pencils are on display. Then she buys. The cost is minimal. She is unlikely to notice this in her household budget category: “miscellaneous.” She is buying a box of pencils for her children. There will be no “buyer’s remorse” afterward. It does not take her much extra time or money to complete the transaction. So, the degree of responsibility in buying pencils is low. This is not a major budget allocation decision.

The retail seller’s degree of responsibility is also low. Pencils are a minimal inventory expense. They have to be on the shelves in the school supplies section. It would not look good if the store had no pencils. But the store will not make much money from the sale of a box of pencils.

In contrast, the pencil manufacturer has great responsibility. He must pay attention to rival brands, different hardness of “lead,” new technical developments, customer demand, retail profit margins, borrowing costs at the bank, labor conditions, raw materials prices, and government regulations. There is considerable complexity in producing a pencil. The supply chain from beginning to end is vulnerable to disruptions.

Profits are minimal. Most of the technical aspects of producing pencils are known to all manufacturers. It is an old industry. Technical surprises are few. So are losses. Manufacturers know what to expect: who, what, why, when, where, and how. But the process of production must be monitored. Murphy’s law is always lurking in the shadows: “If something can go wrong, it will.” These disruptions can be expensive.

Conclusion

The Bible’s first principle of economics is God’s creation of the cosmos. He owns it because He created it. This is an economic implication of point one of the biblical covenant: sovereignty.

The Bible’s second principle of economics is man’s individual stewardship over God’s property. This is an implication of point two of the biblical covenant: authority.

God’s delegation of ownership to private individuals and groups affirms the connection between ownership and responsibility. *Responsibility is ba-*

sic to stewardship. It motivates individuals to serve God better by serving customers better. Customers pay for the privilege of having been served well. This establishes a motivation in sellers: to profit by serving customers. This motivation is the main source of economic innovation.

At the same time, the fear of loss hampers innovation. This is the primary source of economic continuity. A society needs continuity. It needs predictability. Most of our lives is based on familiar routines. Without these, we would live in turmoil. We want pencils that work. We are willing to try an innovation in pencils once in a while, but not often. We appreciate change at the margins of our lives, but we rely on custom and continuity to provide stability.

The free market offers us choices: new items and familiar items. Most of the time, we buy familiar items. The fear of loss is a major aspect of this familiarity, both for producers and sellers.

The legal connection between private ownership and personal responsibility is basic to a smoothly functioning but innovative economy. Write this down. You will not need an eraser.

5

OWNERSHIP AND REPRESENTATION

For the creation waits with eager longing for the revealing of the sons of God. For the creation was subjected to futility, not willingly, but because of him who subjected it, in hope that the creation itself will be set free from its bondage to corruption and obtain the freedom of the glory of the children of God. For we know that the whole creation has been groaning together in the pains of childbirth until now (Romans 8:19–22).

Analysis

This is an aspect of point two of the biblical covenant. Representation in the Bible is always associated with God's hierarchy. Representation is basic to all social theory. Someone speaks in the name of an owner or sovereign. This is judicial representation. He acts on behalf of the owner or sovereign. This is economic representation.

The Bible teaches that the creation came under God's negative sanctions when Adam and Eve did. It also teaches that the curses will be progressively removed from nature at some point in the future—not completely, because sin never disappears in history. *The progressive ethical sanctification of covenant-keepers will be accompanied by an increase in their dominion.* This will lead to a reduction of nature's curses on man.

The fall of man had ecological effects and implications for nature. This was man's fault, not nature's. Nature was not subject to negative sanctions willingly, but rather as a consequence of Adam's sin. The curse on Adam was that nature would be cursed (Genesis 3:17). It would henceforth produce thorns and thistles (Genesis 3:18). Mankind represented nature covenantally before God. As surely as a nation suffers defeat when the supreme military commander loses the decisive battle, so did nature lose when Adam sinned. We know that the dominion covenant of Genesis 1:26–28 was a covenant

because nature visibly came under God's negative sanctions after Adam's fall. Every biblical covenant has positive and negative sanctions. Nature was supposed to be cared for by mankind. Instead, it came under God's negative sanctions. Nature's hope in history is therefore the progressive sanctification of covenant-keepers and their extension of the kingdom of God.

Adam was covenantally responsible for nature as a representative agent. This responsibility did not end at the fall, as we see from Paul's comments on nature. Nature will be restored to its pre-fall condition after the final judgment. The point is, nature is still under sanctions because of the sin of Adam. The dominion covenant is still in force. So are its positive sanctions.

Adam was also covenantally responsible for his wife. He would have been responsible for his non-adult children. Then came the fall. Again, as with the dominion covenant, the family covenant did not end. Neither did the church covenant: eating from a tree, either the tree of life or the forbidden tree. To these covenants was added the civil covenant (Romans 13:1–7). In all cases, covenantal leaders are judicial representatives of institutional covenant members before God, and representatives of God before members.

What I have written so far has to do with delegated judicial sovereignty. But there are also economic ramifications with respect to all of the covenants. The church must be supported by the tithe. The state must be supported by taxes. The family must be supported by the heads of households. *The dominion covenant must be pursued by means of work and capital formation.* The individual covenant involves lawful self-interest. So, there are economic obligations upward, downward, and inward.

What about outward? What about economic obligations? There is the general obligation not to cheat buyers: civil laws against false weights and measures.

You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small. A full and fair weight you shall have, a full and fair measure you shall have, that your days may be long in the land that the Lord your God is giving you. For all who do such things, all who act dishonestly, are an abomination to the Lord your God (Deuteronomy 25:13–16).

Fraud is a moral crime, Jesus said. He told the rich young ruler: “You know the commandments: ‘Do not murder, Do not commit adultery, Do not steal, Do not bear false witness, Do not defraud, Honor your father and mother’” (Mark 10:19).

There are moral rules of conduct. These are to guide covenant-keepers in their dealings with other people. Covenant-keepers represent God to covenant-breakers in the sense of personification.

For you were called to freedom, brothers. Only do not use your freedom as an opportunity for the flesh, but through love serve one another (Galatians 5:13).

So whatever you wish that others would do to you, do also to them, for this is the Law and the Prophets (Matthew 7:12).

And Jesus called them to him and said to them, “You know that those who are considered rulers of the Gentiles lord it over them, and their great ones exercise authority over them. But it shall not be so among you. But whoever would be great among you must be your servant, and whoever would be first among you must be slave of all. For even the Son of Man came not to be served but to serve, and to give his life as a ransom for many” (Mark 10:42–45).

This is the service mentality. It undergirds the free market’s competitive order, according to Adam Smith.

But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not

to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens (*Wealth of Nations*, Bk. I, Chap II, Para. 2).

A. Buyer

A buyer has a limited amount of money. He seeks to gain his goals without wasting money. He would like to buy many goods and services. He has a list of priorities. He uses his money to purchase those items higher on his list.

He acts as an economic agent for others. He must support his family. He must pay taxes. He may belong to a club, where he is expected to pitch in with time and money. There are many people who depend on him to one degree or another. Some of these obligations are legal. Others are cultural. But they are obligations. So, he must budget his time and money if he is not to fall short of these obligations. This means that buyers must allocate money and time. This allocation process is at the heart of economic analysis.

These obligations are objective. He must provide money or other goods and services for specific people or organizations. These other people become economically dependent on him. Dependence is an inescapable aspect of the division of labor. People expect that others will perform predictably. They adjust their plans accordingly.

In this sense, each buyer is a servant of others. He is their economic agent. He may not be their legal agent, but he is their economic agent. What he does affects others.

In matters of exchange, each party is an economic agent of the other, at least until the terms of the exchange are met. This mutuality is basic to exchange and therefore to the division of labor. Someone says this: "You can count on me." This may involve spending money (buyer). To skip over the buyer in economic analysis is a conceptual error. The consumer no less than the producer is an economic representative. Every buyer is a seller, and every seller is a buyer.

B. Seller

A seller pays greater attention to preparing for a future exchange than the buyer does. He has to. He hopes to make a profit, which is based on his specialized knowledge of the market. He seeks buyers. Buyers own money, which is the most marketable commodity. They can afford to pay little or no

attention to the future conditions of the market.

If he expects to sell his output, the seller must “get inside the heads” of future buyers. He must think of his product from their point of view. He must discipline himself to design his marketing campaigns accordingly. He understands that the buyer asks only this question: “What’s in it for me?”

I am a specialist in writing advertising copy. I started a subscription-based newsletter in 1974, the *Remnant Review*. I still publish it monthly on my website, GaryNorth.com. I had to learn how to write ads in order to get paying subscribers. I am still learning. It is a sophisticated skill. But it always begins by imagining a specific audience for the product. This audience has needs and wants. There is an old rule for a successful business: “Find out what people want, and sell it to them.”

A business owner specializes in a niche market. He is an expert in production. He thinks about the technical details of his product. Then he writes an ad for the product. His mind is focused on production. This is what is called his default setting. This outlook usually leads him to create ineffective ads. This is because buyers care little about technical details unless they are engineers or data fanatics. Most buyers are neither. They want to know what the product will do for them. This outlook is expressed by an old rule-of-thumb of copywriters regarding the buyers’ attitude: “Don’t tell me about your grass seed. Tell me about my lawn.” I teach a one-year course in starting a home business for the Ron Paul Curriculum. Most of the course is devoted to teaching teenagers how to think from the buyer’s point of view. This ability is rarely innate. People innately think “mine,” not “yours.” This began with Adam and Eve.

The producer is an economic agent of specific buyers. He decides on one line of production rather than another. He buys raw materials, tools, and space in order to serve a specific future group of buyers. He hires workers. This allocates production away from all other groups in the direction of his chosen group. *He bids away resources from all other producers.* He does not do this for his own sake directly. He does it for his own sake indirectly: to make money. In between is the production process. This process must focus on the buyers’ purchases.

The producer takes money into the various markets for producers’ goods and makes bids. He does this only because he believes that at the end of the process, he will possess more money than he spent. He has faith that he has better knowledge about the future than his competitors do. They all

make bids to buy assets. But none of them does this as a final consumer. *Every producer is acting as an economic agent of people he hopes will be buyers of his output.* He probably does not know the names of these future consumers. He has faith that unnamed buyers with money to spend will decide to buy a small portion of his output rather than another producer's output. If he is correct, and if he does not overspend on producing this output, he will bring in more money than he spent to produce the goods. *Then he will become a consumer.* He will pay himself. He will decide which producers to reward and which to ignore. He will make winners of a few and losers of most.

He does not possess a legal claim on future consumers' money. They do not possess a legal claim on his future output. None of this is guided by any central planning agency, assuming that we do not think of the Trinity as an agency. This process is guided by prices. Some producers buy specific production goods. Other producers fail to buy. Some consumers buy specific consumer goods. Other consumers fail to buy. It is through the interplay of competitive bidding that the market process brings final products and services to consumers. Producers compete against producers. Consumers compete against consumers.

C. Pencil

Leonard E. Read's "I, Pencil" is brilliant in its description of the complexity of the market process. Yet there is coherence in this process. This coherence is provided concurrently by an omniscient nonhuman central planner and millions of hopeful human forecasters. The pencil writes:

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the type of know-how. Neither the miner nor the logger can be dispensed with, any more

than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Knowledge is decentralized. No one on earth knows at any time who possesses exactly the knowledge required to deliver what he wants to buy at a price he is willing to pay. Yet producers daily enter specific markets to buy production goods. They usually find these goods at prices they expected to pay. The coherence of the market process serves all of them well in their quest for more efficient output strategies. *This coherence is provided by the market's decentralized and unplanned pricing system.* The pencil maker knows where to buy wood, paint, metal, and the stuff that consumers think is rubber. He enters specific markets and comes to an agreement with suppliers. He pays (sells) money in exchange for specific goods.

He pays employees to combine these different production goods so that he has pencils to sell. He has signed contracts to deliver these pencils to retail outlets, where people can buy them. He probably does not advertise his pencils. He knows that most people think all pencils are the same within each lead hardness category and each blackness category, the HB scale. (Did you know about the HB scale?) They will not rush to a store to buy a box of his company's pencils just because he paid to run an ad. He hopes that the buyers of previous pencils will recall that they liked his company's pencils, and therefore they will shop for his brand. Do you do this? Are you committed to a certain brand of pencil? I never have been.

Insofar as you are a user of pencils, you can sleep at night knowing that you will be able to buy more pencils when you run out. Maybe you have been losing sleep over this. I am here to calm you. There are people working hard to see to it that you will be able to buy exactly the pencil you want at a price you are willing to pay. They do not know who you are. Most of them do not know what purposes will be fulfilled because of their efforts. But they go to work each day to see to it that there will be plenty of pencils and whatever other products are produced by their efforts.

This is not a miracle. This is the result of a social order that upholds private property, the rule of law, freedom of choice, unrestricted pricing, stable money, and contracts.

Conclusion

The Bible teaches the doctrine of *self-sacrifice* on behalf of others.

Adam Smith taught the doctrine of *enlightened self-interest*. These doctrines need not be in conflict. In a free market social order, they are only rarely in conflict. Smith explained that enlightened self-interest involves making mutually beneficial offers to sellers of goods and services. It is through competitive bidding for the ownership of resources that producers offer good deals to buyers. It is through the ownership of a key resource, labor, that most buyers earn enough money to make enticing offers to sellers.

Most economists say that little of this is centrally planned. They are incorrect. *All of this was planned before the foundation of the world*. It is planned moment by moment. God designed the world in such a way that His law-order, when implemented and obeyed widely, enables producers to find willing buyers, and enables buyers to find willing sellers. *Buyers serve as economic agents of future sellers, and sellers serve as economic agents of future buyers*. Buyers keep money in reserve for their own purposes, but sellers can then benefit from the buyers' foresight or their access to lines of credit. Sellers keep production lines running for their own purposes, but buyers can then benefit from the producers' foresight in bringing these goods to market. This entire process is governed by this motivation: "Let's make a deal."

6

FACTORS OF PRODUCTION

He turns a desert into pools of water, a parched land into springs of water. And there he lets the hungry dwell, and they establish a city to live in; they sow fields and plant vineyards and get a fruitful yield. By his blessing they multiply greatly, and he does not let their livestock diminish (Psalm 107:35–38).

Analysis

This passage is associated with point two of the biblical covenant. It refers to capital that is supplied by God to His stewards. The stewards are supposed to manage the owner's property in order to improve its value. Yet God is the source of the productivity of His capital. He retains full ownership. He intervenes into history in order to provide blessings for His stewards. This is an aspect of sanctions: point four. Point two and point four are always closely associated. But because I am discussing factors of production, which are inputs in the production process, I am of necessity discussing planning. Planning is part of point two. It involves economic forecasting and then implementing a plan of production.

God is the source of all blessings. "Every good gift and every perfect gift is from above, coming down from the Father of lights, with whom there is no variation or shadow due to change" (James 1:17). First, as the Creator, He provides men with factors of production. He makes them legal owners. This is a matter of grace. Grace precedes law. Second, He grants to men the ability to make plans, just as He does. They allocate the assets entrusted to them by God in terms of a hierarchy of values. Third, He provides men with a law-order, both physical and moral. God's Bible-revealed law is men's tool of production. Fourth, He blesses or curses the output of men's plans. Fifth, He either provides an inheritance over time to their designated heirs, or else He disinherits them. This five-point process of production reflects the five points of the biblical covenant: sovereignty, authority, law, sanctions, and inheritance.

Land and labor are two original factors of production. God created land on day one. He created everything else on days two through six. Man was created last. Man was given dominion over everything on earth that God had created. This general economic category of creation is called land. It was the highly structured but undeveloped inheritance that God transferred to Adam on day six. Mankind's defining task is to administer this inheritance on behalf of God: the dominion covenant. Adam possessed knowledge and the ability to work. He used his knowledge to name the animals of the garden (Genesis 2:19–20). This took time. There was a sequence of production. If Adam did one thing, he could not do another at the same time. While he was naming one animal, he could not name another. He had to allocate his time. He was not given a wife until this preliminary task was completed. He had to do without. *Doing without something valuable is evidence of original scarcity.* Scarcity is inherent in the dominion covenant. It did not come in response to man's rebellion. It is not a curse. The curse of the ground in Genesis 3 was a curse on a creation that already displayed scarcity.

Land and labor are not the primary factors of production. *The primary factor of production is the grace of God.* This is not what secular economics textbooks teach. This is why they are at bottom wrong, both analytically and morally. Secular economists do not begin with the doctrine of creation (point one): the source of raw materials. They do not consider the dominion covenant (point two): mankind as God's steward. The grace of God includes biblical law and the laws of nature (point three). The historical sanctions (point four) that are attached to biblical law are manifestation of the grace of God. These sanctions are presented in Leviticus 26 and Deuteronomy 28. They are positive and negative. When positive, they multiply wealth through the generations. When negative, they cut short the inheritance or else transfer it to covenant-keepers (point five).

The standard economics textbook speaks of three factors of production: land, labor, and capital. These generate income. Land generates rent. Labor generates wages. Capital generates interest. This three-fold classification is incorrect analytically. Capital is the product of land and labor over time. *Capital is not an independent or original source of income.*

Is time a factor of production? Yes. Men are responsible before God for their use of time. Time is a universal factor of production. Life is defined in terms of time. When your time runs out, you die. God's gift of time ends.

Everyone gets the same amount of it every day: 24 hours. Interest is not a payment for time in the way that rent is a payment for land, and wages are payments for labor. There are organized markets for land and labor. In contrast, life is not a marketable commodity. It is a non-marketable category of action. This means that interest is not a payment for time. Rather, it is a function of people's time perspective. *People discount the future value of hoped-for future income.* Consider your situation. If you had a choice between a one-ounce gold coin delivered immediately or in one year, you would take delivery now. You might take delivery a year from now if you were offered benefits for waiting. These benefits are an *interest payment* for the other person's temporal and temporary use of your coin. The other person will receive psychic income from the use of your coin for a year. He must pay you for this income. The price he pays is established through negotiation. Both you and the other person discount the value and price of future expected income. He wants the income now, and he is willing to pay for this. You also want the income now, but you are willing to delay at some price. You negotiate.

Economists classify raw materials as land. The Bible has many passages dealing with the value of minerals and agricultural output. "The name of the first [river] is the Pishon. It is the one that flowed around the whole land of Havilah, where there is gold. And the gold of that land is good; bdellium and onyx stone are there" (Genesis 2:11–12). The category of land is expressed in the Old Testament as milk and honey. It includes agricultural output.

Economists classify intellectual capacity as labor. So does the Old Testament. Adam's first task was to name the animals of the garden. This was an intellectual task. He had to classify the animals and name them. This was a task involving analysis: identifying the animals' various functions. Adam was a knowledge worker before he was a tiller of the soil. (The term "knowledge worker" was coined in 1957 by management specialist Peter Drucker, an American economist from Austria who was the most famous theorist of corporate management in the second half of the twentieth century. In 1999, he wrote that "the most valuable asset of a 21st-century institution, whether business or non-business, will be its knowledge workers and their productivity.")

God created the cosmos. It is under law.

And God said, "Let the earth sprout vegetation, plants yielding seed, and fruit trees bearing fruit in which is their seed, each according to its kind, on the earth." And it was so. The earth brought forth vegetation, plants yielding seed according to their own kinds, and trees bearing fruit in which is their seed, each according to its kind. And God saw that it was good. And there was evening and there was morning, the third day (Genesis 1:11–13).

Adam possessed an understanding of the laws that govern nature. He had to; he was responsible before God to administer the creation (Genesis 1:26–28). This fact leads to a crucial conclusion regarding what man can know and how he can know it, which is the issue of epistemology. *There is coherence between the laws of nature and the laws of the human mind.* This fact impressed Eugene Wigner, the winner of the Nobel Prize in physics in 1963. He wrote this in 1960: "The miracle of the appropriateness of the language of mathematics for the formulation of the laws of physics is a wonderful gift which we neither understand nor deserve. We should be grateful for it and hope that it will remain valid in future research and that it will extend, for better or for worse, to our pleasure, even though perhaps also to our bafflement, to wide branches of learning." This appeared in a professional journal: *Communications in Pure and Applied Mathematics*. The article's title: "The Unreasonable Effectiveness of Mathematics in the Natural Sciences." From a humanistic standpoint, this gift is unreasonable. From a biblical standpoint, it is an inescapable aspect of the dominion covenant.

In 1981, economist Julian Simon's book appeared: *The Ultimate Resource*. He argued that human creativity is the ultimate resource, not minerals in the ground or land in general. This had been Leonard E. Read's argument throughout his career, but especially in "I, Pencil." This is a humanistic view of the matter. Read did attribute the overall market process to an undefined god, but Simon did not mention God or His providential sustaining of the world in terms of moral and physical laws. Simon, as with most economists, viewed the market process as autonomous. The Bible teaches that men are creative, but only subordinately. God is originally creative. Individuals are *subordinately creative*. This is stated in the most important passage in the Bible that deals with economic in particular and social theory in general.

Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day. (Deuteronomy 8:17–18)

The visible blessings of God confirm the biblical covenant. The biblical covenant has external, visible sanctions attached to moral performance. If this is not true, then there cannot be a uniquely biblical economic theory or social theory. If this is not true, then I have wasted my life's calling. This passage is the heart of the matter, methodologically speaking. This is the theological basis of what I have called *methodological covenantalism*. This is conceptually different from the rival views of secular economic theory, methodological individualism and methodological holism.

A. Buyer

A buyer must allocate his money. The best way to understand this responsibility is to analyze it in terms of the five points of the covenant.

First, he has a purpose: to increase his wealth. In an advanced economy, this means that he wants to possess greater subjective wealth at the end of the production process than he began with. *Purposeful action is the starting point of economic theory*, beginning with God's creation of the universe. Men are made in God's image.

Second, the buyer receives money from God. This is the most marketable commodity. He has great flexibility in what he can purchase with this money. He is a steward and a trustee of God's money. As a steward, he must devise a plan for administering this money.

Third, he does not have unlimited money. He faces monetary constraints. He therefore faces *boundaries* (point three of the biblical covenant). This fact is conveyed to him by an array of prices. Prices are set by competition: buyers vs. buyers and sellers vs. sellers.

Fourth, he must serve as an entrepreneur. He does not know the future perfectly. He is a creature. So, he imagines how much money future sellers will charge for their output.

Fifth, in structuring consumption, he must factor in the rate of interest. He must not equate the present value of money returned in the future with money owned in the present. He must apply a discount to future money. If

he fails to do this, he will suffer a loss. Why? Because of this economic fact: *the present value of money owned now is greater than the present value of hoped-for money in the future.* This disparity is an aspect of responsibility before God. The owner is immediately responsible to God for whatever he owns. He must allocate it now. Assets in the future are problematical. It is risky to transfer ownership to another person. *Personal responsibility for these assets cannot be avoided.* Control over the asset is transferred, but final responsibility for its use is not transferred without a sale. This was the lesson of the steward who buried his master's coin (Matthew 25:24–30). He feared to transfer the coin to a banker. This produced a loss for the master, who did not receive interest on the coin.

The fact that full responsibility of ownership cannot be transferred apart from the sale of the asset is why people fear a loss of money more than they desire a gain of the same amount of money. They focus on the loss. This is the message of the woman with ten coins who loses one. "Or what woman, having ten silver coins, if she loses one coin, does not light a lamp and sweep the house and seek diligently until she finds it? And when she has found it, she calls together her friends and neighbors, saying, 'Rejoice with me, for I have found the coin that I had lost' " (Luke 15:8–10). A pair of psychologists, Amos Tversky and Daniel Kahneman, in the mid-1970s discovered this discrepancy between the fear of loss and the hope of gain. This seemingly obvious insight created an intellectual revolution within the guild of academic economists: behavioral economics.

There is continuity between presently owned assets' present value in relation to the present value of the same assets in the future. This continuity is established by the rate of interest. This rate is established through competition in the market for loans: lenders vs. lenders; borrowers vs. borrowers.

B. Seller

The seller is the owner of a factor of production. He may sell, rent, or hold the asset. In the case of labor services, he may only rent out his labor. Modern law forbids slavery. Under the Mosaic law, he could sell himself into slavery (Deuteronomy 15:16–18). To understand the factor owner's decision process, I apply the five points of the biblical covenant. Let us consider the seller of land or minerals extracted from the land.

First, he has a purpose: increased wealth. This presumably is more money. Second, he has a plan: exchanging ownership of the asset for money. He

thereby transfers the responsibilities of ownership. Third, there is a pricing process operating: sellers vs. sellers, buyers vs. buyers. A market price reveals the available return from the sale of the asset. Fourth, he must be an entrepreneur. He must estimate how many sales he will generate. Then he must estimate costs of production, which are mainly for factors of production: land and labor. He then surveys the existing array of prices of these factors. He asks himself this: "Can I generate more money than I must spend in order to bring final output to market?" If other producers have not bid up factor prices, there is an opportunity for profit here. But there is also an opportunity for a loss. Rival producers expect customers to resist making purchases at the prices that the entrepreneur expects to prevail. They may be correct. He then makes a decision: to go forward with the production process. He must evaluate the value of money gained from the immediate sale of the asset vs. the income from the asset, if any, and the money generated by a sale later on. Fifth, he must discount the future value of the expected income generated from the asset. He must factor in the effects of time on his ownership.

If he decides not to sell, he retains all of the responsibilities of the ownership of this asset. The biblical view of human action is that the owner should pursue the kingdom of God (Matthew 6:33). He is supposed to increase the value of the assets that God has delegated to him. He is promised a high rate of return on this stewardship if he is successful, as the two productive stewards learned in Jesus' parable of the talents (Matthew 25:14–23). Should he sell, rent, or hold? As a covenant-keeper, he must decide in terms of what is best for God.

C. Pencil

Producers are guided by prices in their pursuit of gain. A producer of pencils must estimate future demand at specific prices for his pencils. He must estimate profits or losses.

He has an existing structure of production. He hopes to buy underpriced resources: land and labor. He also considers capital equipment, but capital is the product of land and labor over time. Why will there be underpriced resources? Because his competitors have not seen the opportunity for profit that he has seen. But he may be mistaken. Maybe he has overestimated the potential for profit. Maybe the factors of production are priced accurately. He will then not make a profit. Maybe the industry is overesti-

mating the future return. Then the seller will make losses, as will most of his competitors.

Such forecasts are made by every producer of products that contribute to the production of a single pencil. No one can conceive of all of these decisions. No one knows how to make a pencil. But the competitive actions of decision-makers produce specific pencils offered for sale in specific locations at specific prices. You can buy a pencil at any time.

Conclusion

These are the original factors of production: (1) God's providence, (2) His plan of creation, (3) His law-order, both physical and moral, (4) His imputation of economic value, and (5) time. Man is the recipient of all of these. Covenant-keepers acknowledge this. Covenant-breakers do not.

People are to think God's thoughts after Him, but as creatures. They are to impute economic value as He does. They are to increase the value of the assets entrusted to them by God. This is the economic meaning of this law: "But seek first the kingdom of God and his righteousness, and all these things will be added to you" (Matthew 6:33).

In a market society, competition establishes prices: sellers vs. sellers, buyers vs. buyers. These prices impose limits on every person's budget. Each person must create a plan of action based on his hierarchy of economic values in relation to the prices facing him, and also in terms of the estimated time available to him to complete his plan. He must impute economic value in terms of God's authoritative imputation. He must impute economic value on behalf of God as His legal agent as owner and economic agent as administrator. Then he must implement his plan. He must buy or sell. He must rent or lease. He must hire or fire. He must allocate the assets under his legal authority. God holds him responsible for this administration. He is guided by accounting profits or losses. These are success indicators. But they are not identical with success. "For what will it profit a man if he gains the whole world and forfeits his soul? Or what shall a man give in return for his soul?" (Matthew 16:26).

7

CONSUMPTION AND BUDGETING

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish' (Luke 14:28–30).

Analysis

This passage is associated with point two of the biblical covenant. All economic planning is categorized under point two. An economic agent under God allocates scarce resources that belong to God.

Here is the economic principle: *count the cost*. It applies to every area of life, not just economics. Why? Because we possess limited resources. This is most clearly the case in economic affairs. Here, accounting techniques are basic to our lives as producers and also as consumers. Most people have more things they would like to buy than money to buy them. Here is a familiar statement: “Human wants are infinite, but resources are finite.” This is incorrect. We are creatures. Creatures are not infinite. Wants are therefore finite, but their prices exceed the money that most people have to satisfy them.

The Bible teaches that a good way to deal with scarcity is to limit our wants. In a famous passage, Paul wrote:

But godliness with contentment is great gain. For we brought nothing into the world, and we can take nothing out of it. But if we have food and clothing, we will be content with that. Those who want to get rich fall into temptation and a trap and into many foolish and harmful desires that plunge people into ruin and destruction. For the love of money is a root of all kinds of evil. Some people, eager for money, have wandered from the faith and pierced themselves with many griefs (I Timothy 6:6–10).

This is the threat of mammon, which offers this promise: *more*. The confession of faith of the disciple of mammon is this: “more for me in history.” This goal is not limitless wealth, for we are not infinite. Rather, the goal is indefinite wealth. It has no known limits. It therefore undermines contentment. It produces dissatisfaction.

A budget is a confession of faith: *there are limits*. It acknowledges that means are limited, so therefore goals are limited. Means must match ends in every area of life, especially budgetary means. It is legitimate to have large goals, but the Bible teaches that these goals must be theocentric. “The kingdom of heaven is like a grain of mustard seed that a man took and sowed in his field. It is the smallest of all seeds, but when it has grown it is larger than all the garden plants and becomes a tree, so that the birds of the air come and make nests in its branches” (Matthew 13:31b–32). To seek sufficient capital to attain these large goals is legitimate. But covenant-keepers must not substitute means for ends. They must not seek increased wealth for its own sake or for their sake. To do so is necessarily to declare the means as autonomous. Nothing is autonomous. God is the cosmic Owner.

The covenant-keeper and the covenant-breaker may adopt similar strategies to increase the economic means at their disposal. The difference is in their rival worldviews: theocentrism vs. anthropocentrism, theonomy vs. autonomy.

Budgeting reflects the five points of the biblical covenant. Point one, which is the sovereignty of God, is reflected in people’s decisions. People are purposeful. They are owners of assets, just as God is. Because they are God’s stewards, they are responsible to God and other people: point two. They make plans, which is an aspect of stewardship. Purposes require plans in order to be fulfilled. Plans are governed by a hierarchical scale of values: point two, which always relates to hierarchy. What should be the supreme value for covenant-keepers? Building the kingdom of God. Jesus said: “But seek first the kingdom of God and his righteousness, and all these things will be added to you” (Matthew 6:33). There are limits on our actions: boundaries. Boundaries are point three. We must allocate our wealth in terms of these priorities and economic limits. This is point four: judgment. The familiar phrase, “What would Jesus do?” applies to our allocation of funds. When implemented, our plans have effects over time: point five.

Consider Jesus’ parable of the tower (Luke 14:28–30). A tower is a large structure. It is a public structure. Anyone who begins building a tower is announcing his commitment to a major undertaking. People rarely want to

do this, for fear of embarrassment for their failure to complete the project. Jesus' listeners would have understood this fear. That is why He used this analogy. It made it easier to get across His point: to become His disciple is major undertaking (vv. 26–27). It is also public. Count the cost, He warned them. Finish what you start.

The budgeting process must consider the future. There is temporal continuity between the present and a project's completion. There must be economic resources available in between the two events: starting and finishing. This future-orientation is a characteristic feature of successful people. The willingness to budget for major projects marks the creative entrepreneur. He counts the cost. This same mentality should be common among covenant-keepers, Jesus insisted.

The political philosopher Edward Banfield in the late 1960s argued in his book, *The Unheavenly City*, that future-orientation is upper class. The present-oriented person is lower class. Jesus advocated the upper-class mentality. This mentality is basic to long-term expansion. It is realistic. It counts the costs.

The person who budgets for big projects is likely also to budget for his personal consumption. The analogy could have applied to a consumer good: a high ornamental tower. It could have applied to a production good: a defensive tower. Whatever it cost to build, the builder had to arrange for funds in advance of completion. He could use any excess funds for personal consumption. The point was this: the primary budget is allocated to the completion of the tower. This alone would avoid the embarrassment of failure.

The consumer has a scale of priorities. He imputes value to them. They are ordered: first, second, third, etc. Clearly, once a person announces the construction of a tower, this places its completion on a high level. Other forms of consumption are placed lower on the list of priorities. This list can be revised.

A consumer faces the problem of unexpected expenses. These can disrupt his budget. He may be able to borrow money at high rates: credit card. Or he may have to draw down his emergency reserve fund. By how much? That depends on his budget's accuracy.

Budgeting allows the consumer to coordinate his plans with others. He knows what items he must buy. He knows about prices. He knows what income is likely. If his information is accurate, he is likely to complete his

various projects. Budgeting is a primary means of *plan coordination*. The price system is a major means of this coordination.

I analyze the budgeting process in terms of the five points of the biblical covenant. A budgeting consumer begins with a purpose: a goal. He then formulates a plan. Planning mandates pricing the items to be considered: the budget's limit. Then comes judgment: assessing the money available vs. prices. Then comes a purchase at the end of the budgeting process. This is how a future-oriented person deals with his future as a consumer.

There is always uncertainty in planning. A plan should have money in reserve to deal with unexpected emergencies. There is also a profit opportunity. The buyer wants to experience a *psychic profit* at the end of the process: more value subjectively than he has today. He therefore wants a *consumer surplus*. In this sense, he is an entrepreneur: a profit-seeker. The money that he gives up to buy consumer goods must be worth less to him than the subjective value of the goods. This is the consumer's profit.

A. Buyer

A buyer possesses money. This enables him to purchase a wide array of goods and services. His planning manifests the five points of the biblical covenant. He has purposes. This is point one. He has a plan of action: first, second, third. This is point two. He has limited means: money and time. He therefore has a complicated task. He must narrow down the number of products to consider: point three, boundaries. He cannot look at everything. He must decide on the range of his investigation. He has limited time and limited money. This narrowing-down procedure is the initial stage of the budgeting process. He must apply judgment: fitting his plan to the available resources and prices. Next, he seeks a consumer surplus: greater satisfaction than he had at the beginning of the planning process. This is point five: an increase over time.

He already has normal monthly expenses to pay for. So, the money available for new purchases is marginal: whatever remains after the existing bills are paid. It is marginal money, to be spent on marginal goods and services. Even if he has sufficient money, he does not have a lot of available time to spend consuming resources. He must budget time and money.

He also must estimate how much value he will derive from the purchases. His tastes could change. His opportunities could change. What would be the effects on his budget? A man who is courting a woman has a

budget. It will change if she decides to break off the relationship. There is always uncertainty.

We think of these plans as rational. They may not be rational. Psychologists have demonstrated that people make decisions in terms of evaluations that are irrational. These decisions do not make sense. The field of economics known as behavioral economics has developed since 1975. It presents numerous cases of irrational behavior that are repeated in experiments around the world. This is why the Austrian School of economics has an advantage over all rival schools, analytically speaking. Ludwig von Mises did not begin with an axiom of rationality. He began with the axiom of purposefulness. The opening words of Chapter 1 of *Human Action* (1949) are these:

HUMAN action is purposeful behavior. Or we may say: Action is will put into operation and transformed into an agency, is aiming at ends and goals, is the ego's meaningful response to stimuli and to the conditions of its environment, is a person's conscious adjustment to the state of the universe that determines his life (p. 12).

Later in the book, he wrote:

Man is in a position to act because he has the ability to discover causal relations which determine change and becoming in the universe. Acting requires and presupposes the category of causality. Only a man who sees the world in the light of causality is fitted to act. In this sense we may say that causality is a category of action. The category *means and ends* presupposes the category *cause and effect*. In a world without causality and regularity of phenomena there would be no field for human reasoning and human action. Such a world would be a chaos in which man would be at a loss to find any orientation and guidance (p. 22).

Mises called this purposeful behavior. I call it responsible behavior. God holds us responsible for our actions. If there were no causality, there would be no responsibility.

B. Seller

The seller must deal with buyers in terms of their budgets. They make plans for spending money over time. The seller must match his spending decisions to theirs. He wants to have his product or service in front of a buyer at exactly the time when the buyer wants to buy. This way, he is more likely to get a sale.

Here is an example. Sellers of American women's magazines each year schedule the December issue for a cover story on delicious Christmas recipes. There will be a full-color cover photo of a delicious meal. In January, the magazines will headline the existence of a new diet that lets you lose five or ten pounds effortlessly in only three weeks. The editors know that women will budget for Christmas cooking. They will be ready to spend money at the supermarket the next time they shop. On the other hand, the women will not set aside money for the January diet. The editors do not worry about this. They know about women's motivation in January. Women will spend money on a diet plan issue, and find some other expense to reduce. They will budget calories and budget money in January. They may not be successful with either budgeting plan, but they will try.

The seller makes money through specialized knowledge. He knows more about how members of his targeted audience will spend than the members know. An editor knows in October that women will buy a diet issue in January. The women who will buy this issue do not have to know this in October. They can be confident that some seller will try to meet their demand next January. They will not go shopping and not find whatever they want for sale.

Wise sellers go with the law of large numbers. They understand statistical patterns. Most buyers do not know about any of this. They do not need to know. They possess money: the most marketable commodity. *Money substitutes for specialized knowledge*. Buyers do not have to study to gain the benefits of such knowledge.

A seller has to coordinate his plan to the buyers' plans at the time of the hoped-for sales. He has a purpose: profit. He has a plan. He has a knowledge of prices: limits imposed by scarcity. He makes judgments about how to match his money to production goods, including advertising costs. This is the budgeting function. Finally, he wants to make a sale in the future. He may want repeat sales: continuity. This is how he will maximize his income.

He is an entrepreneur. He seeks to buy low and sell high. He can buy low only because his competitors do not see the profit opportunity in sales. They do not bid up the price of producers' goods. They do not see the opportunity to sell as high as he thinks he will be able to sell at a later time.

As with the buyer, he has a system: purpose, plan, pricing, assessment, and purchases. The purchases are continuing operational expenses.

There is a sixth step. He will sell the output for money. He is not a consumer. He is a seller.

C. Pencil

A pencil is so inexpensive that buyers in advanced nations do not budget for them. It is a marginal purchase. If it appears anywhere in a budget, it is under "school supplies." A standard pencil may cost 25 cents if purchased individually, but under ten cents if bought in bulk. Pencils are normally purchased in bulk. A bulk purchase is still marginal in most people's budgets.

Pencils are more likely to be purchased at the beginning of the school year. Parents buy them for their children. Manufacturers know this. So do retailers who buy pencils from manufacturers. The manufacturers plan ahead. They want to be able to meet demand. They also know what parents will be willing to pay.

So, buyers do not budget for pencils, but sellers do. This is typical of the relationship between buyers and sellers. Sellers are specialists in knowledge of their niche market. Buyers are not. They do not need to be knowledgeable. They need only possess money. The sellers will compete against each other in order to supply buyers with all of the pencils they are willing to buy at a familiar price.

Conclusion

Budgeting for the future is basic to economic survival. Someone who does not establish a budget is vulnerable to unforeseen expenses. More expenses will be unforeseen without a budget. People get used to monthly expenses in an advanced economy: food, rent or mortgage, utilities, insurance. But with more options to spend money, someone who does not want to be surprised by unforeseen expenses must plan his spending.

Obviously, sellers must pay close attention to budgeting. They rely on specialized knowledge for their income. In contrast, buyers rely on compe-

tition among specialized sellers for their supplies of consumer goods and services.

To the degree that buyers pay attention to budgeting, to that degree they mimic sellers in paying attention to details regarding income and expenditures. They become more future-oriented, as sellers must be. They can identify areas in the monthly spending patterns that are weak spots with respect to their will to discipline their spending. They gain greater self-control over their behavior. They gain greater control over their future. This is a mark of spiritual maturity. They become better stewards of the money entrusted to them by God. They serve God as trustees. Read Chapter 52: "Trusteeship vs. Autonomy."

People are required by God to assess the future impact in their lives of decisions they make today. This is why Jesus told His listeners to count the cost. *Do not start grandiose projects that you will not be able to finish.* If you start such projects but do not finish, you risk being ridiculed. Most people do not want to be ridiculed. In preparation for large projects, get experience first in forecasting with smaller projects. This is the case for budgeting.

This is not a warning against starting large projects. It is a warning against starting large projects without counting the cost. This book is the result of a self-education project that I began in the spring of 1960. It accelerated in March 1973, when I began to write a monthly article on an economic commentary on the Bible. It accelerated again in September 1977, when I budgeted ten hours a week, 50 weeks a year, until February 11, 2012 to writing the commentary. I finished a few weeks before the deadline. I had to budget my time systematically to achieve this.

Today, I can write a chapter like this one in less than six hours. This is only because of my prior investment of time and effort. There is a compounding effect of efficiency over long periods of time. This has to do with the specialization of knowledge. Had I not invested over 16,000 hours to researching biblical texts related to economics, I could not have written this book. It would have been a less accurate book. I wrote this as a seller of ideas, so that I could persuade readers to follow through on their own understanding of Christian economics, which is supposed to lead to implementation (James 1:22–25).

Count the cost. At the same time, count the benefits. Do not be paralyzed because of what appear to be high costs if the returns are high enough. The estimated benefits may be much higher than the estimated costs. What

matters is the difference between the costs and the benefits. Large projects always involve large costs. But large projects also achieve large results. Focus on the size of the results, not the costs in attaining these results.

It is not sufficient to count the cost. You must also count the benefits. In the garden of Gethsemane, the night before His crucifixion, Jesus counted the cost. He concluded that it was so high that He preferred not to pay it. Nevertheless, He decided to pay it. He prayed: "My Father, if it be possible, let this cup pass from me; nevertheless, not as I will, but as you will" (Matthew 26:38b). If the expected benefits are greater than their expected costs, you should pay the price. This may require courage. Entrepreneurs do this constantly. This is the nature of entrepreneurship. We are all entrepreneurs. We estimate costs and benefits. We take action. Inevitably, we experience profits and losses over the years. We are supposed to learn from experience: good and bad. This is how we develop better judgment. It is required for Christian maturity. All of this has to do with point four of the biblical covenant.

8

SCARCITY AND COOPERATION

And to Adam he said, "Because you have listened to the voice of your wife and have eaten of the tree of which I commanded you, 'You shall not eat of it,' cursed is the ground because of you; in pain you shall eat of it all the days of your life; thorns and thistles it shall bring forth for you; and you shall eat the plants of the field. By the sweat of your face you shall eat bread, till you return to the ground, for out of it you were taken; for you are dust, and to dust you shall return" (Genesis 3:17–19).

Analysis

Because this passage reveals God's negative sanctions, it is associated with point four of the biblical covenant: sanctions. But there is a problem with categorizing it solely as an aspect of point four: its effects. *Its primary effect is the economic pressure it places on humanity to cooperate.* Through the market's process of voluntary exchange, people gain access to others' productivity at some price. Cooperation is an aspect of ethics: reduced violence and increased productivity. Cooperation furthers the dominion covenant (Genesis 1:26–28). So does market pricing. The auction's primary principle of resource allocation is this: *high bid wins*. This is also the institutional foundation of the market process. The curse of the ground has increased the economic pressure on people to cooperate. The division of labor leads to increased productivity per capita and therefore increased wealth per capita. These are positive sanctions. We are back to point four.

There was scarcity before the fall. Adam initially was alone. He needed a helper. God gave him Eve, but only after he had named the animals of the garden. This in turn points to another aspect of scarcity: *insufficient knowledge*. Adam was not God. He was not omniscient. He needed theoretical knowledge. He also needed experience in applying theoretical knowledge to

the creation: judgment (point four). This was required for him to exercise dominion.

God cursed both Adam and the ground. These were twin aspects of the death sentence that God had promised before the fall. God continued to provide Adam with physical life, but Adam became a dead man. We might say that he was “a dead man walking.” But this misses the point. He was a dead man *working*. Adam’s sin did not relieve him of the overall responsibility of exercising dominion. It just limited his time to do so. The curse of the ground also limited his efficiency.

The curses on Adam and the ground reduced his productivity. The creation now places obstacles in man’s path: thorns and thistles. Every man must overcome these hindrances in order to increase his wealth. Wealth must now be pried out of the ground. This means increased costs: *reduced efficiency*. This loss of efficiency decreased Adam’s output. This reduced output limited his wealth. This is a curse. But with all curses in history, there is grace attached. The grace in this case is the requirement that, in order to reduce the threat of violent conflict, there is now an economic incentive to cooperate with others.

When our productivity falls, our income falls. We then seek ways to regain this lost income. One way is to specialize in production. This was also true before the fall. Man is not omniscient. He needs specialized knowledge that others possess. This was Adam’s sin: he relied on the rebellious knowledge that his wife provided. She in turn relied on the serpent’s knowledge. Their dependence on false knowledge produced a false assessment of the forbidden tree. They both exercised bad judgment: bad as in faulty, and bad as in immoral. For that matter, so did the serpent. It also came under negative sanctions.

When we seek other people’s knowledge, we must be prepared to pay for it. An offer of payment increases the likelihood of greater cooperation from others. But as we cooperate, we increase our dependence on others. This increased dependence is profitable. This in turn increases the cost of fraud or violence. Here is a fundamental economic law: “When the cost of anything rises, less is demanded.” As the cost of fraud rises, less is demanded. There is more honesty than before. “Honesty is the best policy,” said Benjamin Franklin in the late eighteenth century. Why is it the best policy? Because it increases cooperation, which increases output, which increases people’s income. The same is true of reduced violence. It leads to greater

output through greater cooperation. People also can safely devote less capital to protecting themselves against violence. Their net income rises as a direct result of this saving.

There were economic incentives to cooperate before man's fall. Cooperation produces greater wealth. God increased the economic incentive to cooperate when He cursed Adam and the ground. Each curse was a blessing in disguise.

A. Buyer

We call a person with money to spend a buyer. As a buyer, he must deal with the economic effects of the curse of the ground. There is less wealth than there would be, had there been no curse. He wants more income. To achieve this, he must specialize as a producer. But in his role as a consumer and as a possible investor, he wants lower prices, increased quality, and more choices. How can he attain these goals? By finding sellers who offer these advantages.

The buyer shops for better deals. It is in his self-interest to have sellers compete with each other in order to get their hands on his money. He wants to hear these words: "Have I got a deal for you!" Also these words: "I will sell it to you cheaper." The more sellers who compete for his money, the wider his range of choices. This is the best definition of economic growth: "more choices per capita with the same expenditure as before." The buyer's money "goes further." Walmart's slogan is this: "Save money. Live better." In four words, Walmart has identified the unique selling proposition of free market capitalism.

The buyer wants greater cooperation from sellers. The free market provides this through open entry and competition among sellers. Sellers compete against each other to sell to buyers for money, the most marketable commodity. So, the free market system is competitive. But this is competition within specific groups: sellers vs. sellers, buyers vs. buyers. This competition is part of a wider economy that operates in terms of cooperation. *The greater the competition within the two groups, the greater the cooperation between them.* Why? Because the cost of making purchases falls when prices fall. Remember this rule? "When costs rise, less is demanded." This is the other side of this rule: "When costs fall, more is demanded." When the cost of making purchases falls, there will be more purchases. This is another way of saying that there will be greater cooperation.

The buyer wants lots of choices. But the economist always adds this: “at some price.” Any increase in the range of choices imposes higher search costs on buyers. At some point, the buyer is overloaded. He has too many choices for the time he has to do the searching. The inescapable trade-off between time and money increases the value of our time when the prices of things fall. This leads to demand for better information. In my day, the fastest growing large companies in the world are Google (Alphabet) and Amazon. Both of them provide information. Amazon offers evaluations by purchasers of products. There is a five-star rating system. While every product has a standard sales brochure on an Amazon sales page, most buyers skip this and go straight to the ratings. They recognize their need for accurate information. They prefer information that is provided by buyers/users to information provided by sellers. Amazon’s enormous increase in market share indicates an enormous increase of cooperation between buyers and sellers. Amazon provides an international marketplace of cooperation. As the price of cooperation falls, more is demanded.

Specialization increases dependence between the seller and the buyer. This is a crucial aspect of specialization. The seller sells a product that buyers think is exactly the right product to solve their specific problem. He gains customer loyalty. At the same time, the buyers become dependent on the seller. This creates an opportunity for the seller to raise his price. But if he increases his price, this sends a message to existing buyers and potential new buyers: “There may be a better deal out there.” They go shopping. Higher sales prices also send a message to rival sellers: “I can siphon off some of his client base if I can get the information to them that my product is as good or better, and it is also cheaper.” So, the buyer’s dependence is high “at some price.” He is loyal to some product or company “at some price.”

Prices matter.

B. Seller

In order to increase his output, the seller must specialize in production. He must become an expert in a narrow slice of the market. He will gain his competitive advantage by knowing more about this market than his competitors do. His rate of return on invested capital, raw materials, and labor will be higher in this narrow market than he could gain in another market.

The seller is involved in a quest for more money. Why money? Because it is the most marketable commodity. It offers the widest range of choices.

So, to obtain ownership of the commodity with the widest range of choices, the producer concentrates his attention on a commodity with a narrow range of buyers. This is the nature of specialization.

In direct-response marketing, the seller learns that the easiest, least expensive way to make a sale is to “push the buyer’s hot button.” But there is a cost of this approach: a narrow market. As we copywriters say, “the narrower the market, the hotter the buttons.” When a copywriter asks a prospective client who should buy his product, the client usually says “everyone.” This is why the client has not been successful in generating sales. No producer can afford to persuade everyone to buy his product. The vast majority of buyers’ buttons range between lukewarm and cold. The copywriter must find a way to sell the client on marketing his product to a select list: people whose hot buttons match the product’s *unique selling proposition*. The copywriter searches for the product’s unique selling proposition in the eyes of those few buyers who are likely to respond to the offer. What a copywriter wants to hear from a client when he asks who should buy the product is this: “Hardly anyone, but the few who should buy it really do need what my product offers. They know this, so all you need to do is write an ad that shows them why my product meets their need. Then ask them to buy it.” That makes the assignment much easier.

The seller wants to get cooperation from highly specific buyers. He also wants lots of specific buyers. More than any company in history, Amazon provides highly specific products to a gigantic audience of buyers. It has successfully combined the one and the many. Many customers with many tastes buy from one company. It keeps growing. But it does so at a cost: almost no profits. Amazon is the least profitable of any enormously successful company in history. It exists to serve customers. It cuts prices. It increases services. Its stock price has skyrocketed, but its profits are dismal. It extends its market share, but it does not produce profits. This has made its founder, who is its major shareholder, one of the richest men in history.

C. Pencil

The pencil is a versatile product. It is specialized as a writing implement, but it is the most versatile of all writing implements. It is also the cheapest writing implement. Parents can buy lots of them for their children. If a child breaks a pencil, the parent can replace it inexpensively. A wood pencil is durable. Its point wears out, but it lasts a long time.

In 1984, when microcomputers were reaching a wide market, the “killer app” was the word processor. By then, I had been using word processing for four years. That year, Peter McWilliams wrote a book titled *The Word Processing Book*. It became a best-seller. It was a book about the common pencil. He showed that the main advantages of the digital word processor were also available from a pencil. The book was a joke, but it was a clever joke. It made a good point. The pencil was the best available word processor for most people.

I write the outlines for each chapter in this book with pencil and paper. I never learned how to type with all ten digits. I use only my index fingers. For me, a pencil is easier and faster to use for making simple notes.

A pencil is cheap to buy because it is cheap to manufacture in large numbers. It is a mass market product. The profit margins are small. It is an old market. Few manufactured products are older. There are few products from 1580 that the average person could use today, yet which is still a mass market product. The pencil is one of them. One of the pioneers in pencil-making in America was the father of author Henry David Thoreau. The company's profits enabled the son to spend 1845–47 close to Walden Pond writing *Walden*. He used a pen. But maybe he used a pencil for the outline. I like to think so. After two years, he went back into the family's business. Nature was his avocation. Pencil making was his vocation.

People are not dependent on pencils. They never have been. But the skill of writing spread far more rapidly with pencils than with any other writing implement. They were cheap. “When the price falls, more is demanded.” Our dependence on pencils is more like convenience than dependence. Entry into pencil production is open to all. No one has a monopoly on making pencils. For non-specialists, one pencil is as good as another. But if you go onto Amazon, you will find highly opinionated reviews of specific brands. The users have sharpened their pencils before using their keyboards. Opinions vary.

Opinion #1: Don't get me wrong these are very good pencils, they are easily sharpened, the leads don't break while sharpening and the eraser is well attached. But you know what if you boast that these are the worlds best pencils then I'm expecting something spectacular, and in that sense they fail.

Opinion #2: Absolutely the worst #1 lead pencil I have ever used. Using this pencil feels as if you are writing on sand paper.

Opinion #3: These pencils are terrific and lay down a very smooth layer of lead that is easily erased, if need be, by the excellent eraser on the pencil.

In short, “you pays your money, and you takes your choice.” There are lots of choices among pencils. None of them is life or death.

The pencil is not complex. There is a huge system of production that makes possible the production of a single pencil, but the components are simple. This is why it was a good example for Leonard Read to use. We can understand a pencil’s components. We cannot understand the components of all the tools necessary for the production of pencils. In his authoritative book, *The Pencil* (1989), Henry Petroski estimated that there are at least 125 separate manufacturing process in the production of one seemingly simple pencil (p. 210). But each of these processes requires capital equipment and raw materials. Some of these are highly complex. The degree of economic interdependence to create a pencil is beyond any man’s comprehension.

Read wrote his essay in 1958. The previous year, according to Petroski (p. 12), one expert in the manufacture of pencils estimated that it would cost a do-it-yourself hobbyist \$50 to produce a single pencil. On what it would cost in today’s dollars, use the inflation calculator of the Bureau of Labor Statistics (<http://bit.ly/BLScalc>). In 2018 it was \$447.

Conclusion

The story of the free market is the story of the reduction of the twin curses on Adam and the ground. The market’s complex system of exchange developed early in man’s history. The division of labor was extended by the development of money. Money made possible a vast increase in the number of exchanges. People could exchange their specialized output for money, and then use money to buy other men’s output.

The market extended the dominion of man over nature. It reduced the cost of production.

As costs fell, competition among sellers reduced prices. “When the price falls, more is demanded.” More cooperation was the result of falling prices.

Cooperation is between buyers and sellers. Competition is among buyers, and also among sellers. Competition within these two groups is the basis of cooperation between members of both groups. *It is a fundamental misunderstanding of competition to think that that society needs cooperation **rather than** competition.* If a society is to achieve greater cooperation, it must allow greater competition. Competition among producers increases the number of specialized options offered for sale. This lets buyers gain a far wider range of choice. This reduces the dependence of anyone on a particular producer. But the cost of this reduction of dependence on any one product or company is the creation of far greater dependence on the free market's system of exchange.

9

TRADE AND INTERDEPENDENCE

Now Abel was a keeper of sheep, and Cain a worker of the ground. In the course of time Cain brought to the Lord an offering of the fruit of the ground, and Abel also brought of the firstborn of his flock and of their fat portions. And the Lord had regard for Abel and his offering, but for Cain and his offering he had no regard. So Cain was very angry, and his face fell. The Lord said to Cain, "Why are you angry, and why has your face fallen? If you do well, will you not be accepted? And if you do not do well, sin is crouching at the door. Its desire is contrary to you, but you must rule over it." Cain spoke to Abel his brother. And when they were in the field, Cain rose up against his brother Abel and killed him (Genesis 4:2b–8).

Analysis

This passage is accurately classified as an aspect of point three of the biblical covenant, which relates to ethics: law. Cain broke God's law against murder. But this was also an aspect of point three in another way. God's law favors voluntary cooperation over theft, violence, and fraud. Cain's murder of Abel was an act of envy. Cain killed Abel, despite the fact that he was murdering the person who supplied him with meat. The two of them specialized. Cain produced grains. Abel produced meat. They specialized economically for the sake of greater individual productivity. This is a positive sanction for economic exchange. Each person becomes dependent on the output of the other. Interdependence replaces independence. This places a penalty price on murder.

The idea that agriculture was developed long after hunting is one of the favorite myths of evolutionary anthropology. This text indicates that there was specialization of production from the beginning of man's history. Cain was a farmer. Abel was a shepherd.

The theology of the story is implied. God's wrath against man for man's

sin is placated only by the shedding of blood. When God made a covenant with Abram, Abram slew animals (Genesis 15:10). There were agricultural sacrifices under the Mosaic law, but the central sacrifice of the nation was Passover: the slaying of a lamb. Unleavened bread was also eaten: the sacrifice of the field. So, God had respect ritually for agriculture, but animal sacrifice was primary. This enraged Cain.

The specialization of production leads to greater productivity. This was the thesis of Adam Smith's *Wealth of Nations* (1776). The first three chapters of Book I are these: "Of the Division of Labor," "Of the Principle which gives Occasion to the Division of Labour," and "That the Division of Labour is Limited by the Extent of the Market." This theme of the division of labor as a way to overcome the economic effects of scarcity has been fundamental to academic economic analysis ever since.

Specially cursed scarcity is a curse that was imposed by God because of Adam's sin. But with every curse in history, there is a related blessing. The blessing of cursed scarcity is this: it offers an economic reason for people to cooperate with each other. If they are willing to trade with each other, and if trade is lawful, they can afford to specialize in their production. They can produce what they are best at, and they can exchange their output with others who produce what they are best at. All trading parties expect to be better off after the trades. Usually, they are. So, they trade again.

In the case of Cain and Abel, the benefits from trade were insufficient to restrain Cain's lust for revenge. Cain either ignored the inevitable loss of wealth that his action would produce, or else he factored it into his calculations and decided to pay the price. He decided that he would rather do without a share of Abel's meat than to put up with the visible reminder that God accepted Abel's sacrifice and rejected his. Cain was really angry at God. "Who does Abel think he is, anyway?" was in fact this complaint: "Who does God think He is, anyway?"

One of the most insidious sins is envy. I do not mean jealousy. Jealousy is this sin: "He has what I want. I am going to find some way to take it from him for myself." Envy is this sin: "He has what I want. I know I cannot get it from him. So, I will destroy either it or him, even if it costs me." When Satan rebelled, he knew the consequences for himself. He also knew the consequences for Adam and Eve. He used the serpent to lure them into rebellion. He chose to upset God's plans, even though it would cost him a place in God's kingdom. He was trying to get even with God.

He would be far worse off as a result. This did not persuade him. Cain had exactly the same outlook.

God's curses on Adam and the ground imposed costs on Cainitic behavior. This is a law of economics: "When costs rise, less is demanded." *An increase in the cost of rebellion would lead to less rebellion being demanded.* What was this cost? Forfeiting the economic benefits of trade. If greater wealth is readily available, but a person decides to avoid taking advantage of this opportunity, he suffers a loss. As surely as a farmer who comes across a valuable coin in the ground when he is plowing his field loses wealth if he covers it up and never tells anyone, so is a person who decides not to trade. Worse, he kills the person with whom these profitable trades would be possible for many years. That was Cain's sin. It was murder based on envy. It was envy based on the theology: a rejection of the theology of shed blood to atone for a person's sin. Cain shed Abel's blood because God had honored Abel's blood-based ritual sacrifice. Cain in fact ritually affirmed God's theology. He decided that Abel was at fault, and therefore deserved to die. So, he shed Abel's blood.

Cain's sin was exactly the sin that God's curses of both Adam and the ground were imposed to restrict. By placing a price on such behavior, God reduced the demand for violence as a way to settle disputes.

A. Buyer

A buyer possesses money, the most marketable commodity. He is in a strong bargaining position. He owns what sellers want to buy. They must buy his money by offering him opportunities to improve his situation. This is surely to his benefit.

Money is the least specialized commodity. This is another way of saying that it is the most marketable commodity. Money can be used to purchase a wide range of goods and services. The more advanced the economy, the wider the range. The great advantage of money is this: you can buy whatever you want when and where you want it if you have the purchase price, plus a sales tax. Money is convenient.

But money conveys no other advantage. There used to be a saying of economists who opposed the gold coin standard: "You can't eat gold." It was a silly argument. You also cannot eat paper money, bank checks, and credit cards. At least with a gold coin, you could have someone melt it down and make a piece of jewelry. Try that with paper money. Money is used exclusively in ex-

change. It is not hoarded for its own sake by normal people. They think: "I may need this for a rainy day." They are worried about the rain.

This means that a person who has money to spend rather than goods in the storm cellar is dependent on the continuing availability of goods at local markets or through online purchases. If he already had what he might need on that rainy day, he would not need money, but he would need a lot of storage space. Who knows what might be necessary in the future? Lots and lots of things. They may rot. They may rust. Most important, most people will never need more than a few of the stored items, even on one of life's most rainy days. Money is the preferred way we save for a rainy day.

Take away the free market, and this thrift strategy may backfire. Occasionally, this happens. A major war can do this. Governments declare price controls during wars. The supply of legal goods then dries up. It can happen in a plague, when people are afraid to trade with each other. But such events do not happen often. The market usually functions continuously and smoothly. If you have enough money, you can buy anything for sale.

The money economy relentlessly extends its reach. Things are cheaper in a marketplace than on a nearly self-sufficient farm. They are vastly more plentiful. The division of labor makes this possible. So, more and more people want to participate. The movement of populations from villages to cities has been a familiar phenomenon throughout history. There are more things to buy and sell in a city. There is a greater division of labor.

This may not always be true. The coming of 3-D printing technologies may offer profitable ways to be productive locally without living in a city. Cheap communications technologies have transferred to village residents some of the advantages of urban living. But these technological trends have not yet reversed the larger social trend: movement away from villages.

People are dependent on village trade. In a city, they are dependent on urban trade. But this dependence is widespread and decentralized. There are so many suppliers, compared to a village. So, individuals become more dependent on the urban exchange system, but less dependent on a single supplier. Trade makes people dependent. Most people prefer greater dependence on the price-regulated, money-dependent free market than on a village supply system in which barter is common, and local monopolies are common. People have a far greater range of choice in a money-based market economy than in a barter economy.

The buyer is far less vulnerable to dependence on suppliers than suppli-

ers are on buyers. Money is the key leverage that the buyer has over the seller. As the number of choices increases through sellers' competition, the buyer's dependence on any one seller decreases.

B. Seller

A seller specializes in order to gain an advantage over his competitors. He relies on his own highly specialized knowledge. He also relies on the fact that buyers have less information about options. This traditional advantage of sellers has steadily disappeared because of the World Wide Web, where highly specialized information is accessible and is usually free of charge.

The seller is dependent on a highly developed system of capital. He borrows money to run his business, or he seeks investors. His dependence on the market is much greater than a buyer's dependence is. Why? Because a buyer has money, the least specialized commodity. He has greater flexibility of action than a seller possesses. He can buy almost anything with his money. A seller can buy almost nothing directly with his inventory of products. He does not live in a barter economy. He must sell for money, which he does not possess. Money is what a buyer possesses.

While a buyer is heavily dependent on the free market in general, a seller is dependent on conditions in a narrow segment of the free market: his niche. This is his source of profit. It is also his source of loss. If he guesses wrong, he can go bankrupt. There is no high-income alternative market for his output. If he cannot sell at existing prices, he must lower them. This will erase his profit margin. It may produce an accounting loss.

A seller is dependent on suppliers. The number of suppliers may increase or decrease, depending on the industry. But the tendency in a free market is for suppliers to get more efficient over time. No single supplier is crucial. This means that the seller's dependence on any single supplier decreases. He has money. He has the advantage as a buyer with money. In the "food chain" of the free market, the person with money feasts.

In a free market, the crucial resource is accurate, relevant information. The supplier gains his advantage over his competitors in terms of better knowledge. But buyers today also seek knowledge. They find cheaper products. This pressures suppliers. Their key advantage in dealing with buyers is superior knowledge of alternatives. This advantage disappears over time. Buyers can purchase better information about alternatives. The rise of digital algorithms is part of this. The use of algorithms is accelerating. They get

cheaper. The rise of new digital production tools also erases the advantage of existing manufacturers. Technological improvements began to accelerate in the Industrial Revolution in Adam Smith's day. He talked about it: the pin makers and their machines.

C. Pencil

The market for pencils is an old one. The technologies are automated. Demand is easily predicted. There are few changes in demand or styles. The familiar yellow pencil is universal. This means that knowledge is widespread. Buyers know what they want and where to buy it. Sellers know what most buyers want most of the time. There are few surprises in the industry.

The many suppliers of the components of a pencil know this market. They make available these components to buyers. The market was never a miracle. It was always highly predictable. The opportunities for profits or losses are minimal. This is because of widespread knowledge among producers.

There are few barriers to entry. Existing brands have some mild customer loyalty, but this can be overcome. The World Wide Web lets new manufacturers get their stories to buyers. The main new markets are in poor counties that are getting richer. There are new buyers.

A major price decrease in pencils is unlikely. A major new benefit from pencils is unlikely. Everything runs smoothly because it is an old industry. There are few hidden opportunities.

This means that a buyer's dependence on a single pencil producer is not significant. There are too many alternatives. There are many pencils to buy, and there are new digital technologies that are replacing functions of pencils. But a pencil's portability is extremely high. It is lightweight. It is cheap to replace if you lose it. It is not a portable digital recorder or a smart phone. If it makes a mark on your shirt, there is no lasting damage. It is not a pen. Everyone knows what a pencil is. No one has a major advantage: buyers or sellers.

Conclusion

Interdependence is inevitable in an exchange economy. Before Adam's fall, this was no threat. Sin has made it a threat. But this dependence is not nearly the threat that violence is. This is why God's curses of Adam and the ground were important in reducing the amount of violence. People who

trade regularly with each other are more likely to suppress their resentment or envy in order to maintain the mutually beneficial results of specialization. The love of money is the root of all evil (1 Timothy 6:10). It is also one of the deepest roots of cooperation.

Cooperation increases dependence on other people, but it decreases dependence on your own skills and resources. Personal dependence on others is higher in a barter economy than on a self-sufficient farm. But the residents on a self-sufficient farm are highly dependent on weather, the absence of crop-eating pests, and soil fertility. They possess few tools. Output is low.

In a barter economy, there are few buyers or sellers of any item. The range of choices is limited. As money replaces barter, the range of choices increases. People will sell valuable goods and services for money, but would not sell for a dead chicken or fish, especially in summer.

Exchange by exchange, a buyer's dependence on the division of labor economy increases, but his dependence on any single supplier decreases.

In a money economy, a buyer's dependence on any single seller is minimal. When a product is familiar, no seller has a major advantage in attaining market share unless the product is so cheap that no one cares to enter the market. In the United States, one product possesses this advantage: Arm and Hammer baking soda. It began in 1846. It controls an estimated 95% of the market. The product is cheap. Buyers don't care enough to switch brands. Buyers think that all brands are the same. No one can name a rival brand. While buyers' dependence is almost total, no one cares. The product is of only marginal significance.

As trade increases, dependence on the free market increases. But the free market is decentralized. It is highly diversified. There is far less dependence on a single producer, especially yourself.

10

MONEY AND WEALTH

*Now Abram was very rich in livestock, in silver, and in gold
(Genesis 13:3).*

Analysis

This passage is an aspect of point three of the biblical covenant: ethics. It relates to private property. Money is an aspect of the market process. It exists only in terms of this process. Money is the result of indirect exchange. People make exchanges in order to obtain money rather than directly exchanging for goods and services. They exchange for money rather than seeking out people who want to barter. Exchanging goods for money reduces search costs of buyers and sellers. Indirect exchange increases the division of labor. It therefore increases people's output per unit of resource input. It makes them wealthier than they would otherwise have been.

Abram was rich when God called him to leave Ur of the Chaldees and move to an unknown land. He did not leave his wealth behind. He took it with him (Genesis 12:5). It was portable capital. It continued to grow.

Gold and silver in Abram's day were money. This was around 1,900 B.C. These metals were a major form of wealth. This indicates that the division of labor was well advanced. Money is used only in high division of labor economies. Silver and gold were used originally as ornaments, but as economies become richer and more complex, silver and gold were used more in trade than as ornaments.

Silver and gold bars were units of weight. They were also units of fineness: the same amount of precious metal per weight. They came under the moral law of uniform weights and measures. This law was expressed in the Mosaic law: "You shall do no wrong in judgment, in measures of length or weight or quantity. You shall have just balances, just weights, a just ephah, and a just hin" (Leviticus 19:35–36).

Portability is one of six characteristics of money. The others are these:

durability, divisibility, recognizability, continuity of price over time and geography, and a high price in relation to weight and volume. Money can be concealed. It functions over a wide geographical area, preferably anywhere.

Abram was a wealthy man. He possessed gold and silver. His livestock was semi-monetary. In rural cultures, domesticated animals can function as money. They are durable, portable, recognizable, and divisible, but only once per beast. They are not high price in relation to weight and volume. This limitation is partially offset by the fact that they multiply all by themselves.

Money is the most marketable commodity. It possesses unique features. It is used to establish prices of all other products and services in a market. But there is no market-based price for money. There are billions of prices for money, matching every product and service. To assess the price of money, economists establish statistical index numbers, but these all have downsides. The average person has a sense that a particular monetary unit is changing in price, i.e., purchasing power, but this sense is in no way scientific.

Money is adopted voluntarily by traders. Prior to this, traders bartered. There are major problems with barter, i.e., *direct exchange*. You want to trade for something. The person who owns what you want to buy with your output may not want your output. You must seek out another buyer. But this new buyer may not have what you want to own. You negotiate prices. Maybe you cannot come to terms. So, you look for another buyer.

The best place to barter is in a marketplace. There are lots of buyers and sellers. But it is still small. It is local. It has limited selections.

The way around this is money, i.e., *indirect exchange*. Indirect exchange involves selling your output for money, and then using this money to purchase what you want to use or own.

Because money is the most marketable commodity, you gain access to vastly more possible sellers of whatever it is that you want to buy. Your geographical range is greater: outside a regional marketplace. There are far more people who may want to buy your output. There are more people to buy from.

When Abram went from Ur of the Chaldees to the Promised Land, he took livestock, silver, and gold. He knew that there would be buyers of his livestock or their output: meat, wool, and milk. He also could be confident that there would be buyers of his silver and gold. They would sell him whatever he wanted to buy if he had enough silver and gold. This is why his silver and gold were a form of wealth. They would enable him to make his journey without having to store up supplies. He would be able to buy what he want-

ed along the way. When he arrived, he would be able to buy land. This proved to be the case when he bought a cave for his wife's body (Genesis 23).

Silver and gold gave him mobility. It is a hassle to move livestock from place to place. Animals require hired hands to supervise them. Also, Abram had to be granted permission to move them across private land or tribal land. None of this was true of silver and gold. They are easily concealed and easily transported. Silver and gold do not reproduce, but it is possible to buy livestock when you arrive at your final destination if you own silver and gold.

Another important factor is continuity of price across time and geography. People impute much the same value to money, place to place, year to year. So, sellers of goods bid for silver and gold by offering economic goods in exchange. There is predictability of what you can buy in exchange. A seller surrenders ownership of some item because he expects the money to be worth something tomorrow, next week, and next year. He knows that someone else will sell him what he wants if he has money. It is the continuity of money's purchasing power that is the greatest single incentive for sellers to sell for money. *The longer a monetary unit maintains its continuity of price, the more likely it will continue to do so in the future.* It possesses historic value. This is crucial for any commodity to gain widespread acceptance as money.

Then there is divisibility. A buyer can take his money and divide it into smaller units. He can then buy smaller quantities of goods and services. This gives him greater diversity of purchases than if he had to surrender a horse to purchase eggs.

Because money makes trade less expensive, it extends the free market's acceptance. "The lower the price, the more is demanded." The existence of widespread trade encourages the extension of the division of labor. The extension of the division of labor increases the specialization of production. This in turn increases output per unit of resource input. Individuals become more productive. They therefore become richer. The money economy is fundamental for economic growth.

A. Buyer

A seller of money is called a buyer. A buyer has a wide range of choices. This is why it is convenient to own money. There are so many opportunities available. This inevitably increases personal responsibility.

And that servant who knew his master's will but did not get ready or act according to his will, will receive a severe beating. But the one who did not know, and did what deserved a beating, will receive a light beating. Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more (Luke 12:47–48).

Because money is a unit of account, buyers and sellers can see what is available for purchase. Buyers can see the opportunities. Sellers can see the competition's prices. The buyer can estimate how much money he owns. He can then make price comparisons among those goods and services that interest him as a shopper. This reduces his money cost of shopping, although the time costs may rise. He can make better-informed purchases. His likelihood of making an error is reduced.

There is extensive competition to sell to him because he has money. This is a huge advantage for him. He has a greater range of choices for the money he owns. We usually define freedom as a greater range of choices. This is also how we define economic growth. But we do not get something for nothing in a world of scarce resources. We get an increase in responsibility.

It is important to understand that a buyer does not use money to measure value. Value is subjective. Individuals impute value to things. They place specific values of specific items on a scale of values: first, second, third. Money prices tell them what they can afford to spend. Money helps people select what they are willing and able to bid in order to achieve their value-based goals. But money is not a measure of value. There is no objective measure of subjective value, any more than there is an objective measure of love or hate.

B. Seller

A seller benefits from money. First, he has to have money in order to sell. He must buy inventory. He must buy or rent space. He must pay for labor services. He must pay for electricity and water. Money enables him to budget his expenditures. He knows his limits. "A man has to know his limitations." A money economy helps people to do this.

Second, he must assess his competition. The first way to do this is to find out what the competition is charging. A seller must also discover what level of quality the competition's good are. Price is not enough to know in most cases unless the good is overwhelming price competitive. A good ex-

ample is gasoline. The public is only vaguely aware of quality differences among brands. Price is what matters.

The seller is more rigorous in his accounting than the typical buyer is. A mistake can cost a seller dearly. Prices are the basis of accounting. To determine whether a line of production should be continued, a seller must see what it costs to produce the item, and what it brings in, net, from buyers. If a product is producing losses, the seller must stop selling it. He must either redesign it or replace it. Similarly, if it is making a large profit, the seller must decide whether to increase his inventory, raise the price, or whatever.

The buyers' decisions to buy or not buy send signals to sellers: more, less, or the same. Prices let the sellers find opportunities, just as they help buyers. Abnormal prices call attention to unique situations that may be profit opportunities. They convey useful information.

The wider the market, the more potential buyers there are. Money extends the market.

The seller is in a position to purchase specialized knowledge. There are people who know how things work in niche markets. The seller's ability to offer money in exchange for knowledge is what brings possessors of knowledge into the market. Their knowledge allows sellers to decide what to produce, how, and at what price. This is the free market's system of coordination. People can make plans and adjust them in response to new conditions. The price system is the central pillar on the private planning system. This requires money.

C. Pencil

The manufacture of a pencil would be impossible without money. The division of labor apart from money would be so undeveloped that a writing implement as complex as a pencil would not be possible except as a rich man's toy.

The complexity of the multiple production processes that Leonard Read describes is so great that no one understands it. That fact is the heart of his article. It would not be possible for anyone to design a system of pencil production that is based on barter. Trading a specific good for another specific good, trade after trade, across several continents would never come about. The production system's designer would have to coordinate these trades. The point of the Read's discussion of the market process is that no one could design any production process like this. It is the

product of millions of unsupervised trades. There is no central planning board that could do this even with a money economy. Without money-based pricing, it would be impossible.

Buyers know approximately what a pencil should cost. They go to a store ready to pay this price. They have bought pencils before. They have placed pencils on their shopping lists. They know that pencils can be found in the school supplies section. Most of the shopping process is familiar, down through the generations. Maybe someone will order pencils online. Pricing will be comparable. There are no big surprises when shopping for pencils.

Sellers have priced their pencils accordingly. They have also priced the factors of production. They have stayed within a budget. They are now ready to deliver pencils to stores. They can deliver them through the Post Office or UPS when ordered online. It is all familiar.

The pricing system makes all this familiar. There are few unexploited opportunities for profit with existing technologies. The pricing system would reveal such opportunities. They would not be available for long. Entrepreneurs in the industry would fill the gaps. They are alert to such opportunities. Prices are the main source of information on such opportunities.

Conclusion

We do not know when money was invented or where. It is likely that it came about through market transactions. People began trading in order to gain ownership of silver or gold, which were used as ornaments and in religious art. The owners found that others were ready to exchange all kinds of products to gain ownership. The metals went from being sources of ornaments and religious art to sources of money. But there are no historical records documenting such a transition.

When gold and silver became money, this opened up markets for human creativity.

Creativity needs ways to be expressed. The division of labor allows this. This is what Read's essay on the pencil argues. It is an argument in favor of liberty as a source of creativity. *Money increased liberty*. Money can be hidden, transported, and sold across borders. Kings found it impossible to stop trade once money vastly increased the scope of trade. Greater trade meant greater specialization of labor. This in turn increased output. The range of choices expanded. People could buy far more goods than before if they possessed money. The best definition of liberty is this: "an increase in the range

of choices at the same price.” The best definition of economic growth is this: “an increase in the range of choices at the same price.” The expansion of the money economy therefore increased both liberty and wealth.

Money is closely tied to wealth. We define money as wealth. This is an accurate definition. We also define wealth as money. This is also accurate. But both definitions are too narrow and too exclusive. Wealth is more complex than this. So is money. Money is a form of wealth that multiplies wealth indirectly, through expanding the scope of trade and therefore the scope of creativity. Like Abram’s livestock, money gives birth to greater wealth. But, unlike livestock, this is not done through the expansion of the money supply. It is done through the expansion of trade. The existing money supply is used by a larger number of users. Units of money are transferred from one owner to another. Goods and services move in the opposite direction. The number of transactions increases. The time in between transactions decreases.

Money moves from owner to owner. Production does the same, but in the opposite direction. Ownership changes. Wealth increases because each trader gets more of what he wants by surrendering ownership of whatever he wants less than whatever he receives in trade. Money vastly increases the number and scope of such exchanges.

11

BUYER AND SELLER

Joseph was thirty years old when he entered the service of Pharaoh king of Egypt. And Joseph went out from the presence of Pharaoh and went through all the land of Egypt. During the seven plentiful years the earth produced abundantly, and he gathered up all the food of these seven years, which occurred in the land of Egypt, and put the food in the cities. He put in every city the food from the fields around it. And Joseph stored up grain in great abundance, like the sand of the sea, until he ceased to measure it, for it could not be measured (Genesis 41:46–49).

Analysis

Commissioners collected excess grain: one-fifth of the harvest (Genesis 41:34). The text does not say whether Joseph bought the grain with Pharaoh's money or confiscated it in the name of Pharaoh. I think Joseph bought it. Here is my reasoning. After Pharaoh bought the people's land with grain, Pharaoh taxed them permanently at 20% (Genesis 47:23–26). But the original rate of grain accumulation was 20%. If Pharaoh had possessed such taxation authority before the surplus years, why had he failed to exercise it? Why was this a new tax policy under Joseph? Conclusion: it wasn't a tax policy. Joseph paid for it. So, there was no resistance.

Joseph was an entrepreneur. He predicted the economic future. There would be seven good years followed by seven bad ones. He then offered a plan to Pharaoh: store up grain for the famine. Pharaoh took his advice. He made Joseph second in command. Joseph became a manager. Joseph had a plan to sell grain to future consumers. Consumers knew nothing of this. Farmers knew nothing of this. So, they did not bid up the price of grain. Joseph was able to buy low for seven years. Then he sold high—very high. Joseph's plan saved Egypt. It also made Pharaoh even more rich and powerful.

The division of labor collapsed in Egypt during the famine. How do we

know this? Because the money failed. “And when the money was all spent in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph and said, ‘Give us food. Why should we die before your eyes? For our money is gone’ ”(Genesis 47:15). Egyptian consumers had relied on their money to save them. This proved to be short-sighted. Pharaoh wound up with their money. Then he bought their land with food.

This was not normal. In normal times, consumers with money are in a strong bargaining position. They have what sellers want: money. But because of the famine, there was a reversal of economic roles. After a year of famine, Pharaoh had both the money and the grain. He was in the driver's seat. Joseph's forecast and subsequent planning had made this possible. The monetary system had collapsed. The economy had collapsed. The division of labor had collapsed.

Economics is a detailed study of the division of labor. So it has been ever since Chapter 1 of Adam Smith's book, *An Inquiry into the Nature and Causes of the Wealth of Nations*: “Of the Division of Labor.” The division of labor is a vast system of mostly voluntary exchanges. Smith designed his book to persuade readers that the free market has no design and no designer. Smith's Invisible Hand was not God. It was a metaphor.

Christian economics begins with a unique premise: *there is a cosmic central planner*. God is the owner of the cosmos. He upholds it moment by moment. Nothing happens that is not part of God's plan and His decree. Nothing surprises Him. This is the economic implication of the biblical doctrine of providence. God is absolutely sovereign.

The Bible also teaches that God has delegated portions of His sovereignty to men, who act as His stewards, whether they believe this or not. There will be a final judgment, at which time God will evaluate each individual's economic performance (Matthew 25:14–30). This is the doctrine of *delegated sovereignty*, also known as *authority*. In the field of economics, this is the doctrine of *stewardship*. Men hold title to everything they own, including their lives, on behalf of God.

Covenant-keepers are supposed to acknowledge this. They are supposed to understand that they hold title as judicial representatives of God. They hold title in the name of God. They have what lawyers call a *fiduciary relationship* with God. They are trustees. But biblical trusteeship is a two-way concept. All covenants are two-way judicial arrangements. Trusteeship is covenantal because the dominion covenant (Genesis 1:26–28) is

covenantal. The trustees trust God to uphold them when they act responsibly on His behalf.

Blessed is the man who trusts in the Lord, whose trust is the Lord. He is like a tree planted by water, that sends out its roots by the stream, and does not fear when heat comes, for its leaves remain green, and is not anxious in the year of drought, for it does not cease to bear fruit (Jeremiah 17:5–9).

Ownership is theocentric. God owns all things. God is the source of all blessings. “Every good gift and every perfect gift is from above, coming down from the Father of lights, with whom there is no variation or shadow due to change” (James 1:17). This includes the gift of money (treasure).

As for the rich in this present age, charge them not to be haughty, nor to set their hopes on the uncertainty of riches, but on God, who richly provides us with everything to enjoy. They are to do good, to be rich in good works, to be generous and ready to share, thus storing up treasure for themselves as a good foundation for the future, so that they may take hold of that which is truly life (I Timothy 6:17–19).

What is it about money that is so alluring? It seems to provide autonomy: independence. It seems to provide safety from life’s common afflictions. “A rich man’s wealth is his strong city, and like a high wall in his imagination” (Proverbs 18:11). Money insures against future negative sanctions. It also provides access to positive sanctions. It can become addictive. “He who loves money will not be satisfied with money, nor he who loves wealth with his income; this also is vanity” (Ecclesiastes 5:10).

The seller pursues money. He sells to a customer in exchange for money. Sellers want money because *money is the most marketable commodity*, as the Austrian economist Carl Menger wrote in 1892, and as his intellectual follower Ludwig von Mises wrote in 1912. *The customer is in a position of economic authority because he owns money*. This is not the same as legal authority. The buyer and the seller are both owners. They both possess delegated legal sovereignty over their property from God. In terms of their lawful control over property, they are equal in the sight of God. Their legal

claims must be honored by the civil government. “You shall not pervert justice. You shall not show partiality, and you shall not accept a bribe, for a bribe blinds the eyes of the wise and subverts the cause of the righteous” (Deuteronomy 16:19). But with respect to economics, there is a hierarchy: buyer (seller of money) over seller (buyer of money). This is because the buyer owns the most marketable commodity. He can buy almost anything he wants if he has enough money.

In presenting the logic of economics as it applies to the market, an economist should begin with ownership. People who make an exchange are owners. They are buyers. They are sellers. It is therefore a conceptual error to avoid discussing the buyer in equal detail as the seller in any exchange.

Economists focus on explaining how the free market delivers the goods on time and at a price that producer-targeted buyers are willing and able to pay. It is much more difficult to explain the production/delivery system, which really is an integrated system, than to explain the buyer. But it is a conceptual error to ignore the buyer. *Sellers compete against sellers. Buyers compete against buyers. This is the heart of the free market's system of cooperation.* This is why, in the chapters of Parts 1–4, I include a section on the buyer. I begin with the buyer because he possesses economic authority because of his money. The seller does not.

A. Buyer

The buyer possesses money. The monetary system is the central institutional arrangement in a modern economy. Money is common in most exchanges. *The buyer is a seller of money.*

There are more passages in the Bible warning against excessive money than there are warnings against excessive work. Men can and do pursue too much money, the Bible assures us. They can also work too hard and too long. But the common motivation for working too much is the pursuit of money. “Do not toil to acquire wealth; be discerning enough to desist. When your eyes light on it, it is gone, for suddenly it sprouts wings, flying like an eagle toward heaven” (Proverbs 23:4–5).

Economics textbooks focus on the structure of production. They do not focus equally on the structure of consumption. People's desire to consume is assumed. Indeed, ever since Adam Smith, consumption has been regarded as the central motivation of production. “Consumption is the sole end and purpose of all production; and the interest of the producer ought to be

attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it" (*Wealth of Nations*, Bk. IV, Chap. 8, Para. 49). Then why do economists focus on production? This has led to an unbalanced understanding of economics. The consumer is king. Why? Because he owns money. Producers seek to sell him things in exchange for a portion of his money. So, when the economist begins his analysis, he should begin with the consumer or the customer, not the producer. The buyer is in authority.

The buyer possesses money. Money gives him the widest range of choice among producers and services. It is universally desired. He can buy today or tomorrow. There will still be lots of sellers tomorrow. There will still be an immense flow of goods and services for sale in a free market society.

The buyer knows that he is not omniscient. He has no special skills in forecasting the economic future. He does not want to be caught short in the future. This means caught short of money. Money is a safety net. Whatever is the crisis that comes, money in sufficient quantity will be able to reduce the negative effects of this crisis. So, *money is an insurance policy against the unknown*. It can be used to buy an insurance policy. What does the insurance policy provide if a crisis hits? Money. Here is a good rule: "If you are worried about an unexpected setback, own money." Here is another good rule: "If you want to take advantage of an unexpected opportunity, own money."

To gain money, a person usually must work. He sells labor services for money. He is a supplier of labor services. Economists devote many textbook pages to labor. But, as I have said, they devote far fewer pages to laborers as future consumers. Why do most people work? To earn (buy) money.

A consumer accumulates money because he prefers not to specialize in consumption. He does not accumulate all of the goods that he might conceivably use in the future. Instead, he accumulates money. He can buy whatever he wants whenever he wants it if he has enough money. Money saves him time and trouble in forecasting the future. It also saves on storage space.

Buyers in general do not specialize in forecasting their future consumption. There is nothing special about forecasting future supplies of most goods and services. Buyers buy whatever they want at familiar retail outlets. They buy during normal business hours. If they buy online, they buy at any time. They assume that whatever they will want to buy will be on sale at a familiar price. They are usually correct in this assumption, except during hurricanes or other natural disasters. This is what Leonard Read called the

miracle of the free market. But it is not a miracle. It is a day-to-day reality. A buyer does not think about it. It is in the back of his mind. He pays little attention. He cannot explain how this happens. He simply trusts in the delivery system: the free market. Usually, his trust is rewarded.

A buyer defers to the many sellers with respect to forecasting his economic future. It is not his responsibility to predict what he will want to buy: what, when, where, and how. He rests mentally in the confidence that profit-seeking sellers will be there when he wants their services. He safely does this.

B. Seller

A seller specializes in production in order to achieve a competitive advantage. This analysis goes back to Chapter 1 of Smith's *Wealth of Nations*: "Of the Division of Labor." Smith offered the story of the pin makers who, through the division of labor, can produce large numbers of pins. These pins command a low price: large supply in relation to demand.

In his economic capacity as a *future buyer of money*, a seller tries to predict what buyers will want to buy in the future, and at what price. He becomes both a forecaster and a planner: a forecaster of future demand and also a combiner of the production goods required to meet future demand at a profit. We call such a person an entrepreneur.

The entrepreneur imagines future demand. He asks the same questions that a reporter or an historian asks: who, what, where, when, why, and how? Who will buy a particular consumer good? What is this consumer good? Where will the sale take place? When will the sale take place? Why will the sale take place? Finally, how will the buyer know who will sell the item, where, and when? But a buyer, unlike a seller, does not need to ask why. He knows why. A seller will be after his money.

In contrast to a buyer, a seller conducts market surveys. He looks at general economic indicators. He pays attention to the price of production goods. He is far better informed about the future state of consumer demand than consumers are. A buyer does not need to know what he will want to buy, or where, or at what price sometime in the future. The producer pays attention to business. The buyer does not. The buyer trusts his employer to take care of business. This is not his responsibility. He assumes he will be paid a predictable amount of money. Normally, this assumption is correct.

Buyers rarely compete against sellers. When they go on Amazon to buy

something, they do not think this: "I am in competition with sellers." Instead, they think this: "Sellers are competing with each other for my money. The more, the merrier!" Buyers cooperate with sellers in search of greater wealth. They trade with each other in the hope of attaining better individual situations. Buyers must bid higher than other buyers in order to gain this cooperation. Sellers must bid lower than other sellers in order to gain this cooperation. *Out of this competition come market-clearing prices.*

C. Pencil

A buyer does not think much about pencils, nor should he. Pencils are familiar items. They are easily available in any supermarket. Only if the buyer is a poor person in a village will he have to give much thought to buying a pencil. If he lives in a middle-class city, and if he ever wants a pencil, he can buy one. He probably will buy a box of them. They are cheap. He will be able to see when he is running out.

A pencil seller faces a predictable market. There may be increased demand when children go back to school, but demand does not fluctuate much, year to year. A seller may face ups and down of prices in the raw materials he buys. Maybe a pencil-making machine will break down, but these are familiar costs of production. Will he face a shortage of wood? Paint? Metal for holding the erasers? It is possible, but in a worldwide free market, there are usually lots of other suppliers. So, the pencil market is predictable. With so little uncertainty, there will be few opportunities for either profits or losses. The seller of pencils follows a routine. Sellers can be confident that there will be buyers. Buyers can be confident that there will be sellers.

There is nothing miraculous about the market for pencils. Yet without the institutional arrangements of the free market social order, a pencil would be a rare item. It would be expensive. It would be like a pin in a world without a division of labor. Pin makers would be highly skilled craftsmen.

Conclusion

Sellers specialize in search of elusive future profits. Buyers are far more passive. They do not get rich through entrepreneurship. They gain whatever they want whenever they earn enough money to be able to outbid competing buyers on shopping day: the day of judgment for sellers.

Buyers impute value subjectively to a vast array of goods and services. Then they place their objective bids in the form of money.

Sellers need to pay close attention to their targeted buyers. Buyers can safely afford to be more laid back. There is no rush. They possess money. This is what sellers want today and will want in the future. The buyer can go shopping when he is ready to buy. Until then, he can safely ignore the economic future if he has money. This is not true of the seller.

If a seller profits, this is because he has paid close attention to the future, and his plans have worked out. He specializes in prediction. The buyer has paid far less attention to the future. He relies on the free market to provide him with money and products to buy. Most of the time, this is what the free market does. This is not a miracle. It is the result of specific institutional factors: widespread private property, the rule of law, stable money, double-entry bookkeeping, respect for contracts, the absence of widespread envy, and the desire of everyone to be a little better off next year.

This is why economists spend more pages discussing producers rather than consumers. The challenges facing producers are complex. This is not true for consumers.

12

SUPPLY AND DEMAND

Afterward Ben-hadad king of Syria mustered his entire army and went up and besieged Samaria. And there was a great famine in Samaria, as they besieged it, until a donkey's head was sold for eighty shekels of silver, and the fourth part of a kab of dove's dung for five shekels of silver (II Kings 6:24–25).

But Elisha said, "Hear the word of the Lord: thus says the Lord, Tomorrow about this time a seah of fine flour shall be sold for a shekel, and two seahs of barley for a shekel, at the gate of Samaria (II Kings 7:1).

Analysis

This passage is an aspect of point three of the biblical covenant: ethics. It relates to theft. The market process allocated food to the highest bidders. There was no law against this. This was an aspect of property rights. The Mosaic law allowed people to exchange food for money. *The right to disown something is implied in the right of ownership.* People had the right to disown money to buy food.

A military siege had cut the supply of food into the capital city. The prices of various forms of food went up. People subsequently imputed great value to food under these circumstances. Without food, they would objectively starve. So, from the point of view of subjective economic value, food was high on everyone's scale of values.

Food was so valuable that two women made a corrupt bargain. They agreed to eat each other's children. But after they ate one woman's child, the other woman refused her part of the bargain. The woman whose child they had both eaten then complained to the king (II Kings 6:28–29). She regarded the other woman's decision as a breach of contract. She expected the king to provide justice along these lines. "Turn over your son, madam, so that you both may enjoy the feast." The king was appalled (v. 30). But he did

not try them both in a court for murder. (Note: this behavior had been predicted by Moses: Deuteronomy 28:53.) Instead, politician that he was, he blamed Elisha for his troubles, threatening to kill him that very day (v. 31).

Elisha made a prediction. It was in fact a prophecy. The next day, food would be cheap, he said. Elisha was making more than a prediction about food's price. He was making a prediction about food's supply. There was only one way for prices to fall this much: a huge increase in the food supply. But how could this be? The implication was obvious: the siege would end the next day. A high-level military official critic dismissed this as impossible. Elisha cursed him: the critic would eat none of it (II Kings 7:2). All of this came true the next day. The army of Ben-Hadad fled during the night. It was in such a rush that it left behind its food. Some lepers found the camp deserted. They found gold. They found food. They hid the gold. Then they reported the fact about the food to the gatekeepers, who told the king. The crowd rushed out to get the food, trampling Elisha's critic (v. 20). He ate no food ever again.

There is nothing economically unique about this story. We understand it easily. Elisha used the price of food to make a prediction about the food supply. The critic fully understood this. The low prices could mean only one thing: lots of food. Elisha's critic understood price theory. *Supply and demand balance because of adjustments in prices.* The price of food had soared because of an artificial restriction of supply: the siege. A falling price meant the end of the siege coupled with a huge increase in the supply of food. The critic, who was military, could not imagine that Ben-Hadad's army would somehow lift the siege and also supply the city with food. He was wrong. Dead wrong.

The phrase "supply and demand" is so familiar as a concept that sometimes people speak of "the law of supply and demand." People recognized this law in Elisha's day, and they still do.

A. Buyer

The buyer makes decisions about what to buy. He has specific goals in mind. He seeks to achieve these goals in terms of the money he has available. He decides what to buy in terms of the prices attached to the various things he wants to buy or rent. Prices send a signal. They tell the buyer what sellers are willing to accept. They also tell the buyer what prices the sellers think that buyers are willing and able to pay.

Prices are in part the outcome of competition among buyers. There are lots of buyers who would like to own goods offered for sale. They are willing to bid on these items. In an auction, these bids keep getting higher until there is only one person willing to pay for the item. The auctioneer sells it at this lone price. But in a developed market for goods, the buyers and sellers do not want to spend the time it takes to negotiate a separate price for each item offered for sale. They can use an auction site such as eBay. But eBay tends to offer used goods or collectors' items, i.e., one-of-a-kind items. Most retail sales are not conducted by an open auction process. So, manufacturers initially decide what the retail price should be. They sell their supplies in bulk to retailers at a price they think the retailers will be willing to pay. Meanwhile, buyers are shopping. They are looking for low prices and fast delivery. They are looking for free shipping and money-back guarantees. They are bidding against each other, just as sellers are bidding against each other.

The buyer wants a market in which there is a huge supply of whatever item he wants to buy. He also wants potential buyers to be interested in buying something else. If there are few buyers and lots of sellers, some of the sellers will be ready to bargain. How do they bargain? By offering price discounts or special terms of sale. "No payment due for six months!"

Buyers possess the most marketable commodity: money. But money can fail, as it did in Egypt in Joseph's day. In times of famine, people seek to buy food. If someone has food to sell, he can command a high price. Hungry people may be willing to trade previously valuable heirlooms for food. But these are one-at-a-time sales. In a famine, the division of labor breaks down because the money system breaks down. There is no longer a common commodity by which to assess the prices of everything offered for sale. Information is lost under such conditions. People don't know what specific items sell for. Prices no longer convey accurate information to the broad mass of the population: buyers and sellers.

People use money to "save for a rainy day." Money is assumed to be the means of exchange under all conditions. But in a time of famine, people hoard food rather than money. They are not sure that markets will still function tomorrow. They start buying the goods they will consume if the crisis continues. We see this phenomenon in the hours before a hurricane is expected to strike a coastal city. Buyers go to stores and empty the shelves of food, flashlights, batteries, and ice. Most of them wait until the last few

hours. Then they head for the store, hoping to avoid the rush. Under these conditions, there is more demand than supply at yesterday's prices.

Store owners rarely hike prices. Raising prices during a disaster is sometimes illegal. In all cases, it makes buyers angry. They may seek revenge after the hurricane has blown over. In a crisis, people lose faith in the pricing system. They revert to "first come, first served." The store's manager may put up a sign: "Limit: One Item Per Customer." Most buyers accept this limitation as morally legitimate.

B. Seller

The seller has estimated what demand will be at some price. He plans to deliver exactly the right supply of goods to sell all of them at the price he has guessed will prevail. He wants no unsold goods. He also wants no angry people who wanted to buy, but who arrived too late.

Consider a sports event. The seller has seats for sale. He wants to fill every seat with a paying customer. If the price is too high for the event, there will be empty seats. That is bad for business. He loses money. If he prices seats too low, there will be people lined up who were willing to pay more. That is bad for business. He forfeits money. He wants the Goldilocks price: not too low, not too high, but just right. "Just right" means no unsold seats and no people lined up who cannot get in.

Sellers must be forecasters. They must be entrepreneurs. They must plan in advance what items to produce, in what quantity, delivered where, delivered when, at what price. They do not know in advance what demand will be. They also do not know what their competitors will be doing when it comes time to make a sale. This is why there are profits for some and losses for others.

Sellers look at today's prices, just as buyers do. They make forecasts about prices later on. Buyers are less interested in this. They assume that profit-seeking sellers will deliver the goods where buyers want to buy, when buyers want to buy, at prices that buyers are willing to pay. Usually, they are correct. But sellers dare not be lackadaisical about such matters. They must pay attention to business, and business success depends on forecasting accurately.

Prices convey crucial information about the prevailing conditions of supply and demand.

There are specialized markets that predict the future prices of basic

commodities. These are called commodity futures markets. They are vital for guiding some producers and retailers. Prices are signals that convey information about what successful entrepreneurs and price speculators believe the conditions of supply and demand will be.

Changing prices alert entrepreneurs to possible opportunities. If they believe that rising prices are the result of rising demand, they purchase raw materials, capital equipment, and labor in order to take advantage of this increased demand. They make these purchases by outbidding other entrepreneurs, who had other plans for these scarce resources. This bidding process re-directs resources to meet the expected demand of buyers. If this demand continues, the new supplies provided by entrepreneurs will tend to call a halt to rising prices in this sector of the economy. The new, increased supply will find buyers at existing prices. Buyers had bid up the prices of specific consumer goods. Now their combined bidding is sufficient to absorb all of the new supply without driving prices even higher. In this way, the free market generates increased supplies of heavily demanded goods and services. Buyers get all they want at the prices they are willing and able to pay.

Sellers seek profits by providing whatever buyers are bidding to purchase. If prices begin to fall, indicating reduced demand or excessive supply, this sends a signal to entrepreneurs: it is time to stop bidding for the production goods that are used to meet existing demand. The resulting bids in the market for these production goods are lower. This makes it possible for other entrepreneurs to outbid them for control of these goods. This re-directs resources away from the production of consumer goods that are no longer in such great demand as before.

There is no central planning board of bureaucrats whose combined opinions are required to accomplish this allocation of resources.

Supply and demand are constantly changing because conditions are constantly changing.

This includes changing tastes.

C. Pencil

I return again to the lowly pencil. Both the supply and the demand for pencils are far more predictable than the supply and demand for smartphones. Pencils are old and respected consumer products. There are rarely wild swings in demand for pencils. New types of pencils come and go, but

the familiar yellow pencil and pink eraser are part of every child's youth but few teenagers' remembrances. A pencil is at hand any time that someone wants one in-hand.

A steady flow of resources is directed into the production of pencils. We use the passive voice when we do not understand the process. What does this sentence mean? "A steady flow of resources is directed into the production of pencils." It means that profit-seeking entrepreneurs purchase resources from other profit-seeking entrepreneurs in order to combine them in specific ways to produce certain kinds of pencils. These entrepreneurs make a living because they possess information on how to produce these pencils at a profit. The profit will not be large. Profits arise as a result of what economists describe as the exploitation of previously unexploited opportunities. There are few unexploited opportunities in the market for pencils. The product is familiar. It is a large market, but it is filled by producers who trade in familiar knowledge. The producers benefit from some minimal degree of brand loyalty. It is not a fanatical loyalty. It is loyalty based on decades of predictable performance: of the pencils and of the producers. There is an American phrase: "If it ain't broke, don't fix it." There is another phrase: "Leave good enough alone." There is another phrase: "Dance with the person who brought you." There is another phrase: "Don't change horses in mid-stream." They all convey the same message: change is uncertain. Better to stick with what you know.

This is why Leonard Read's essay is remarkable. He picked a consumer good that everyone recognizes and understands. There is nothing surprising in a pencil. It occurred to him that no one knows how to make one. The complexity of the production process is profound. Read exercised an entrepreneur's insight. He saw an unexploited opportunity: the opportunity to introduce readers to this complexity of the production process by means of a simple tool that everyone has used and no one regards as remarkable. What is remarkable is the production process that produces pencils in abundance. He wrote what has become a classic article.

I, too, am an entrepreneur in ideas. I am using Read's article for my own purposes. No one else has used his admittedly brilliant article as the means of explaining the actual operations of the production process that Read wrote about but failed to explain. This has been an unexploited opportunity ever since 1958.

Conclusion

The phrase “supply and demand” refers to a single process. People who use this phrase have some understanding of the fact that it is a single process. They may not be able to explain the process, but they understand that the process is independent of central planners. This is why the phrase is a convenient tool in refuting the economics of central planning. Those who have heard it already have some idea of the process of production.

Supply rises to meet rising demand. Supply falls to meet falling demand. Inquiring people may ask: “How does this work?” It works because of the bidding process. Buyers bid against buyers. Sellers bid against sellers. Out of this continual bidding process comes an array of prices: consumer prices and producer prices. These prices convey information about unexploited opportunities. If there is a discrepancy between what final consumers seem to be willing to pay for finished goods vs. prices of resources used to produce these goods, entrepreneurs are alerted to a profit opportunity. The goal is always the same: “Buy low and sell high.” The technique is to buy now in the expectation of selling higher later.

We see this process at its best in a stadium or concert hall filled with paying customers, but without anyone standing in line outside, vainly hoping to buy a ticket. The number of tickets sold exactly matches the number of seats available. This did not happen by magic. This is not a miracle. It is also not a mystery, or shouldn’t be if you have read this chapter. It is surely not the result of a government-operated central planning committee. It is the result of an entrepreneur who correctly guessed the clearing prices of the tickets: every seat filled, and no one disappointed that he did not get a seat. In some cases, the entrepreneurs were “ticket scalpers” who bought tickets in bulk, and then sold them at much higher prices just before the event. Or, if they guessed wrong, they sold them for less than they paid. But the seats got filled, one way or another.

The miracle would be if every person who bought a seat goes home after the event satisfied that he had not paid too much, and none of his friends are envious of him after he finishes telling them for the third time how great the event was, and how they missed out, big-time.

13

PRICES AND KNOWLEDGE

The kingdom of heaven is like treasure hidden in a field, which a man found and covered up. Then in his joy he goes and sells all that he has and buys that field (Matthew 13:44).

Analysis

This passage is an aspect of point three of the biblical covenant: ethics. It is an aspect of property rights. The man who found the treasure had the right to sell all that he owned for money, and then use this money to buy the field and everything in it. The buyer did not steal the treasure. Instead, he bought the field. The ownership of the treasure came with the ownership of the field. This was a matter of legal boundaries, which is another aspect of point three. The covenantal principle of legal boundaries is derived from God's legal boundary around the forbidden tree.

If you understand this verse, you can also understand the importance of prices in an economy based on biblical law, which is always a free market economy.

For the sake of economic analysis, I begin with this principle: "Most knowledge is local." This has a corollary: "Most knowledge is specialized." You know more about yourself than any other person possesses. This is why God holds you responsible for what you do. Your specialized knowledge can become a source of profit for you. If you can serve consumers by means of it, you will have an edge as a producer/seller. Other competitors will have to match your specialized knowledge in order to match you.

The man who found the treasure had highly local knowledge. His knowledge was also highly specialized. He wanted to keep it that way until he bought the field. So, he covered up the treasure. Why? First, he did not own it. He just stumbled across it. Second, he did not steal it by carrying it away. Third, he did not own the land which held the treasure. If he had owned it, the treasure would by law be his. Fourth, and most important, he

was surprised to find the treasure. He had not expected to find it. That was why Jesus used it as a parable of God's kingdom. Those who find the kingdom of God did not expect to.

He knew at once that he wanted to own that treasure. Being an economically wise man, he wanted to buy it free of charge. This was possible. He could buy the field. Then he would legally own the treasure. He would pay a market price for the field. Then he would retrieve the now-hidden treasure at no extra cost. That means the treasure would be free of charge. Everyone likes a bargain. This would be the bargain of a lifetime. Again, this is why Jesus used this as a parable of the kingdom. On the one hand, it is more valuable than anything you own. On the other hand, you get it free of charge. You must pay for the "land," but not the treasure. There is a cost for this decision to buy the field: the surrender of everything you own. But the kingdom of God is not available for direct purchase. It is not for sale to the highest bidder.

This is a more theologically sophisticated parable than most readers imagine. This is why Jesus used easily understood economic practices to convey its meaning. I call these parables "pocketbook parables." People rarely understand theology, but they understand money.

As soon as he found the treasure, he possessed valuable information. Maybe he could sell this information to the owner. But this would at best result in a finder's fee. He preferred instead to gain maximum profit: the full market value of the treasure. So, his best strategy was to buy the field.

There would be uncertainty involved. The owner might find the treasure. Maybe someone with no moral scruples would find it and steal it. Then he would buy the field but own nothing but the field. He did not want to own the field. He wanted only the treasure. In order to reduce the uncertainty of having the treasure removed by someone else before he bought the field, he concealed the treasure. Most of Jesus' listeners could easily understand the logic of this strategy.

He sells everything he owns to obtain the money needed to buy the field. He could not possibly have afforded to buy both the field and the treasure if word had gotten out that there was a treasure on the property. The price of the field would have risen when would-be buyers started making purchase offers to the owner. A rising price would send a signal: "Something peculiar is going on here. Why is the price of this field rising?" That would attract snoopers. These snoopers can accurately be called treasure hunters.

This is what entrepreneurs are: treasure hunters. They see some price change. They think: "What is going on here?" They may follow up on this with an investigation. If they think there is an opportunity for profit, they bid the asset's price higher. Word then gets out to other entrepreneurs.

The original discoverer understood this process. He knew he could not afford to buy it if word of his discovery somehow got out. The price of the field would rise. So, he concealed the treasure.

We could call this a *discovery-price* process. First the discovery; then a rising price. But once the rising price called attention to this discovery, there would be more investigations. What is the treasure really worth? No one knows. There are rival bids. We could call this a *price-discovery* process.

For as long as men have searched for bargains, they have understood the close relationship between price changes and new information. New information regarding some marketable asset begins to affect prices as soon the person with this new information begins to buy or sell ownership of the asset. This price change may attract attention if it is an anomaly. Potential buyers think: "What has changed? Should I buy some?"

The point is this: *significant new information about an asset affects the price of the asset*. The changed price alerts entrepreneurs to the possibility of profit in buying the asset. This undermines secrecy. The information spreads. The price may continue upward or downward. The people who are alerted by a changing price are people who possess enough money to produce additional changes in the movement of the price. There is feedback: changed price → curiosity → investigations → further price changes. What is the correct price? No one knows. It fluctuates.

There is nothing that spreads information faster than a price change that continues in one direction. As soon as the price change appears to be a non-random change, it gains attention. In the modern world, this can take place in far less than one second with trading based on computerized trading programs that buy or sell based on complex algorithms. In less time than it takes for someone to click a mouse, the market responds to a changed price. High-speed trading occurs at intervals shorter than any human can perceive the change, let alone assess its cause or its possible effects.

Some buyers and sellers must adjust their plans in terms of specific price changes. They must adjust their budgets. Others may not be affected immediately, but there will be repercussions further into the production/distribution process. People make plans in terms of prices. Changed prices

always produce changed plans. *The price system is modern society's primary means of motivating people to reconcile their plans.*

The man who found the treasure had time to sell all that he owned and purchase the field. The speed of this transaction was important to him. He wanted it to be completed before anyone else found the treasure and either removed it or bought the field before the original discoverer could buy it. He fully understood the effects of new information on asset prices. The new information, if accurate, would push the price higher than he could afford to pay, even after selling all that he owned to raise money. This was why he sought to stop the spread of this information. He hid the treasure.

A. Buyer

A buyer has goals. These may be short-term, mid-term, or long-term goals. He has to make decisions in the present regarding his goals. He must decide which goals he may be able to obtain, but always with this proviso: at some price. As prices change, he must adjust his plans.

He can afford to ignore most price changes, moment by moment, but he cannot safely ignore price changes that affect his budget negatively. As the saying goes, he fears running out of money before he runs out of month.

Prices are objective: so much money for this item. His budget is objective. He has only so much money. He would like to have more money at the end of the month than he had entered in his budget. He has an incentive to strive for this outcome. He can cut his spending, increase his income, or both. These adjustments are objective because prices are objective. The monetary costs of these adjustments are objective. In contrast, the psychological costs of making these adjustments are subjective.

He seeks better deals than he had thought he could obtain. The starting point for such a quest is price. Quality also counts, but quality is more subjective. It is more difficult to research and assess than price differences are. A price is objective. *A changed price is therefore the starting point for most searches for a better deal.* It catches people's attention. It can be compared with the previous situation. It can be compared with its place in a budget.

A changed price is easily announced. In the digital age, a price in a developed capital market is conveyed around the world in seconds. It is limited only by the speed of light. This is important for buyers and sellers of securities: speculators. It is not important for buyers of consumer goods. They do not operate economically in terms of split-second decisions.

Buyers compete against buyers. They rarely compete against sellers. So, they do not have to concern themselves with constantly shifting prices. This is a concern for sellers, whose advantage stems from specialized knowledge. Sellers operate in market niches. Their wealth is less flexible than a buyer's wealth. If a seller makes a forecasting error, he has fewer ways to adjust his plans at a minimal loss. There are few buyers for the output of his big mistakes.

Because buyers possess money, which is the most marketable commodity, they do not need knowledge as specialized as sellers possess. They do not need to know the future with the precision that a seller requires. *Money is a shock absorber for the potholes of life.*

B. Seller

A seller makes money by possessing better knowledge of the future than his competitors. He better foresees what future consumers will pay for his output. He better foresees what his competitors will be offering, and on what terms. He buys low in order to sell high. He trades with highly specialized knowledge.

He is not omniscient. The future is uncertain to him and his competitors. They buy raw materials, capital goods, and either rent or buy production space. They rent the labor services of specific people. To do all of this, they require accurate prices. They sometimes pay lots of money to rent the services of specialized market researchers. These researchers are paid to offer accurate advice on how to get a larger return on investment (ROI) for marketing campaigns. The entire process is marked by objective standards: accounting. Accounting is based on objective returns expressed in money prices. Accounting is retroactive. It is the market's means of revealing a past profit or loss. This is not subjective profit or loss. It is objective. Business owners and managers seek to maximize objective profits or at least minimize objective losses.

Prices convey information to owners: profit or loss. Owners must pay attention to the accounting signals provided by objective prices. If they fail to pay attention, they will not maximize company profits. They may even produce objective losses.

Sellers of raw materials in a mass market economy are generally price takers. They cannot affect the outcome of supply and demand. If they are wholesale sellers, they may be able to negotiate profitably with retailers. *The*

larger the market, the less negotiating ability a seller possesses to affect prices. A grain farmer has no ability to influence the wholesale price of his crop. Supply and demand are international, not local.

Manufacturers and retailers are always seeking better information. Because most knowledge is local, they attempt to lure owners of specialized knowledge to share this with them. *The price system is the institutional arrangement by which accurate knowledge becomes available.* It is made available primarily through prices. A manufacturer can sign contracts that guarantee that he will be supplied on specific dates with specific products at specific prices. This enables him to produce output. Without prices, he could not stay in business.

C. Pencil

A pencil sells at a price. Buyers buy specific pencils with specific features at specific prices at specific locations. The degree of specificity is extensive. A pencil is a simple product. It has only a few components. Most products are far more complex. Yet buyers can buy these products for specific prices at specific locations. At a modern big box store or supercenter, shoppers can select from tens of thousands of products on the shelves.

Without price signals, it would not be possible to make a pencil. In his essay, Leonard Read did not explain the nature of the price system. The word “price” does not appear in the essay. Yet the price system is the essence of the production process that Read described as a miracle. *Without prices, a pencil would be as rare as a miracle.* The price system coordinates production and distribution. It allows supply to equal demand. When we say “supply and demand are equal,” we must implicitly add this: “at some price.” The price system is central to the operations of the market. It provides the signals that guide the production/distribution system.

These signals are objective.

The prices of specific pencils are stable. So is quality. There is a grading system. Buyers usually do not notice. They may go shopping for either #1 or #2 hardness, but that is about as much detail as most buyers wish to know. A pencil is not an important aspect of their lives. They pay little attention to pencils. Pencils are scattered all over the house. They get lost. They get found. No one notices. They all look alike. They perform simple but predictable tasks.

They are cheap. This is the result of constant innovation for four centuries.

These innovations were tiny, but they have added up. This process of innovation has produced ever-lower prices for pencils. They are everywhere. The prices of the components of pencils have also fallen. This relentless price competition has made the pencil a universal consumer product.

Children draw with pencils as surely as engineers sketch with them.

Conclusion

Prices are part of a constant bidding system. People make decisions daily in terms of prices. They adjust their plans because of changing prices. These prices are the result of competition: buyers vs. buyers, sellers vs. sellers.

The public has some understanding of the market's function as a way to allocate resources. They go shopping all the time. They know about buying with money. But they do not understand that the crucial resource is accurate knowledge. It is not a free resource. To think of it as a free resource leads to innumerable errors, both intellectual and political. Thomas Sowell wrote a path-breaking book, *Knowledge and Decisions* (1980). It deals with mistakes that arise from the assumption that accurate knowledge is either free of charge or else should be made free of charge by legislation. It is one of the most important economics books ever written.

Accurate, relevant knowledge is rarely a free resource. It must be paid for. By whom? In a free market, the answer is consumers. The system of market exchange benefits consumers. Consumers must pay for services rendered. This includes the services supplied by owners of accurate knowledge. Consumers reward those sellers who presented them with the best goods they thought they could buy. Consumers retroactively reward the plans of successful sellers. The sellers used the price system to identify the best deals available to them. Everyone uses the price system to buy and sell. Those who implement the most accurate information have the crucial economic advantage in a competitive world. This is why there is enormous worldwide competition for accurate information. There is greater demand for it than the supply of it at zero price. It is not a free good.

Prices convey information on the availability of billions of products. Most people ignore most prices. But when people go shopping, they look at price before most other aspects of the products they want to buy.

The lure of money income persuades people to sell or rent their most valuable knowledge to others, who bid for this knowledge in the form of bidding for the output of this knowledge.

The man in Jesus' parable who found the treasure concealed this knowledge until he owned the land and also owned the treasure. Then he presumably shared this knowledge with all: "Look what I own." Only when he could not lose if his local specialized knowledge got out was he willing to share this information.

14

PRICING AND DISTRIBUTION

Again, the kingdom of heaven is like a merchant in search of fine pearls, who, on finding one pearl of great value, went and sold all that he had and bought it (Matthew 13:45–47).

Analysis

This passage is an aspect of point three of the biblical covenant: ethics. It is an aspect of property rights. The man who found the pearl had the right to sell all that he owned for money, and then use this money to buy it. He did not steal the pearl. He obeyed the biblical principle of legal boundaries, which is another aspect of point three. The covenantal principle of legal boundaries is derived from God's legal boundary around the forbidden tree.

The merchant wanted to own that pearl. To obtain sufficient money to buy it, he had to sell all that he owned. Why was it so expensive? There are two possible explanations. First, other rich people knew of this pearl and also valued it highly. They were in competition against each other for the ownership of that unique pearl. There was only one pearl like it. They bid up its price. Only one man would walk away as the owner. The existing owner of the pearl was the beneficiary of a bidding war. Lots of rich people wanted to buy it. This is always an ideal situation for an existing owner who wants to sell. The more bidders who show up, and the more money they are willing and able to bid, the better for the seller. The explanatory model here is the auction. The fundamental principle of every transaction at an auction is this: *high bid wins*.

But there is another possible explanation. Only two people wanted to own the pearl: the existing owner and the merchant. The existing owner did not want to sell it at a low price. He was an implicit bidder. Finally, the price bid by the merchant was so high that the owner sold. Economists have a phrase to describe the existing owner's unwillingness to sell: *reservation demand*. The auction's rule applies even when there is no exchange: high bid

wins. This rule imposes a cost of ownership on the existing owner. The existing owner kept deciding to do without all of the things that the money would have purchased, if he would just sell the pearl.

For as long as any asset commands a price, there is an auction going on for ownership of this item. There is someone bidding to buy it from the existing owner. The owner keeps deciding not to sell it. He is therefore bidding for it. The asset's price is proof that someone else besides the owner is bidding, moment by moment. This means that the owner bears the cost of ownership. What is this cost? This: doing without all of the goods and services that he would otherwise be able to buy if he were willing to sell the item at the market price. *Costs are foregone opportunities.*

The best way to understand something complex is to understand something less complex that operates in much the same way. If you already understand the less complex arrangement, it will be easier to learn how the more complex arrangement works. Fortunately, an auction is relatively easy to understand. It is widely understood. Here is a crucial fact: *the market is a gigantic auction.* So, whenever you are dealing with some unfamiliar or confusing aspect of economic theory, try to understand it as an aspect of the auction's principle of high bid wins. This conceptual approach works because the market really is a giant auction. *The market's process is the auction's process.* It is an institutional system of competing bids.

In a market transaction, the seller is the economic equivalent of an auctioneer. He wants money, as does an auctioneer. An auctioneer wants as much money as he can persuade the top-bidding buyer to bid. It is his task to persuade the bidders to keep bidding until only one bidder remains. This is how he maximizes his return from the sale. This is also true of a seller.

A standard auction operates in terms of implicit rules. First, anyone can attend the auction. There is open access. In an economy, we call this open entry. Second, property rights are honored. No bidder is allowed to steal the item from the auctioneer before the bidding begins. Nobody is allowed to steal it after the item is sold. Third, every bid must be honored. The person who makes a bid that turns out to be the final bid is required to pay whatever he bid. This keeps the bids honest. This is the market principle of honoring contracts. If an auctioneer secretly hires a stranger to make fake bids in order to keep the bids rising, the auctioneer will lose his reputation as an honest seller if this becomes common knowledge. Hired people who make such fake bids are called shills.

Here is the fundamental economic fact of every individual auction: *bidders compete against bidders*. An auctioneer may use certain psychological techniques to keep bidders bidding, but he does not control the bidders. He serves them. He provides an opportunity for them to make purchases on these terms: high bid wins. No one resents the fact that the person who bids the highest price takes home the item. There is no widespread envy against this person. He is not resented merely because he bid the highest price. *Everyone accepts the distribution principle of high bid wins*. This is the demand side of the auction process.

I have said there must be open entry. This also applies to auctioneers. There must be open entry for another auctioneer to rent space and conduct a rival auction. This makes available other goods offered for sale. This is the supply side of the auction process. Here is the fundamental economic fact of the auction system as a whole: *auctioneers compete against auctioneers*.

This leads me to the fundamental rule governing pricing in a free market: *buyers compete against buyers*, while *sellers compete against sellers*. If you understand this, you understand the essence of the market process. Every aspect of the market process rests on this principle of pricing. Also, every analytical aspect of economic theory rests on this. It is easy to understand.

Sadly, most people who think they understand the market process do not accept the fact that the market process is at bottom the auction process. They think that buyers compete against sellers.

Whenever there are negotiations between a buyer and a seller, the reasons why there is negotiation are these. First, the buyer does not know how little money the seller is willing to accept. Second, the seller does not know how much money the buyer is willing to pay. *There is a knowledge gap between them*. There is an absence of competing sellers. There is also an absence of competing buyers. There is no open auction of competing bids. So, there is ignorance. The negotiations focus on the gap of information about what each party is willing to accept in exchange. In a free market, there are few gaps. Most items are sold at a listed price.

When you shop at a supermarket, it has check-out lines. You do not negotiate prices with the person at the check-out register. The person has a digital bar-code reader. You do not negotiate with a digital bar-code reader. So, there are only two decisions when you shop there, item by item: *take it or leave it*. That arrangement saves time. It also saves money. There is another supermarket down the street. Also, you may be able to buy the item

online. There is open entry of shoppers. There is open entry of sellers. Out of this competition comes an array of prices.

Consider what Americans call a weekend flea market. Here, buyers come with currency, and sellers come with piles of used goods. Most of the items are junk in the eyes of everyone attending. Most shoppers would not pay anything for the vast majority of the items offered for sale. They are looking for a unique bargain: a diamond in the pile of rhinestones. They want to pay a rhinestone price for the diamond. This is the economic logic of the bazaar. Bazaars are common in economically underdeveloped societies. They are not common in rich industrial nations. Where the division of labor is advanced, supermarkets replace bazaars.

A. Buyer

The buyer owns money, the most marketable commodity. He is therefore in a position of superior economic authority. Sellers want what the buyer owns. They compete with each other for his money. Sellers compete against sellers.

The buyer confronts a vast array of goods and services. These have prices attached to them. The buyer competes against other buyers for ownership of specific goods. Buyers compete against buyers.

The buyer has some idea of how much money most of the items he is shopping for have sold for in the past. The more research online that he has done, the more aware he is of two things: what comparable items sold for in the past, and what such items sell for in other locations. He has a sense of continuity with the past. He has a sense of continuity across geography. If he is buying online, he cares little about geography. The item will be delivered to his front door. He also can find information about what an earlier version sold for in the past, and what a used one sells for now. Amazon lets sellers of used books or used software make offers to sell. These are listed from the cheapest to the highest. There are also evaluations by owners of the new item, ranked by one star (worst) to five stars (best). This rating system reduces the zones of ignorance. The used goods provide alternatives to the listed new goods at the fixed price.

Then there is eBay, which is a true auction system. High bid wins. No one is upset when only one person made the final bid in a time-limited mini-auction. The principle of high bid wins clears the market. Every item offered for sale gets sold. It gets sold to the person who made the highest

bid when the mini-auction ended. No one challenges this as unfair or immoral. No one complains that someone who did not make the highest bid really deserves to own the item, since he is poor or she is an unwed mother. The question of just deserts is not a factor on eBay. Only this is a factor: high bid wins.

The buyer imputes value to each item he is shopping for. This value is subjective. Some other shopper imputes a different value to it. But a good does not sell based on its highest imputed subjective value. It is sold in terms of an objective money price. On eBay, this price is publicly the highest price bid. On Amazon, this price is the listed price. For new goods, there is usually more than one offered for sale. You can buy several at a fixed price. On eBay, you can buy only one at an auction price.

The free market's system of distribution is based on objective pricing. The pricing process is based on two factors: sellers compete against sellers, while buyers compete against buyers. Buyers bid with money. The money price is the objective price. This is what other buyers and other sellers pay attention to.

Participants in a free market do not ask how a buyer got access to his money: by inheritance, by a salary, by a lottery, or by wise investing. They cannot afford to do the research. In any case, their findings would not affect the outcome of the market process. Only this matters: high bid wins.

A buyer has limited funds. This limit establishes limits on the top prices he can pay. A buyer has some sort of budget. He cannot buy if he runs out of money or credit. He subjectively imputes value to various items that are offered for sale. His budget establishes objective limits on what he can pay, no matter how much value he subjectively imputes to an array of goods and services. As the Rolling Stones sing, "You can't always get what you want." But if he shops wisely, and if he budgets wisely, he will not have to sing, as they also sing, "I can't get no satisfaction."

We know from personal experience that we do not always stick to our budgets. At an auction, a person can get so excited by the bidding process for some item that he pays more than he had planned. His subjective imputation of value changes in the heat of the bidding. This is what the auctioneer wants to happen every time. He wants all of the attendees to overshoot their budgets, but not by so much that they cannot pay for the items after the auction is over, or that they will be afraid to come to his next auction. "I just can't risk it. I get carried away. I will probably bust my budget."

The bidding process in an auction is a means of *price discovery*. No one knows in advance what some item will sell for. Everyone knows after the gavel goes down: "Sold!" This is retroactive price discovery. *In a free market, this process of price discovery is continual.* No one knows at the opening bell what some stock or commodity will sell for two hours later or after the market closes. The retroactive results at the close provide information. It can be used by others to make decisions.

B. Seller

A seller is a specialist in information. He is constantly searching for better information. He probably sells to lots of buyers, or at least he hopes to. They own what he wants: money. He owns what they do not have: specialized information about his product. The better their information, the less room for bargaining he has. *As the zones of buyers' ignorance shrink, his opportunities for making a profit shrink.*

Most markets price goods anonymously. This is true of every new item that has a digital bar-code symbol. There is no time for negotiating prices. The buyer in the check-out line cannot affect the price of the item. Neither can the person at the check-out register. What applies in a check-out line also applies to most products offered for sale. "Take it or leave it." This saves time. That is, it leads to larger sales volume per time period. It also leads to a lower profit margin per sale.

A seller lets buyers decide among themselves who gets what. A seller wants to sell everything he offers for sale at the manufacturer's suggested retail price. He wants money, not goods. He has made his plans in terms of sales, price, and time. If he meets these objective criteria, he will have more money than he did before he stocked the inventory. He knows that buyers are in charge. They have money. Money talks. Once he stocks his inventory, the pricing process will determine the distribution of his inventory. Either buyers will own it or else he will. He prefers that buyers own it, but at the prices he originally asked. He cannot force them to buy. He may have to lower his prices. But his initial pricing opens the auction process.

It is a misunderstanding of the market process to imagine that sellers impose prices on buyers. Prices are set by competition: buyers vs. buyers, sellers vs. sellers. A seller can set a price. A buyer can accept it or reject it. Sellers in a large auction do not exploit buyers.

C. Pencil

A buyer does not plan far in advance how many pencils he will buy on a particular date. He has a supply of pencils in some convenient location. He can see if he is running low. He takes a pencil and writes “pencils” on a shopping list. He has some vague recollection of how much he paid the last time. Pencils are not a high priority for him.

In contrast, pencils are a high priority for a manufacturer of pencils. He pays attention to prices of components and what retailers are willing to pay.

The retailer is in between. He is more interested in pencils than the typical buyer is today, but he is less interested than the manufacturer is. His business does not live or die in terms of pencils.

A pencil is a common product. Everyone knows what to expect. A buyer is not clear about pricing, but he has a rough figure, easily erased if necessary. He knows where to buy pencils. He may not recall the aisle, but he knows which store sells them.

The manufacturers have a good idea of what the demand will be for their pencils at traditional prices. Not much changes. Profit margins are low. Prices are low. Production runs are steady. There are few surprises.

Buyers set prices for the next production run. If they will not buy today's inventory at set prices, retailers will not re-order as many unless the manufacturer reduces the wholesale prices. Buyers are in charge. They possess money. But they can't always buy what they want at a price they prefer to pay. They are not autonomous. Pricing is set by competition: buyers vs. buyers, sellers vs. sellers.

The production of pencils is determined by the manufacturers' expected demand by future consumers. If sales are expected to fall, manufacturers must adjust prices, or the size of production runs, or quality.

Production is aimed at expected distribution. Pricing determines future distribution, so it indirectly determines future production. The pricing process is the auction process: high bid wins.

Conclusion

The market is a giant auction. The logic of a local auction is the logic of the world market. The auction process dominates market affairs because the same legal and customary factors: open entry, property rights, laws against theft, honoring contracts. The pricing principle of market distribution is this: high bid wins.

An envious person resents the success of others. He seeks to destroy the other person's advantage, even at the expense of everyone's reduced wealth, including his. He thinks this: "That person has what I want. I can never have it. Therefore, I prefer to destroy it." In modern politics, there is well-organized envy against those who possess great wealth. Most of these wealthy people gained their wealth by competing successfully in terms of high bid wins. They were winners in the auction's process. They were allowed to take home the goods they bought. This fact outrages envy-driven voters. *Political envy is a threat to the auction process.* It opposes the moral and legal principle of high bid wins. Envious people stay away from auctions. They are offended by an auction because they resent the auction's distribution principle of high bid wins. Envious people have the right to vote. They join with other envy-driven people to place legal restrictions on the distribution principle of high bid wins. They are also joined by other voters who have not grasped the analytical connection between the auction process, which they do not resent, and the market process, whose outcomes sometime produce results that these voters do resent. They all vote for legal restrictions on market processes that would clearly undermine any auction. If an auction's system of distribution were required by law to abide by the following principle, there would be no more legal auctions: "The most deserving person's bid wins. Politicians have the right to determine which bidders are truly deserving."

If there is little envy in politics, this leads to secure property. This in turn leads to rising per capita productivity and therefore rising economic growth per capita.

15

PRODUCTION AND DISTRIBUTION

About that time there arose no little disturbance concerning the Way. For a man named Demetrius, a silversmith, who made silver shrines of Artemis [Diana], brought no little business to the craftsmen. These he gathered together, with the workmen in similar trades, and said, "Men, you know that from this business we have our wealth. And you see and hear that not only in Ephesus but in almost all of Asia this Paul has persuaded and turned away a great many people, saying that gods made with hands are not gods. And there is danger not only that this trade of ours may come into disrepute but also that the temple of the great goddess Artemis may be counted as nothing, and that she may even be deposed from her magnificence, she whom all Asia and the world worship." When they heard this they were enraged and were crying out, "Great is Artemis of the Ephesians!" (Acts 19:23–28)

Analysis

This passage is an aspect of point three of the biblical covenant: ethics. It has to do with the market's principle of distribution: high bid wins. There was no law against open bidding in the marketplace for the output of producers. When the principle of high bid wins is allowed to operate, there will be winners and losers among sellers. Sellers compete against sellers. Buyers compete against buyers. Falling demand is bad for existing sellers.

Demetrius understood the economic law of supply and demand. He understood that demand for his silver shrines was based on widespread faith in the supernatural power of Artemis-Diana, the goddess associated with the city of Ephesus. The temple was known across the Mediterranean. It is numbered among the legendary seven wonders of the ancient world. This demand for household shrines, meaning idols, was under assault from Paul,

who was preaching salvation through faith in Jesus Christ, who was God incarnate. If the new faith spread, it would put Demetrius out of business.

He called together other craftsmen who supplied him with products. He warned them that their businesses were at risk, just as his was. He sold to final users. He bought support materials from these craftsmen. He understood that maintaining consumer demand was the key. If the producers were not successful in persuading buyers to buy the products of their hands, they would have to go into another market. They would still be competent craftsmen, but they would have to leave their profitable niche markets associated with the goddess, and produce silver goods that were less in demand. Their income would necessarily fall.

Demetrius understood that consumers direct production, not producers. Consumers own money. They can buy almost anything that is for sale. Producers must subordinate their skills to consumers if they expect to get paid.

The craftsmen who were called together recognized that their income depended on the marketing prowess of Demetrius. His production brought “no little business to the craftsmen.” As Americans say, they knew where their bread was buttered. They also knew who was doing the buttering. Demetrius would not have butter to spread around if buyers stopped buying his shrines.

This story reminds us of this fact of economic life: *production and distribution are a single process*. Whatever it was that the craftsmen were selling to Demetrius, he was making a market for their output. He was a middleman in a connected system of production and distribution. If he lost his market, they would lose their market. If his ship sank, their lifeboats would go down with his ship. They were all in this together, he warned them. They agreed.

Economist Murray Rothbard commented on an error that he called the fallacy of distribution.

Ever since the days of early classical economics, many writers have discussed “distribution theory” as if it were completely separate and isolated from production theory. Yet we have seen that “distribution” theory is simply production theory. The receivers of income earn wages, rent, interest, and increases in capital values; and these earnings are the prices of productive factors. The theory of the market determines the prices and incomes accruing

to productive factors, thereby also determining the “functional distribution” of the factors. “Personal distribution”—how much money each person receives from the productive system—is determined, in turn, by the functions that he or his property performs in that system. There is no separation between production and distribution, and it is completely erroneous for writers to treat the productive system as if producers dump their product onto some stockpile, to be later “distributed” in some way to the people in the society. “Distribution” is only the other side of the coin of production on the market. (*Man, Economy, and State*, Chap. 9, Sect. 5)

There are critics of the free market who deny its legitimacy because of inequalities of wealth. They want the civil government to intervene to redistribute wealth. They say this will not change production. It will only change distribution. Rothbard had an answer.

Many people criticize the free market as follows: Yes, we agree that production and prices will be allocated on the free market in a way best fitted to serve the needs of the consumers. But this law is necessarily based on a *given initial distribution of income* among the consumers; some consumers begin with only a little money, others with a great deal. The market system of production can be commended only if the original distribution of income meets with our approval.

This initial distribution of income (or rather of money assets) did not originate in thin air, however. It, too, was the necessary consequence of a market allocation of prices and production. It was the consequence of serving the needs of previous consumers. It was not an arbitrarily given distribution, but one that itself emerged from satisfying consumer needs. It too was inextricably bound up with production (*Ibid.*).

Production and distribution are irrevocably linked. The system moves from producers’ initial expectations about consumers’ future purchases to the actual purchases. Any attempt by the civil government to restructure

distribution will inevitably restructure production. Any exchange in demand will affect future supply.

Demetrius understood this. He wanted the authorities to intervene. He was unsuccessful.

A town official announced:

If therefore Demetrius and the craftsmen with him have a complaint against anyone, the courts are open, and there are proconsuls. Let them bring charges against one another. But if you seek anything further, it shall be settled in the regular assembly. For we really are in danger of being charged with rioting today, since there is no cause that we can give to justify this commotion." And when he had said these things, he dismissed the assembly (vv. 38–42).

A. Buyer

When a buyer transfers money to a seller, this does three things. First, it registers demand. Sellers are alerted to the existence of demand at some price. So are buyers. Second, it validates the plans of a particular seller. This has a tendency to persuade the successful seller to keep producing. There is positive net income now; there may be later on. Third, it invalidates the plans of rival sellers. This sends a warning to them: "Stop doing whatever you have been doing. It is not working."

A purchase reaffirms the division of labor. It confirms trust. The buyer has depended on the free market to deliver the goods. It has done so once again.

Because a specific buyer has made a purchase and has therefore removed the item from the open market, other bidders are alerted to the fact that their bids were not high enough to secure ownership. This information will be of use to some of those bidders who failed to place the highest bid. They will have to adjust their plans in terms of new information. They will have to bid higher next time, or perhaps find a seller who is willing to sell cheaper. *Accurate information is not a free resource.* Their participation in the market has provided them with more accurate information. It has forced a re-allocation of their budgets and plans. This is a major service provided by market competition. *Millions of beneficiaries are free riders. They get the benefits of better information free of charge.* Others must pay: time, research, or defeat at an auction.

The market process promotes plan reconciliation. Without a central

planning committee issuing orders, buyers adjust their expectations and their offers for cooperation. Changing prices are the sources of most of the motivation to change. They reveal an objective reality that those who want to participate in a particular market can put to productive use.

B. Seller

A seller is looking for confirmation. He wants sales to validate his overall plan, from the decisions regarding product, buyers, and pricing through the marketing campaign. He faced uncertainty. Now he wants to make profits. If he does, he will probably repeat the process.

If he does not gain his expected sales, he will have to adjust his plan. He may have to reduce output. He may have to adopt a new marketing plan. He may have to redesign the product. It is his task to decide what to do. He specializes in this market. His specialized knowledge is what gives him a competitive edge.

If the state intervenes to change the previous system of buyers' bidding in order to attain a different outcome, a seller will have to adjust production. This is why it is incorrect to argue that production is separate from distribution. The seller faces new conditions. The information he gained from previous marketing campaigns is now obsolete. The buyer is the state, not a group of independent buyers. The state is acting as a representative of a different set of buyers. The politicians have purposes different from the purposes of the now-displaced buyers. They will also have different plans, different rules, different sanctions, and different patterns of purchases.

There will be different price signals. Practices that were profitable when selling to the private sector will no longer be profitable. Sellers will have to adjust.

When there is a single buyer, uncertainty increases for sellers. The law of large numbers is no longer applicable. Accurate predictions become more difficult to obtain at the old low price. *It is easier to predict accurately what a crowd will do than it is to predict accurately what an individual will do.* When the individual is a committee of salaried government bureaucrats who cannot be fired for cost overruns, uncertainty prevails among sellers who do not have political influence.

The structure of production begins with forecasts, and it ends with the delivery to buyers. Sales may be at the prices and costs originally estimated by sellers, or they may not. There is always uncertainty in any plan. Men are

not omniscient. *The production process is integrated.* There are competing marketing plans. Without this, sales become more uncertain. This means that the process of production involves distribution.

C. Pencil

The manufacturer of pencils may sell directly to buyers. This is more likely in the case of sales on the World Wide Web. The manufacturer does not have to set up retail outlets. But it is more common for a pencil manufacturer to sell to a retailer, who sells to the buyer. This reduces the manufacturer's need to gain knowledge of local conditions and marketing practices. Retailers bear the expense of generating final sales.

Distribution is performed by third parties. This may make seem as though distribution is separate from production. But distribution is part of integrated marketing plans established by manufacturers. They have factored in a return on investment that includes the retailers' share of retail income.

A buyer sees only the results of production. He has no idea regarding the complexity of the production process, as Leonard Read's essay explains. But a buyer does have knowledge of the kind of pencils he wants. He has bought similar pencils in the past. He is probably conservative with respect to the look and feel of the pencil, but especially its hardness. These are a matter of taste. The pencil industry cannot change most buyers' tastes. The advertising costs would be too high. So, the industry responds to traditional demand. It does not spend a lot of money on advertising because it is not worth the buyer's time to experiment with new designs.

The tried and true plans satisfy most demand. Under these conditions, distribution is somewhat automatic. Distribution is more clearly a part of the overall process: seamless.

An outsider might conclude that the civil government could intervene into the distribution process without disrupting production. Nothing changes much in the production of pencils. But if bureaucrats were to intervene, demanding changes in the production mix, they could gain cooperation only by making it profitable for the manufacturers.

In fact, such intervention is unlikely. Pencils are peripheral to the economy. They are cheap. They are not essential. Therefore, there is no organized political voting bloc that has the redistribution of pencils high on its agenda.

Conclusion

Demand as registered in the form of sales shapes all production in a free market economy.

The manufacturers plan production in terms of what they think they can sell at prices that will produce an above-average return on investment: profit. They buy low, if they can, in order to sell high.

Changes in consumer tastes can affect the chain of command. Consumers are at the top of this chain of command. This is because they possess money. Manufacturers desire to obtain money from them. To do this, they must deliver goods that consumers regard as more valuable to them than the money it takes to purchase them. This production process requires individual plans. When implemented, a well-designed plan leads to profits. This plan involves multiple stages of production. It may not involve retailing, but mass production has done so in the past. This way, producers gain the cooperation of local specialists in selling to local populations. This makes use of the division of intellectual labor.

The fact that retailing is part of the structure of production leads critics of the free market to conclude that, although the production process is legitimate, the distribution process is not. Why not? Because it favors people who have money to spend. It ignores the poor. The production process, they argue, is a matter of engineering. But the distribution process is the result of hucksters who sell to people with too much money. What is needed, they say, are armies of government bureaucrats who possess the authority to substitute a different system of distribution.

They substitute bureaucratic management for profit management. The former is governed by thick administrative rule books. The latter is governed by a command: "Make a profit." The former is top-down: commands issued by government agencies based on books of rules written in the past. The latter is bottom-up, with consumers on top: "Keep them happy." The former is past-oriented: "Do things by the book." The latter is future-oriented: "Make a profit in the future."

The consumers are in charge. That was what Demetrius discovered when Paul's converts ceased buying household silver mini-shrines. Demand fell. Sales fell. Income fell. He wanted something be done about this. He did not know what.

This was early in the history of the church. If Demetrius had been living in modern times, he could have shifted from producing silver shrines to

silver crosses, or maybe silver bracelets stamped with WWJD (What Would Jesus Do?). “If the market changes, adjust production!” But he was also a faithful adherent to the religion of Ephesus. “She may even be deposed from her magnificence, she whom all Asia and the world worship.” He wanted Paul silenced. This was a war of the worldviews. This war had effects in the business world of Ephesus.

16

IMPUTATION AND VALUE

And God saw everything that he had made, and behold, it was very good. And there was evening and there was morning, the sixth day (Genesis 1:31).

Analysis

This passage is an aspect of point four of the biblical covenant: judgment. During the creation week, God exercised daily judgment in assessing the results of His work of creation, excepting only day two. He declared that His work was good. Then He did this at the end of the sixth day. Economists have a term for this assessment of value: *imputation*.

This was not yet the culmination of the first week. A day of rest lay ahead (Genesis 2:2). But the prelude to the day of rest was God's assessment of the success of His work. He imputed positive value to it. Imputation is point four of the pre-fall biblical economic covenant. It is related to rendering judgment: God's declaration of guilty or not guilty, good or bad. On day six, God rendered verbal judgment on His week's work. In the creation week, this was related to the fourth commandment: the sabbath rest requirement.

Remember the Sabbath day, to keep it holy. Six days you shall labor, and do all your work, but the seventh day is a Sabbath to the Lord your God. On it you shall not do any work, you, or your son, or your daughter, your male servant, or your female servant, or your livestock, or the sojourner who is within your gates. For in six days the Lord made heaven and earth, the sea, and all that is in them, and rested on the seventh day. Therefore the Lord blessed the Sabbath day and made it holy (Exodus 20:7–11).

To render judgment is to evaluate. The word “value” is closely related in meaning to “evaluate.” To render judgment, a person assesses a result in

terms of a standard. In the biblical covenant, this standard is supplied by God: *biblical law*. This standard is transcendent. It is permanent. It is reliable. He who adheres to it will be blessed. He who violates it will be cursed. Blessing and cursing are verbs. They are also nouns. They are sanctions. Sanctions are an aspect of point four of the biblical covenant. "So God blessed the seventh day and made it holy, because on it God rested from all his work that he had done in creation" (Genesis 2:3).

Throughout the creation week, God rendered judgment at the end of every day except day two. The day's work was completed. God declared it to be good. There were six days (many). The week's work was a separate unit of production (one). He declared it to be good. The components were good (days). The overall project was good (week). This culminated in a blessing: rest. God was not exhausted. He was finished. Completion deserved a day of rest.

At the end of each step, God rendered judgment. Judgment is not merely final. There are preliminary judgments. Men are made in God's image (Genesis 1:27). They are stewards of God. They are therefore God's legal agents. As legal agents, they must render preliminary judgment in God's name, according to His standards. This was what Adam should have done with the serpent. Instead, he rendered judgment on God's word, calling it into question. But he had to render judgment, one way or the other. He had to decide who was telling the truth.

Stewards are trustees. They must render judgment. One aspect of this judgment is judicial. One aspect is economic. I describe judicial judgment as follows: "in God's name." I describe economic judgment as follows: "on God's behalf." Judicial judgment carries more weight than economic judgment. It is more covenantal than contractual. It is good or bad in the sense of moral. The second is good or bad in the sense of profitable or unprofitable. The first takes priority over the second.

Ben Franklin announced that honesty is the best policy. The phrase was not original with him. It was a commonplace in late eighteenth-century colonial America. It is worth citing the document in which he said this. It was a letter to Edward Bridgen (Oct. 2, 1779). He was responding to Bridgen's offer to sell copper to the Revolutionary government for use in its coinage. Franklin thought there should be some proverb on every coin.

Instead of repeating continually upon every Halfpenny the dull
Story that everybody knows, and what it would have been no Loss

to mankind if nobody had ever known, that Geo. III. is King of Great Britain, France & Ireland &c. &c. to put on one Side some important Proverb of Solomon, some pious moral, prudential or œconomical Precept, the frequent Inculcation of which by seeing it every time one receives a Piece of Money, might make an Impression upon the Mind, especially of young Persons, and tend to regulate the Conduct; such as on some, *The Fear of the Lord is the Beginning of Wisdom*; on others, *Honesty is the best Policy*; on others, *He that by the Plow would thrive; himself must either lead or drive*. On others, *keep thy Shop & thy Shop will keep thee*. On others, *a Penny sav'd is a Penny got*. On others, *He that buys what he has no need of, will soon be forced to sell his Necessaries*, on others, *Early to bed & early to rise, will make a man healthy, wealthy & wise*, and so on to a great Variety.

Franklin assumed that good morality produces profits. This is also the teaching of the Bible (Deuteronomy 28:1–14).

Therefore, when God imputed value to His work, He had in mind both morality and practicality. His stewards should use this as their model in rendering judgment.

We call this rendering of judgment *imputation*. We implicitly declare that something is good or bad. Then we are supposed to take action in terms of our imputation. James wrote:

But be doers of the word, and not hearers only, deceiving yourselves. For if anyone is a hearer of the word and not a doer, he is like a man who looks intently at his natural face in a mirror. For he looks at himself and goes away and at once forgets what he was like. But the one who looks into the perfect law, the law of liberty, and perseveres, being no hearer who forgets but a doer who acts, he will be blessed in his doing (James 1:22–25).

The Austrian School of economics began in 1871 when Carl Menger, who was technically a professor of law at the University of Vienna, published his book, *Principles of Economics*. He argued that economic value is not inherent in any resource or service. Rather, it is imputed by consumers. It is not objective but subjective.

This was an important insight, but it leads to crucial problems. If economic value is exclusively subjective, how can government policy-makers come to a scientifically valid conclusion about the collective value of any policy? It is impossible to add up exclusively individual imputations of value. There is no objective measure.

The biblical view is that value is subjectively imputed, but since God can make valid assessments of interpersonal comparisons of subjective economic value, so can His stewards, though of course not perfectly. Jesus taught this. He observed the temple's treasury.

And He sat down opposite the treasury, and began observing how the people were putting money into the treasury; and many rich people were putting in large sums. A poor widow came and put in two small copper coins, which amount to a cent. Calling His disciples to Him, He said to them, "Truly I say to you, this poor widow put in more than all the contributors to the treasury; for they all put in out of their surplus, but she, out of her poverty, put in all she owned, all she had to live on" (Mark 12:41–44).

God imputes subjectively, but because His assessment is perfect, it is *judicially objective*. It is therefore also *economically objective*. There is an objective correlation between God's subjective imputation and objective truth or falsehood, good or bad, profitable or unprofitable. Our subjective imputations are made analogously to God's. *We do not have to evaluate perfectly in order to evaluate effectively*. If we had to evaluate perfectly, then we would always fail. Man is not omniscient.

This discussion may seem obscure, but it is a major difference between Christian economics and free market economics, which rests on the presupposition of methodological individualism. Methodological individualism rests 100% on the assumption that it is scientifically and logically impossible to compare one person's subjective value with any other person's subjective value. But if this is true, then there is no way scientifically to evaluate the collective results of any policy. Economists should never speak of socialism's inability to produce wealth. To say that socialism has failed requires the economist to assess the interpersonal subjective utilities of people before and after socialism was abandoned. There is no way this can be done, according to methodological individualism. Therefore, no economist should

offer economic advice in the name of economic theory or statistical analysis. But they are constantly offering advice, often unrequested advice.

A. Buyer

A buyer who is a final consumer of any asset or service imputes value to it. He compares it to a scale of values: first, second, third, etc. He wants something a lot or a little. He cannot say how much in an objective way. *There is no objective measure of subjective value.* But he has priorities. He will spend money accordingly.

Multiple buyers impute multiple values to the items offered for sale. There will be wide variations of imputed value, person by person. These items have prices. Sellers have priced these in terms of a monetary unit. These prices may be negotiable, especially for volume purchases.

Because there is bidding, there are objective prices. Buyers must then determine whether a particular item is worth what a seller says is the selling price. How does someone assess this?

Money will buy almost anything. It is the most marketable commodity. So, a buyer looks at the price tag. He sees how much money this is. Then he makes a rough mental calculation of what this amount of money would buy him. There is a money cost of making the purchase. But the money is good only for what it can buy now or may be able to buy in the future. It is not sought after for its own sake except by misers or by people who measure their own value by how much money they possess. So, the cost of buying item A is not being able to buy item B. This cost is subjectively imputed by a prospective buyer.

You must be clear about the relation between value and price. Value is subjective. Price is objective. The objective price conveys information to buyers. They must then decide subjectively: "Is this worth buying?" If they decide to buy at the list price, they confirm the prior decision of the seller that this product was worth the money it cost him to produce and bring to market.

Value is not the same as price. Subjectively imputed value informs the buyer whether some item is worth owning when compared to his subjectively imputed value of whatever else his money can objectively buy. Then he buys one item or the other. He pays an objective price.

B. Seller

A seller has already forfeited the use of money in producing the item

and bringing it to market. He made an evaluation. He estimated how much money he would have to spend on the production of the item. Then he estimated how much money he would receive from the sale.

Then he compared the expected net subjective future profit to the subjective value of the money spent to produce the item. He used objective prices to make the comparison. He prefers more money to less money. Why? Because he has in mind the subjective value of the things money can objectively buy.

He must spend money to make money. But money is merely a tool for estimating the profitability of decisions. *Money does not measure value.* Money prices are objective. Value is subjective. The seller must spend money to make more money. He therefore gives up goods now to be able to buy even more goods, he hopes, in the future. The value of the goods given up now, as well as the value of the hoped-for goods coming back, is imputed subjectively.

The seller is motivated by the prospect of more value in the future than today. He bears the burden of uncertainty for the sake of greater value in the future. To participate in the free market, he must spend money. He must pay objective prices. Money tells him what he must give up objectively. The subjectively imputed value of a specific amount of money is the subjectively imputed value of whatever he can objectively buy with the money. He makes his decision to produce or not to produce in terms of the present subjective value whatever goods he must give up now vs. the present subjective value of his expected return.

C. Pencil

A buyer wants a pencil now. Maybe he has run out of pencils. Maybe he can see that he will soon run out. He makes a subjective imputation of the value that a pencil will bring him. The pencil is a tool. The buyer does not want it for its own sake. It may be a consumer good used to draw pictures. It may be a producer good to make notes. But whatever his uses for the pencil, the buyer imputes subjective value to the expected output of the pencil. Then he imputes value to the pencil based on his estimation. Will he buy it? That depends on his subjectively imputed value of whatever else the money spent to buy the pencil would buy.

The seller makes a similar estimate. He must spend money to produce the pencil. He hopes to get more money back. What might this money ob-

jectively buy in the future? Is it worth bearing the uncertainty of going into the pencil business?

Buyers compete against buyers objectively. They bid money for the ownership of pencils. Sellers compete objectively against sellers. Retailers bid money to buy wholesale cartons of pencils. Producers bid money to buy producer goods and labor services to manufacture them. But buyers and sellers make these decisions in terms of their individual imputations of subjective value to whatever the money will buy objectively.

Conclusion

God imputed value to His work during the creation week. This is our model for imputing value, whether moral value or economic value.

Covenant-keepers should strive to impute value to their lives. They should strive to meet God's moral and legal standards. These standards are connected covenantally to sanctions in history. *Covenant-keeping produces visible benefits*. These benefits are objective (Deuteronomy 28:1–14). But they are evaluated subjectively by God and men. This is why God announced regarding His Bible-revealed law:

See, I have taught you statutes and rules, as the Lord my God commanded me, that you should do them in the land that you are entering to take possession of it. Keep them and do them, for that will be your wisdom and your understanding in the sight of the peoples, who, when they hear all these statutes, will say, 'Surely this great nation is a wise and understanding people.' For what great nation is there that has a god so near to it as the Lord our God is to us, whenever we call upon him? And what great nation is there, that has statutes and rules so righteous as all this law that I set before you today? (Deuteronomy 4:5–8)

We impute value subjectively to scarce resources. We already have priorities before we impute value. We assess the value of any item in terms of what it can do to help us achieve our priorities. But such help always comes with a price tag. We need money prices to enable us to make accurate estimations of the cost of gaining help. These prices are objective. They show us the objective limits of our budgets. We say: "I can afford this." Or else we say: "I cannot afford this." We make these judgments in terms of whatever else we

could buy for the same amount of money. *The subjective value we can afford to buy is objectively limited by the prices of the offers.* Sometimes, we cannot afford to buy the help that we think we need. We must take second-best.

The limit of our wealth objectively constrains our expenditures. We make objective decisions in terms of our objective limitations. We decide which decision to make in terms of our subjective imputation of the comparative value of the available objective options.

The kingdom of heaven is like treasure hidden in a field, which a man found and covered up. Then in his joy he goes and sells all that he has and buys that field. Again, the kingdom of heaven is like a merchant in search of fine pearls, who, on finding one pearl of great value, went and sold all that he had and bought it (Matthew 13:44–46).

For what will it profit a man if he gains the whole world and forfeits his soul? Or what shall a man give in return for his soul? (Matthew 16:26)

17

INFLATION AND CORRUPTION

*Your silver has become dross, your best wine mixed with water
(Isaiah 1:22).*

Analysis

This passage is an aspect of point four of the biblical covenant: judgment. The addition of debased metal to silver ingots was a way to deceive people who sold goods and services to silversmiths and other sellers of silver. The sellers of goods and services initially overestimated the value of the debased silver. Then producers of wine imitated the silversmiths. This made the accurate imputation of economic value more difficult for consumers. This was a form of theft: point three. But this form of theft rested on a form of deception that distorted economic value.

Sometime around 740 B.C., the prophet Isaiah came before the southern kingdom of Judah (Isaiah 1:1) with a covenant lawsuit. The nation was corrupt: bottom to top.

Hear, O heavens, and give ear, O earth; for the Lord has spoken: "Children have I reared and brought up, but they have rebelled against me. The ox knows its owner, and the donkey its master's crib, but Israel does not know, my people do not understand." Ah, sinful nation, a people laden with iniquity, offspring of evildoers, children who deal corruptly! They have forsaken the Lord, they have despised the Holy One of Israel, they are utterly estranged (Isaiah 1:2–4).

The sin of monetary inflation was one of those listed by the prophet. Silver had become dross. What did this mean? Silver was being debased by the silversmiths. The practice of smelting was widely known in the ancient Near East. It is mentioned in the Bible (Deuteronomy 4:20; Isaiah 48:10; cf.

Daniel 3:19–20). In Isaiah 1, smelting is used as a metaphor of God’s cleansing Israel of evil.

Therefore the Lord declares, the Lord of hosts, the Mighty One of Israel: “Ah, I will get relief from my enemies and avenge myself on my foes. I will turn my hand against you and will smelt away your dross as with lye and remove all your alloy. And I will restore your judges as at the first, and your counselors as at the beginning. Afterward you shall be called the city of righteousness, the faithful city” (Isaiah 1:24–26).

Isaiah used debased silver and watered-down wine as metaphors of ethical corruption. This does not mean that there was no debased silver or watered-down wine in Israel. On the contrary, their presence was widespread and well known, which is why the accusation would be understood. The people used debased silver in exchange. They drank watered-down wine. This lent credibility to his accusation of ethical debasement in the city. It was part of his overall assessment of corruption.

How the faithful city has become a whore, she who was full of justice! Righteousness lodged in her, but now murderers. Your silver has become dross, your best wine mixed with water. Your princes are rebels and companions of thieves. Everyone loves a bribe and runs after gifts. They do not bring justice to the fatherless, and the widow’s cause does not come to them (Isaiah 1:21–24).

These were literal practices. They were not solely metaphorical.

What were the smelters doing? They were taking a less expensive common molten metal and mixing it into the liquid silver. The increased production of silver-looking bars initially did not look different from previous silver bars. The smelters then spent the silver bars into circulation by purchasing goods and services. They purchased these valuable items at the *pre-debasement* purchasing power of silver bars. They preyed on the ignorance of non-specialists, who would not recognize the fact that the bars contained a reduced quantity of valuable metal than before. *This was theft. The Mosaic law identified this practice as corruption.* “You shall do no wrong in judgment, in measures of length or weight or quantity. You shall have just

balances, just weights, a just ephah, and a just hin: I am the Lord your God, who brought you out of the land of Egypt" (Leviticus 19:35–36).

The initial profit from this theft would have been minimal. The bars were still mainly silver. But, over time, the percentage of the base metal was increased. This deterioration became visible. The result of this increase in the money supply was predictable: rising prices. People bid more for goods and services because they had a greater number of silver bars with which to bid.

In response, winemakers imitated the smelters. They added water to the wine. They sold the same quantity of wine for the same number of silver bars as before. Prices did not rise. Supply and demand balanced at the old exchange ratio. *The quality of the silver bars and the quality of the wine declined together.* The debasement of the silver bars was initially based on deception. But this deception could not be concealed when it became greater: more base metal poured into the silver solution. After this, the rest of the economy succumbed. Either prices rose for a product or else quality declined (deception).

Isaiah's point was ethical. The corruption of their morals was the cause, but this corruption was not contained within the confines men's imaginations. Imaginations became actions. Opportunities were exploited. The moral corruption spread into the general society. This became evident in the economy. *The entry point of this corruption was debased currency.* Debased silver was representative of national corruption, but it also extended the corruption. It was a metaphor, but it was more than a metaphor: it was a cause.

Money in a developed economy is the common factor in most transactions. Prices are registered in the currency unit. Because it was the crucial common factor in the economy, any tampering with the money supply had ripple effects throughout the entire economy. If the civil authorities refused to impose common weights and measures on sellers, then only the market could impose negative sanctions. This is what the market in Judah was doing. It was imposing negative sanctions on buyers who were using a debased currency unit: reduced quality of consumer goods. Other sellers matched the corruption of the smelters, which had been validated by the buyers when they did not protest the adulteration of the currency. Analytically, the moral corruption was universal: smelters, consumers, and sellers. *Everyone was trying to steal himself rich.* Isaiah warned of God's negative sanctions ahead if they did not repent.

A. Buyers

Buyers possess money, which is the most marketable commodity. This is the economic basis of their superiority over sellers. This is sometimes called consumer sovereignty, but this terminology is misleading. Sovereignty is a legal category. Buyers and sellers possess sovereignty: *legal ownership*. Economic superiority is best understood as customer authority. Customers own what sellers want to buy: money. To gain ownership of money, sellers must supply buyers with whatever buyers want at prices and terms of sale that buyers are willing and able to pay.

The silversmiths or smelters possessed the raw materials out of which money was made in the ancient Near East: silver and a hardening alloy. Second, they possessed the knowledge of how to manufacture silver bars. Third, they initially possessed the people's trust. Fourth, they had access to markets in which their output could be voluntarily exchanged for goods and services. As the initial sellers of money, they possessed the greatest market-based authority in the economy. They were the supreme buyers.

They were corrupt. Because of their highly specialized knowledge of the manufacture of silver bars, they could deceive buyers of money, i.e., sellers of goods. Because they oversaw the starting point of the money economy, smelters had great responsibility. They had the power to deceive the buyers of money. This high degree of economic authority, which was due to specialized knowledge, is why God holds producers responsible for tampering with standards (Leviticus 19:35–36). Because money is the starting point of exchange in an advanced division of labor economy, and also because money is the central institutional arrangement in a money economy, *smelters possessed the highest degree of economic authority in ancient Israel*. In modern times, central bankers possess this degree of authority. This authority is implemented by commercial bankers, but a central bank is in charge in most nations.

The national civil government grants a legal monopoly to its central bank. Thus, in the modern economy, the civil government possesses supreme legal authority and also supreme economic authority. Its agent is the central bank. Yet, operationally speaking, central bankers possess greater economic knowledge and therefore greater authority than politicians. The judicial supremacy of the state over the national central bank is a politically convenient fiction in most nations.

The supreme buyers in Isaiah's day were morally corrupt. They were thieves. They decided to break the law of honest weights and measures. The civil authorities, who were equally corrupt, allowed this. The public at some point discovered the deception. Sellers then decided to protect themselves. They also violated the laws. They debased their goods by lowering quality.

The supply of money kept increasing. The supply of goods did, too, but not the same quality of goods as had prevailed before the monetary inflation produced by smelters. Thus, buyers of goods lost access to a price system that conveyed accurate information. Why was this? Because the unit of account that had served buyers and sellers as a source of accurate information regarding supply and demand had been debased. The information that the array of prices conveyed was no longer as accurate as it had been under the older, pre-debasement regime.

The money was spent into circulation by the smelters. Initially, it was purchased by sellers of goods and services at pre-debasement prices. This benefited dishonest smelters. They grew richer at no extra cost. The other smelters followed the example of the dishonest smelters when it became obvious that the civil authorities were not going to prosecute the dishonest smelters.

Because the debased money was released into the economy at specific points of sale, those sellers who gained early access to the new money possessed an advantage. They could turn around and buy whatever they wanted at yesterday's prices. The general public had not yet figured out that there had been an increase in the money supply. Other sellers did not perceive that there would be higher bids as the newly created money spread through the economy. Buyers would be able to bid higher because they had more monetary units with which to bid.

This led to a redistribution of wealth: *to* those users of debased money who got access to the money early and immediately spent it *from* those who got access late, or those who got access early and hoarded it rather than spent it. They sold assets at pre-debasement prices, but then faced rising prices for the money they now possessed. Their money bought less. They became the economic victims of debasement. This time delay in the spread of debased money through the economy was first discussed by Ludwig von Mises in his 1912 book, *The Theory of Money and Credit*.

B. Sellers

The post-debasement array of prices initially concealed the new condi-

tions of the supply of money and the demand for money. Then rising prices undermined the decisions of those sellers who had sold at prices that were too low. This means that prices no longer conveyed accurate information about both supply and demand for a growing percentage of goods and services. This loss of accurate information at these new prices produced a net loss of wealth for most participants in the economy. (Note: if this statement is accurate, then it is analytically possible to make *interpersonal comparisons of subjective utility*. This ability is officially denied, but never adhered to in practice, by defenders of methodological individualism's concept of 100% subjectively imputed economic value. This is the Achilles' heel of all forms of philosophical nominalism: the logical inability of the nominalist to make philosophically consistent value judgments for collectives. Christian philosophy is neither nominalist nor realist. It is covenantalist; judicial. It rests on the concept of a Trinitarian God—simultaneously one and many—who imputes value and meaning to every aspect of life. Men, who are made in God's image, have the ability to think God's thoughts after Him in a creaturely fashion. This insight makes Christian economics different from secular economics.)

Sellers initially found ready buyers at pre-debasement prices. They could sell whatever they had brought to market. This was because there was now more money in the economy, not because buyers (other than smelters) had gained access to the new money by increasing the production of goods and services. *There was no new wealth in the economy. There was only more money.* There would soon be new conditions of supply and demand for money. But this would be the result of debased money, not greater productivity.

Sellers were happy that they had been able to sell all of their output at the prevailing, pre-debasement array of prices. Some sellers continued to produce the same quantity of goods and services. Other sellers increased production to take advantage of strong monetary demand. An economic boom began. But there was an inherent problem with this boom. It was based on the strong monetary demand for goods at pre-debasement prices. These prices could not be maintained if there were no further injections of debased money. Sellers who had expanded output on the assumption that this increased demand would not raise prices had made a mistake. The array of ignorance-based prices had sent out false signals: "There is more demand based on rising productivity." If the debasement continued, these false signals would soon result in losses for producers who had not bought

producer goods in order to increase output. The price of producer goods would soon rise in response to increased demand from competing producers who were being misled by the array of prices. An inflationary boom would begin. Businessmen would increase production.

If there was not a further issuance of debased money, the artificial economic boom would turn into a crash. Sellers would experience losses. They had overpaid for producer goods. But if smelters continued to issue debased money, prices would become less accurate, and the boom might continue, but only at the risk of a far worse crash when monetary inflation finally ceased. This chain of events was first discussed by Mises in *The Theory of Money and Credit*. It is referred to as the Austrian theory of the business cycle.

In this chain of developments, there would be some winners. They would go into debt at the beginning of the inflation process. They would buy assets that appreciate in inflationary times: real estate, precious metals, capital equipment, and raw materials. Then they would then sell these assets at the end of the boom, reverting back to money. Then, in the crash, they would be able to buy low-cost income-producing assets that generate passive income. But there are very few people who are this alert to the business cycle and its investment effects.

C. Pencil

In the modern world, something in the range of 14 billion pencils were sold each year in the 1980s, according to Henry Petroski's 1989 book, *The Pencil* (p. 331). This same figure is still the common estimate today, possibly because no one has gone to the trouble of collecting better data. Petroski also estimated that there were 125 manufacturing process required to produce one pencil. This is indicative of a highly sophisticated system of production for what appears to be a simple product. Prices guide decision-makers in every stage of production. The pencil market is affected by an incalculable array of prices and exchange relationships among people involved at every stage of production. That was Leonard Read's point in 1958.

When central banks, in conjunction with commercial banks, add new digital money to the money supply, this creates distortions in economic information. These distortions mislead buyers and sellers. This is less true of pencils. The pencil is an old technology that extends back to the late sixteenth century. Buyers and sellers of pencils can make reasonable estimates

of what the supply and demand for pencils will be in the following months or year. Pencils are simple products. The manufacturers of pencils in any economically developed nation are few, and they have been in the business for decades. Surprises are few. Innovations are rare. A pencil is so cheap that few people cut back on their purchase of pencils in a recession. They cut back instead on their purchase of more expensive consumer goods. This is not the situation facing most manufacturers. For most manufactured goods, the markets are much younger, and the degree of concentration in the industry is less. The complexity of production is high for a product like an automobile. Some products are highly sensitive to the ups and downs of the economy. Pencils are not. Profits are low. So are losses.

Conclusion

Moral corruption has multiple outlets: in law enforcement, economic production, and family relations. *In economic life, the most pervasive form of corruption is concealed theft.* This is practiced by producers, who possess specialized information on the details of production. Here, quality can be cut without initially being perceived by buyers. The supreme specialist in weight-tampering is the producer of money. His tampering affects the entire economy.

The smelters in Judah were thieves. They debased the currency. They sold alloy-debased silver at the price of pre-debased silver. This made them richer, but it made others poorer. The more alloy they added, the more obvious the corruption. Then other sellers of goods responded in kind. They reduced the quality of their output. Prices may not have changed much, but quality did. Other producers imitated the smelters. Corruption and deception spread. Watered-down wine became the metaphor of this universal debasement.

It is no different in modern times. Nations no longer use silver coins because the inflationary digital currency systems long ago drove silver coins into hoards. Silver coins are worth more for their silver content than they are worth as money. This took place in the United States, beginning in the fall of 1963. I had bought silver coins all summer. I knew this would happen. I understood Gresham's law: "Bad money drives out good money." Why? Because there are price controls on all forms of money inside a nation. Here is a universal rule: *when there are government-imposed price controls, there will be shortages of the artificially undervalued goods.* In late 1963, this

meant silver coins. The government said that a dime was worth ten cents. But the silver in a dime was worth more than ten cents. Silver coins therefore disappeared into hoards. Why give up ownership of something worth 15 cents in order to buy something worth ten cents? All over the world in the late 1960s, silver coins went out of circulation. Millions of consumers got even with the central banks that were defrauding the public. Central banks were debasing the currency. In 1964 in the United States, the government went far beyond the corruption of the smelters in Isaiah's day. The mint ceased issuing 90% silver coins. It issued 100% base metal coins with a thin layer of shiny, silver-looking metallic coating. The coins were all alloy, no silver. The debasement of the silver coinage was complete. The moral debasement had only just begun.

18

TIME AND INTEREST

He also who had received the one talent came forward, saying, 'Master, I knew you to be a hard man, reaping where you did not sow, and gathering where you scattered no seed, so I was afraid, and I went and hid your talent in the ground. Here, you have what is yours.' But his master answered him, 'You wicked and slothful servant! You knew that I reap where I have not sown and gather where I scattered no seed? Then you ought to have invested my money with the bankers, and at my coming I should have received what was my own with interest' (Matthew 25:24–27).

Analysis

This passage has to do with point four of the biblical covenant: judgment. The wicked steward negatively judged the moral character of the coin owner. The coin owner in turn negatively judged the moral character of the steward. The issue dividing them was this: the right of the coin owner to demand payment for the use of his coin by the steward during the period of the owner's absence. The coin owner informed the steward that the steward owed him for the use of his asset over time.

This was Jesus' final parable. He presented it immediately preceding His description of the final judgment. Matthew 25 is devoted entirely to the final judgment.

This parable is about good stewardship of God's property. It is known as the parable of the talents. A talent was a weight of either gold or silver. The parable is the story of a wealthy man who goes on a long journey. He distributes money, meaning talents, to three servants. One servant receives five talents. The second servant receives two. The third servant receives one. The owner selects them in terms of their past performance: "to each according to his ability" (v. 15). When he returns, he asks for an accounting. The results were consistent with their prior performance. The first servant dou-

bled the owner's money: five for five. The second servant doubled the owner's money: two for two. The third servant returned the lone talent. For this performance, he was condemned. The owner gave this talent to the best-performing servant.

The third man was condemned. Why? He did not lose the talent. He returned it. The owner had not lost anything, correct? Wrong. The owner had lost whatever the talent would have generated in interest. The owner understood this. Jesus assumed that His listeners would understand this.

Most listeners today, hearing this for the first time, would understand this. Those who believe that Jesus would not mislead them accept it. But there is a small group of listeners who are appalled. *This passage clearly justifies the giving and taking of interest on loans.* Some of these people think of themselves as Christians. Some do not. But all of them condemn interest under all circumstances. This places the anti-interest Christians in a difficult position. They prefer to ignore this passage.

There are passages in the Mosaic law that condemned interest on loans to the poor, if (1) the borrowers were covenant-keepers, or (2) they were resident aliens in the holy land. But these zero-interest loans were limited in terms of time: the next sabbatical year, at the beginning of year seven in a seven-year cycle. They were also collateralized by the borrower's labor. If he defaulted, he could be sold to pay off his debt, and kept in bondage for up to six years.

If your brother, a Hebrew man or a Hebrew woman, is sold to you, he shall serve you six years, and in the seventh year you shall let him go free from you. And when you let him go free from you, you shall not let him go empty-handed. You shall furnish him liberally out of your flock, out of your threshing floor, and out of your winepress. As the Lord your God has blessed you, you shall give to him (Deuteronomy 15:12–14).

The owner in the parable was a businessman. Jesus was not talking about making interest-bearing charitable loans. He was talking about commercial banking practices. So, the owner of the coin deserved this minimal rate of return.

Why? What is it about interest payments that constitutes them as a legitimate source of income for commercial lenders?

Think of yourself. Say that you had enough money to build a deck for

your backyard. That would increase the value of your home. You would be able to enjoy the use of it. It is April. You would like to have it for summer. You go to a company that builds decks. The sales representative gives you a price. It seems reasonable. He then says this: "You must pay now. You will have your choice of when we should built it. It takes a week. We can begin next week or in ten years." You would choose next week. What if the delay were only a year? You would still choose next week. Why? Here are reasons. First, you would like to enjoy it soon. You place a premium on sooner rather than later. Second, the company might go bankrupt before it built the deck. There is a risk factor to consider. Third, you might die at the end of the summer. You will never enjoy that deck, even though you paid for it.

If the deck construction company offered you a 10% discount if you are willing to wait a year, you might consider this. That would mean a 10% tax-free rate of return on your money. If the prevailing interest rate is 5%, you would want to know why the company is willing to offer this big a discount. Is it in financial trouble? Might you lose your money? But this is clear: you would not consider the deal unless you got something extra in return for your willingness to pay now but be forced to wait a year for your deck.

How is the rate of interest established on a free market? The same way that all prices are established: through competition, i.e., through supply and demand. How does this system work? Lenders (buyers of future money) compete against lenders. Borrowers (sellers of future money) compete against borrowers. What is the governing allocation principle? High bid wins.

I return to the parable. Say that the man originally handed over the coin to the frightened steward. He asked the steward to take responsibility for keeping the coin safe. Why would the steward accept this legal responsibility? Why would he supply something (caretaking) for nothing? At the same time, why would the owner surrender his coin to someone so foolish as to accept the responsibility free of charge? Would he lend the coin, get it returned to him, plus interest, just before the owner was scheduled to return, and pocket the interest money for himself? It would make no sense for either of them to agree to such an arrangement.

Whenever a voluntary arrangement makes no sense on the surface, look below the surface. There is something going on that is not obvious. Maybe there is a special situation. Investigate.

I think there was a special situation. The parable reveals it. The owner was testing the performance of the three stewards. He entrusted each of them

with greater responsibility than before. He wanted to know how they would perform when he was absent. There would be a day of reckoning, but that was far off. He took three separate risks in handing over his money to them. But he thought this was worth it. There was something more at stake beyond the day of reckoning. In Luke's version of this parable, it becomes more clear.

The man was made king and came back. At once he ordered his servants to appear before him, in order to find out how much they had earned. The first one came and said, 'Sir, I have earned ten gold coins with the one you gave me.' 'Well done,' he said; 'you are a good servant! Since you were faithful in small matters, I will put you in charge of ten cities.' The second servant came and said, 'Sir, I have earned five gold coins with the one you gave me.' To this one he said, 'You will be in charge of five cities' (Luke 19:15–19).

Those stewards who performed well received far greater responsibility. This is the essence of God's system of stewardship: a constant increase in personal responsibility, with wealth to match. *The biblical goal is to increase responsibility.* The stewardship of wealth is the test. A covenant-keeper does not take on added responsibility in order to obtain greater wealth. He takes on added responsibility because he has proven to God, men, and himself that he is capable of bearing it. Greater wealth is a success indicator. But the essence of success is this: exercising dominion over a greater range of decisions.

Part of this extension of dominion is the extension of credit. Why? *Because every extension of credit is an extension of debt.* The Bible says: "The rich rules over the poor, and the borrower is the slave of the lender" (Proverbs 22:7). Therefore, God told Moses, and Moses told the generation of the conquest:

The Lord will open to you his good treasury, the heavens, to give the rain to your land in its season and to bless all the work of your hands. And you shall lend to many nations, but you shall not borrow. And the Lord will make you the head and not the tail, and you shall only go up and not down, if you obey the commandments of the Lord your God, which I command you today, being careful to do them (Deuteronomy 28:12–13).

A. Buyer

A buyer possesses money. He must decide what to do with it. This is his inescapable responsibility. He is a steward, either for God or mammon.

He can buy consumer goods. Or he can buy production goods to become a businessman. He will thereby move from buyer to seller. He can lend money at interest. He can give it away. He can bury it. Money is most marketable commodity. The range of choices is huge.

If he deposits it in a bank, he wants a positive rate of return. If the bank pays no money, then it is providing some kind of service at no monetary charge. Find out what it is. In the United States, the crucial service is a guarantee by the U.S. government that your money is 100% insured up to \$250,000, or \$500,000 for married couples, per bank. If the bank goes bankrupt (bankrupt = bank + rupture), the depositor gets his money back. This is a major guarantee. There have been no exceptions since 1934.

A bank performs useful functions. It allocates the depositors' money over multiple borrowers. This reduces the risk of bankruptcy by any one debtor. It spreads the risk through diversification. The bank also does background checks on borrowers. The depositor is buying the bank's system for investigating borrowers' risk. A bank is paid for providing this service. It receives more money from borrowers in interest payments than it pays depositors in interest payments.

Back in the days when money was mostly currency and precious metals coins, it was possible for a depositor to go to his bank and receive gold coins or silver coins or paper money on demand. This was a major restraining factor on the banks. They could not safely lend out money long-term to borrowers. They lent money only short-term. Why? Because they could be bankrupted by depositors who demanded immediate conversion of their deposits into currency. This was the famous bank run. The lenders/buyers were in charge. Today, this conversion on demand into currency is no longer possible for large depositors. They are not allowed to make large withdrawals of currency. Large depositors can legally withdraw funds at a moment's notice by transferring digital money to another bank, but the banking system as a whole is not threatened by withdrawals. Governments have changed the law, and central banks have changed rules, beginning late in the Great Depression in the 1930s.

Banks make a lot of money by lending money to high-risk borrowers at high rates. These borrowers are willing to pay credit card rates as high as

80% per annum. This was tested in 2010 in the United States. There were applicants for credit cards with this rate. This was at a time when the average rate was 14%. Meanwhile, banks paid low rates to depositors: as little as a fraction of a percent per annum. The depositors were future-oriented. They wanted the return of their money, but not much more. In contrast, the borrowers were highly present-oriented. They wanted to spend money today. They paid dearly for this privilege. Wealth was transferred from present-oriented borrowers to future-oriented bankers. Depositors did not gain much for their willingness to save money at a bank, but they stayed out of debt to bankers. This is vital for anyone desiring to build wealth.

Ludwig von Mises used this phrase to describe highly present-oriented people: high time-preference. He called future-oriented people low time-preference people. He argued that the free market makes possible mutually beneficial exchanges between these people. High time-preference people get what they want: immediate gratification/consumption, but at the cost of future gratification. Low time-preference people get what they want: future income, but at the cost of forfeiting immediate gratification/consumption.

The asset owner in the parable of the talents was a low time-preference person. But he wanted a rate of return above zero. The third steward did not understand this. He suffered the consequences.

B. Seller

A borrower of present money is the seller of a promise of even more future money. We identify him as the seller in the lending arrangement, which is a credit arrangement. For every extension of credit there is an equal extension of debt. *Credit and debt are two sides of the same coin.*

The borrower believes that he has better uses of present money than future money. This may be because he is a present-oriented person. He discounts steeply the value of future income compared to today's income. He wants more income today. But if he is a businessman, he may want the loan because he thinks he has an opportunity to make a great deal of money. He needs present money to generate future money. He decides that borrowing money at a fixed rate of interest is preferable to foregoing the opportunity. He also decides that this debt is preferable to asking investors to put up the required money in exchange for partial ownership of the project. So, he may be a highly future-oriented person. But if he is, he will not use the borrowed money to buy consumer goods for himself.

There is no way that a borrower can get ownership of present money free of charge unless he is a charity case. Why would anyone lend him money free of charge? The lender can spend his money in these ways: buy investments, buy consumer goods, give it to relatives, give it to charities, give it to political organizations, or gamble. Why would he want to lend it at zero return to a stranger? *People want something in return for parting ownership with their wealth.* Lending money to a stranger at zero interest makes no sense.

In effect, this is what the third steward expected the owner to do. He buried the coin, and then did nothing creative with the money to earn the owner a positive rate of return. He betrayed the owner. The owner brought judgment against him. "And cast the worthless servant into the outer darkness. In that place there will be weeping and gnashing of teeth" (v. 30). Verse 31 began Jesus' description of the final judgment. It ended with these words: "And these will go away into eternal punishment, but the righteous into eternal life" (v. 46).

Conclusion: *Better to have put the coin with the money lenders.* To do otherwise is to accept a false doctrine: it is possible to get something for nothing. It is the idea that it is possible to get positively rewarded as a steward for producing nothing of value to the owner. Those people who argue that there should be no rate of interest on a loan have adopted this false philosophy.

C. Pencil

A firm that produces pencils can show from its accounts that it has a steady income. What if the owner thinks there is an opportunity to expand production at a profit in the future? This will take an investment. Where can he get the money? First, out of present earnings. Second, out of his own savings. Third, from investors who will gain partial ownership in the company. Fourth, from a bank. Fifth, by selling interest-paying bonds to investors. He may prefer borrowing from a bank if rates are low.

This is what the bank wants, too. Here is a company in a very mature market. It can show steady profits, however low. The market is not going to disappear. There will still be buyers of pencils next year and the year after. So, this is an ideal borrower from the banker's point of view.

What is true of the manufacturer of pencils may also be true of the companies that supply raw materials and equipment to the pencil industry. The owner of any of those firms can go to his bank in search of a loan.

Having good credit is the same as having capital. The pencil company has the ability to expand production if it can make a clear case to a banker that there is a significant opportunity for greater profits available. The banker will probably take the owner's word for this. The banker knows that the owner does not want to lose his company's reputation by defaulting on a loan. That would reduce the company's value. It would lower its credit rating. This would be the same as a loss of capital. The company is a low risk.

Conclusion

This system of credit/debt allows people who have productive ideas to borrow money from people who want steady income in the future. There is an opportunity for a mutually beneficial exchange: present money in exchange for a legally enforceable promise to repay the loan, plus interest.

The rate of interest is the price paid for a borrowed good, including money, which is then used by the borrower to buy goods and services. This rate of interest is set by the free market: supply and demand. Lenders compete against lenders. Borrowers compete against borrowers.

The reason why the rate of interest exists is that there are no free lunches. We cannot get something for nothing. We cannot legally get our hands on money today if we do not promise to return this money, plus more money, in the future. *The lender applies a discount to this future income.* Surrendering a gold coin to someone without the promise of repayment, plus a little extra, in the future, is irrational in any voluntary business arrangement. We must pay for future income. That payment is either a surrender of ownership (discounted loan) or an agreement to a rate of interest. Take your pick. Beggars can be choosers after all. They can choose which kind of payment they prefer.

19

PROFIT AND LOSS

For what does it profit a man to gain the whole world and forfeit his soul? (Mark 8:36).

Analysis

This passage is an aspect of point four of the biblical covenant: judgment. It has to do with the final judgment. Jesus warned people to impute value to their souls on the day of judgment. Then they should impute value to their worldly possessions. Jesus warned that not even if a man owned the whole world would this do him any good on judgment day. He would suffer a loss. So, possessing far less than the whole world would produce an even greater loss.

From an economic standpoint, profit and loss are aspects of uncertainty. We do not know the future perfectly. We are not omniscient. God is.

We live in the present. We are moving steadily into the future. We must therefore forecast the future. We must make plans to deal with the future. But we see things imperfectly. We therefore face the possibility of losses. But if we plan better than our competitors, we also have the possibility of making profits. I have discussed this in greater detail in Chapter 14 of *Christian Economics: Student's Edition*: "Entrepreneurship." We are all entrepreneurs.

Jesus' warning on profit points to this time-based aspect of profit and loss. Jesus contrasted the maximum profit and the maximum loss. If you could profit by becoming the owner of the whole world, but this would cost you eternal life, it would be a bad exchange. This is the choice between worshipping God and worshiping mammon. The best that mammon could offer anyone is the whole world. This would not be a wise trade: eternal life for temporary dominion over everything. Jesus was saying that mammon's offer is insufficient to offset the impending loss. Here is mammon's offer: "more for me in history." Here is Jesus' offer: "But seek first the kingdom of God and his righteousness, and all these things will be added to you"

(Matthew 6:33). Jesus warned people to count the cost. (I went into this in greater detail in Chapter 7.)

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish' (Luke 14:28–30).

This requires that we look into the future. We must make estimates of future costs and benefits. We do not see things clearly. "For now we see in a mirror dimly, but then face to face. Now I know in part; then I shall know fully, even as I have been fully known" (I Corinthians 13:12). But we see well enough for God to hold us responsible for our actions.

Jesus' warning about the trade-off between the whole world vs. the loss of one's soul made it clear that men must assess the future value of their present actions. The stakes are eternal life and death. We read of the second death. "Then Death and Hades were thrown into the lake of fire. This is the second death, the lake of fire. And if anyone's name was not found written in the book of life, he was thrown into the lake of fire" (Revelation 20:14–15). This is what Jesus meant when he warned of the loss of men's souls, "where their worm does not die and the fire is not quenched" (Mark 9:48). This has to do with the future: the eternal future. Jesus warned men of the choice they must make between eternal life and eternal death. These are as high as the stakes get in life. God gave the Israelites an analogous warning.

See, I have set before you today life and prosperity, and death and adversity; in that I command you today to love the Lord your God, to walk in His ways and to keep His commandments and His statutes and His judgments, that you may live and multiply, and that the Lord your God may bless you in the land where you are entering to possess it. But if your heart turns away and you will not obey, but are drawn away and worship other gods and serve them, I declare to you today that you shall surely perish. You will not prolong your days in the land where you are crossing the Jordan to enter and possess it. I call heaven and earth to witness against you today, that I have set before you life and death, the bless-

ing and the curse. So choose life in order that you may live, you and your descendants, by loving the Lord your God, by obeying His voice, and by holding fast to Him; for this is your life and the length of your days, that you may live in the land which the Lord swore to your fathers, to Abraham, Isaac, and Jacob, to give them (Deuteronomy 30:15–20).

God ultimately offers this choice: life and prosperity vs. death and adversity. Gaining the whole world sounds like a benefit. *But there is no benefit without an increase in personal responsibility* (Luke 12:47–48). This burden of worldwide responsibility would be crushing. It would constitute adversity, followed by death. A wise man would know better. Mammon's offer inevitably involves an increase in responsibility: "more for me in history." You gain the whole world, but only at the cost of your soul.

A covenant-breaker looks at his eternal future and discounts the cost to zero. This was what Adam did when he ate the forbidden fruit. He sees only the possibility of gain in history. He sees winning the world as a net benefit. But in making this assessment, he discounts the cost in eternity to zero.

God will impute value retroactively to each person's work on the day of judgment. This is the archetype of profit and loss. Analogously, consumers will impute value retroactively to the work of entrepreneurs. They will buy or refuse to buy the output of entrepreneurs.

Business profit comes from an accurate assessment of what buyers will do in the future. Entrepreneurs buy today the goods and services they need to produce finished products or services in the future. They buy low, they hope, in order to sell high, they hope. They can buy low only because their competitors do not see an opportunity in the future. Their competitors do not bid up the prices of production goods. If their plans work out, they will make a profit. If not, they will suffer a loss. This is the basis of both profit and loss. Both will be determined in the future by customers.

A. Buyer

A buyer decides at some point whether to buy or not buy. His decision is final. He assesses the comparative value of the options to him because he owns money. He has a wide range of opportunities because money is the most marketable commodity. He compares prices. Whenever he believes that he can maximize net value from a purchase, he buys.

A buyer is an entrepreneur. (We are all entrepreneurs.) He begins in the present. He makes guesses about what he needs and wants in the present. Then he guesses what he will need and want in the future. He decides how to allocate his money in terms of his assessments of his present needs and wants in relation to his future needs and wants. He discounts the value of future needs and wants in relation to the value of present needs and wants. Then he guesses about how much income he will have between now and then. Then he allocates his funds among these options: consumption, savings, speculative investments, taxes, and charity. He may also consider tithing: the biblically mandatory support of his local church. (<http://CovenantalTithe.com>)

He seeks to make a profit. What is profit from a buyer's point of view? It is his ability to buy something cheaper than he expected. Then he can do other things with the money he had not budgeted. Economists call this a *consumer surplus*. I call it profit.

Money reduces a buyer's uncertainty. It can be used to buy almost anything. He is less vulnerable to unexpected events if he owns money. Here is another way of describing this. He is dependent on a wide range of sellers, not just on a few local sellers, which would be the case under barter. A broad market reduces his dependence on a handful of suppliers. This is why money reduces his uncertainty.

A buyer is often an economic agent for those under his lawful authority. This includes family members. He acts on their behalf. A buyer may also be the economic agent of an employer. He acts on the employer's behalf and also in his name. He is a legal agent as well as an economic agent. He seeks a profit for everyone he represents.

B. Seller

A seller is more obviously an entrepreneur. He seeks a profit. This profit is assessed by accounting techniques. It is assessed by what is sometimes called black ink: more income than outflow. Red ink represents losses: less income than outflow. The seller seeks a positive rate of return in terms of money.

He imputes subjective value to the profits gained. This may be as an entrepreneur competing against other entrepreneurs. He seeks to do better than they do. His performance is evaluated in terms of money. Who does this evaluation? He does. Also the public, other entrepreneurs, and investors

in the company's stock. Last, but hardly least, the tax collector assesses profit or loss. The entrepreneur's rate of profit depends on how much the tax collector extracts. What he made pre-tax is less important than what he keeps post-tax.

How does he make a profit? By buying low and selling high in terms of money. He can do this only when he accurately forecasts the future revenues gained from sales of his products, and he also forecasts what it will cost him to manufacture or purchase of these products in order to sell to buyers. None of this is guaranteed.

He makes his profit based on specialized knowledge. He knows how to deliver products to buyers at prices they are willing and able to pay. He sells in a niche market. Not many people know how to do what he knows how to do. He takes his specialized knowledge and uses it to serve future buyers.

To succeed, he must bid for production goods: raw materials, labor services, capital equipment, building space, transportation services, and public utilities. He bids against other producers. The high bids win. Entrepreneurs do this, economically speaking, as the economic agents of specific customers in the future. If entrepreneurs are successful in bidding away producers' goods from their competitors, the people who buy from them in the future will be beneficiaries. Economically speaking, these customers will outbid their competitors. Buyers compete against buyers. Sellers compete against sellers.

C. Pencil

Pencil manufacturers make money by selling pencils to buyers. They may not make a profit. A profit is not the same as income. Income may be sufficient to pay for all of the production goods, plus salaries to managers. The owners receive dividends equal to what they could make if they sold the business and invested in another pencil company. But there is no extra money called a profit. *Profit is a residual for accurate forecasting and planning.* The pencil industry is so old that there are not many profit opportunities to exploit. The business pays for factor inputs, but it does not make anyone rich. There is little unexploited knowledge. There are few savings to be had.

It is possible that some producer will make a breakthrough. If it proves to be profitable, it will be copied by competitors. Whatever the advantage is,

it soon becomes conventional. Output increases. But then in order to sell the extra pencils, the company must cut prices. So must other companies. The beneficiaries of the breakthrough will be the buyers.

The innovation may be invisible to buyers. All they see are yellow pencils with pink erasers. But if the innovation decreased production costs, there will be more production. This will increase the supply of pencils. To sell these extra pencils, there will be price cuts. It is highly unlikely that a pencil company will be able to sell more pencils by increasing the advertising budget with the money saved in production. When was the last time you saw an advertisement for a pencil? The company will lower its prices. This is the usual result of innovations in production. Buyers get to buy more pencils because pencils are cheaper. This is the law of demand: "At a lower price, more is demanded."

The quest for profit has driven pencil makers to improve the quality of pencils and cut prices. In 1845, a typical pencil cost five cents. In terms of today's prices, that would be at least 30 times more. The pencil in 1845 had no eraser. Today's pencil can be bought for about seven cents when bought in bulk: 144 pencils. This would last most families several years. The price is not worth budgeting for most industrial nation families.

Worldwide, over 14 billion pencils are sold every year. The quest for profit by manufacturers is no longer the primary driving force. The quest for predictable income is. Worldwide, there are fewer than 200 pencil companies, about one per nation on average. This is not the result of government favoritism. Most governments ignore the pencil market. It is the result of centuries of manufacturing. It no longer pays innovators to enter the market for pencils. There is no major profit potential for innovation. Buyers and sellers know what the market will be next year. Buyers pay no attention until the day they buy. Producers from outside the industry pay little attention because the pencil is a mature product in a mature industry. But production continues day and night.

Inside a nation, a handful of manufacturers supplies most of the pencils. This is an old industry. Innovations in production are few and far between. They are easily imitated.

Customer tastes are set. Buyers do not devote research into the latest developments of pencils. Buyers rely on market competition to make familiar looking and familiar performing pencils. They can trust this market because it is old.

Similarly, buyers know that they will have a reasonably predictable number of sales. There is some loyalty of buyers. Buyers are buying familiarity, not innovation. Those who pay no attention to the brand and the hardness will buy whatever is in front of them when they shop. But they will probably shop at the same retail store to buy them this year. So, the sellers concentrate on selling to the retail outlets, not the final consumers.

The ethical standards of the pencil manufacturers are high because the industry is old. Buyers know what they want if they pay any attention to the brand at all. This reduces the number of opportunities for cheating. It is too easy for buyers to switch to a rival brand. Remember, people fear losses more than they desire profits. It is more likely that a buyer will abandon a brand for poor performance than to switch to a new brand in order to gain new but untested benefits. A seller must persuade someone to switch to his brand. This is the most expensive form of advertising. The first sale is the most costly sale. It must overcome skepticism and fear of loss. But when a customer experiences a defective product, he goes looking for a competitor. Once lost, such a customer rarely returns. Manufacturers know this.

Conclusion

Profit and loss are economic categories related to accounting. But, analytically speaking, they are aspects of entrepreneurship. They are the results of economic forecasting and planning in terms of the forecasts.

The standard way to describe entrepreneurship is this: buy low, sell high. But how is this possible? How can we buy low? It is possible only because we do not know the details of the future. We do not know which economic factors will be dominant for a particular product in world markets. The less we know about a market, the more uncertainty will prevail. *Profit and loss are the results of dealing with economic uncertainty.* The presence of uncertainty is the primary opportunity for entrepreneurs to gain profits.

Both the buyer and the seller are entrepreneurs. They both must deal with an uncertain future. The primary motivating factor for a seller is to possess objectively more money rather than the same or less money at the end of a time period. The motivating factor for a buyer is to obtain more subjective value in the future than what he possesses today. Put differently, he wants to obtain greater value for his money than what he can buy today. The buyer is more self-consciously geared to economic value than the seller

is. That is because the buyer possesses money. He can buy what he wants. The seller does not possess money. He cannot buy what he wants with his output. He must exchange his output for money. Then he will be able to buy what he wants. Then he will focus on value. He will be a consumer.

20

SUCCESS AND FAILURE

He said therefore, “A nobleman went into a far country to receive for himself a kingdom and then return. Calling ten of his servants, he gave them ten minas, and said to them, ‘Engage in business until I come.’ But his citizens hated him and sent a delegation after him, saying, ‘We do not want this man to reign over us.’ When he returned, having received the kingdom, he ordered these servants to whom he had given the money to be called to him, that he might know what they had gained by doing business. The first came before him, saying, ‘Lord, your mina has made ten minas more.’ And he said to him, ‘Well done, good servant!’

Because you have been faithful in a very little, you shall have authority over ten cities.’ And the second came, saying, ‘Lord, your mina has made five minas.’ And he said to him, ‘And you are to be over five cities’ (Luke 19:12–19).

Analysis

This parable is an aspect of point four of the biblical covenant: judgment. It tells the story of a businessman who left wealth in the hands of his stewards. Then he departed. When he returned, he exercised judgment in assessing the performance of the stewards. He rewarded them in terms of their performance. There were winners and losers in this assessment. This steward did exceptionally well.

This parable is a variation of the one recorded by Matthew in chapter 25. In Matthew 25, Jesus’ focus is on the final judgment. So is this passage, but it is more indirect.

This parable focuses on political rulership. The parable tells the story of a nobleman. He possessed political power. He was not a businessman. He had ten servants under his authority. They were stewards. He trusted them with his money. In his kingdom were citizens who hated him. He turned

one coin each over to his servants. Then he departed. At his return, he demanded an accounting. One servant had produced a profit of ten to one, which was huge. Another had produced five to one, which was large. One servant had buried his coin. He returned it. The other servants are not mentioned. The first two received political authority over cities. The man who made ten to one ruled over ten cities. The man who made five to one ruled over five cities. The man who buried his coin was condemned. But so were all of the citizens who had rebelled. This is clearly about the final judgment. The nobleman's condemnation of the coin-hoarder involved a transfer of wealth.

'Why then did you not put my money in the bank, and at my coming I might have collected it with interest?' And he said to those who stood by, 'Take the mina from him, and give it to the one who has the ten minas.' And they said to him, 'Lord, he has ten minas!' 'I tell you that to everyone who has, more will be given, but from the one who has not, even what he has will be taken away. But as for these enemies of mine, who did not want me to reign over them, bring them here and slaughter them before me' (vv. 23–27).

The crowd was aghast at this command: "Take the mina from him, and give it to the one who has the ten minas." This was not fair, they believed. The most successful steward was being elevated over the less successful ones. "And they said to him, 'Lord, he has ten minas!'" The nobleman explained why: "I tell you that to everyone who has, more will be given, but from the one who has not, even what he has will be taken away." There is a modern phrase that expresses this thought: "The rich get richer, and the poor get poorer." Jesus made it plain that this summary of economic cause and effect in God's kingdom is covenantally mandatory. *This is the process of inheritance, which necessarily involves disinheritance.* "But as for these enemies of mine, who did not want me to reign over them, bring them here and slaughter them before me." The nobleman minced no words. Neither did Jesus. This ending made it clear that this version of the parable is also about the final judgment.

Why should the rich get richer? Because of their superior service, as manifested by the most successful steward's high rate of return. Why should the poor man lose whatever he had? Because of his inferior service.

His attitude regarding the nobleman was the same as the attitude of the citizenry. He said as much: "Lord, here is your mina, which I kept laid away in a handkerchief; for I was afraid of you, because you are a severe man. You take what you did not deposit, and reap what you did not sow" (vv. 20–21). He accused the nobleman of being the recipient of unearned wealth, reaping what he did not sow. The nobleman recognized the underlying attitude: *envy*. The steward was under his authority, yet he decided to do nothing of value with the coin. He was unwilling to serve faithfully, just as the citizens in general were unwilling to serve faithfully. They were in rebellion against lawful authority. So was he. As a result, he lost whatever he possessed. The coin, which had been entrusted to him, went to the most profitable of all the nobleman's servants. He was cast out of the office of steward to join the masses of losers, who were about to lose all that they had enjoyed. They were all covenantally fit for the slaughter. They were all unprofitable servants.

Covenant-breakers are in rebellion against God. They see God as an unfair monarch who reaps where He has not sown—an exploiter, in other words. He expects obedience. He gets rebellion. He expects production. He gets nothing. In contrast, faithful stewards multiply God's wealth. They understand the nature of the hierarchical relationship between God and men. They understand that whatever they possess is a gift from God (James 1:17). They faithfully serve as trustees, not as autonomous owners.

It is clear from both versions of the parable that the two stewards had produced above-average rates of return. These were not returns associated with depositing money in a bank. These were returns associated with creative investing to deal with the uncertainties of life. They were profits, not interest. They revealed the stewards' ability to assess an uncertain future and then deal with it by buying low and selling high. *This is entrepreneurship*. Successful entrepreneurship requires an investor to see gaps in the market and then fill these gaps more efficiently than the competition. This is a unique skill.

The nobleman understood that he could gain an above-average rate of return for himself by letting these two stewards retain authority over his capital. He gave the coin of the rebel to the steward who had made ten to one. This was rational. Why turn it over to the steward who had made only five to one? The owner wants to maximize his rate of profit. This way, he will possess even more capital to invest.

The owner of the capital expected to return as ruler of a kingdom. “When he returned, having received the kingdom, he ordered these servants to whom he had given the money to be called to him, that he might know what they had gained by doing business” (v. 15). He would need subordinate rulers in this kingdom. He left as a nobleman. He would return as a king. He used success in business as a success indicator of the stewards’ competence in future high offices.

The enforcers of the nobleman’s laws viewed this as unfair. After all, the steward who had made ten to one did not need the money. Their assessment rested on an assumption: the stewards who had produced nothing deserved the unproductive steward’s coin. They assumed that a wealthy man ought to use his money to subsidize men who had shown no ability to produce a positive rate of return. These people deserved another chance. *This is the mentality of defenders of the welfare state.* It assumes that high productivity is over-rated. It assumes that nonperformance deserves to be rewarded by those with money to invest.

God has set up His kingdom on a very different foundation. In His kingdom, the most productive stewards receive even greater wealth and authority. A comparable practice in the world of competitive sports is the jockey who wins horse races. Owners of fast horses pay high wages to hire these jockeys, who then win even more races. The owners of fast horses are not interested in giving career opportunities to untried, inexperienced, or losing jockeys. They want their horses to win. The best way to do this is to hire winning jockeys. The fast get faster, and the slow get slower, whether horses or jockeys. The only way to rise to the top is for a jockey to win over horses that are regarded as faster. If a jockey can win with slower horses, he must be a superior jockey. He will then experience increased demand for his services.

A. Buyer

A buyer possesses money. In the parable, this is the nobleman. He wants to maximize the rate of return on his capital. He must go on a journey. He needs active managers of his capital while he is absent. He plans to return. He wants to return to a more prosperous kingdom.

This is also true of the righteous steward. He has a task: to make a profit. He wants to make an above-average rate of return. This is how he demonstrates to the owner that he is worthy of even greater responsibility.

Success in business is not necessarily a test of success in politics. The two realms are different. Business is government by supply and demand. There should be open entry. There should not be a state-granted monopoly. Civil government asserts a monopoly of violence. It operates monopolistic legislatures, police forces, and courts. But with respect to financial success in history as a representative test of success in the post-resurrection world, Jesus' pocketbook parables made plain to His listeners that business success is not only legitimate, it is representative of success beyond the grave. This fact legitimizes business as a calling.

Business is not supposed to be the worship of mammon: more for me in history. It is the worship of God: more for God in history. *Business is trusteeship, not rebellion.* Here is the covenantal issue:

Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day (Deuteronomy 8:17–18).

The investor must serve the consumer in order to be successful. He searches for asset managers who can multiply his wealth. He lets them manage a portion of his capital. He tests their ability to forecast the future accurately.

He has money. He has a wide range of asset managers, all of whom want to manage his money. He wants positive performance. The best investment managers take only the richest clients. They are like jockeys who are fast. They sell their services to the highest bidders. They do not ride for poor stable owners. They ride for rich stable owners.

B. Seller

There are lots of money managers. A few are successful. Most are average. A few are terrible. Money managers sell services. They want rich investors as clients: more money invested per client. They start out by selling only to moderately wealthy investors. They must prove their abilities. The moderately wealthy investors give them an opportunity to prove themselves. The moderately wealthy investors hope that one of their management firms performs at an above-average rate. This is the only way they can get the services of a winner. The most successful managers do not take on

clients of moderate wealth.

The market is unforgiving. People who are successful money managers under one set of conditions may do poorly when conditions change. Conditions always change. History is in constant flux. Very few investors make above-average returns in all market conditions.

Sellers of investment services must prove to existing clients and future clients that they can produce above-average rates of returns in some conditions, but not lose money when conditions change. They expect their clients to reinvest with them if they are successful. This is the model of the steward who made ten to one. He not only retained control over the new king's capital; he was given additional capital to manage. *Success breeds success*. The greater your success, the more capital you will have under your authority. This is the way of the free market. It is also the way of the kingdom of God.

Jesus used pocketbook parables to get across fundamental theological ideas. Here is the idea: God rewards success—not just in business, but in every area of life.

Pencil

There have been technological breakthroughs in pencil production ever since the late sixteenth century. The pencil is recognizably a pencil over time. But they keep getting less expensive. They are today a mass market commodity. They are inexpensive. Children use them.

How did this take place? Through the free market process of innovation, capitalization, and above all price cutting. The manufacturers found ways to produce pencils of high quality for less money. This made the pencil a common tool of both production and consumption.

The process of innovation, capitalization, and price cutting led to breakthroughs in the production of raw materials, machines, and labor productivity. These innovations helped cut the cost of pencil production. This made possible price cutting in the market for pencils. New markets of new buyers opened up when pencils became less expensive. The way for a manufacturer to find new buyers is to cut his prices. People who before were unable to afford this kind of product now can afford to buy a few. Over time, buyers purchase even more. The item becomes a common consumer good. The industry no longer has a high rate of profit. The market becomes mature. Innovations become less spectacular. The market becomes more predictable.

It is unlikely that any fund manager would invest in a company that manufactures pencils. It is a mature industry. It is unlikely that any company will achieve above-average returns based on some breakthrough innovation. No one speaks of a pencil as being a “killer app.” It was in the late sixteenth century. It no longer is. A new pencil company would find it difficult to attract venture capital for a new line of pencils. Buyers are content with the existing technology.

Conclusion

The parable of the talents in Matthew emphasizes the final judgment. “For to everyone who has will more be given, and he will have an abundance. But from the one who has not, even what he has will be taken away. And cast the worthless servant into the outer darkness. In that place there will be weeping and gnashing of teeth” (Matthew 25:29–30). The parable of the minas in Luke emphasizes the post-resurrection kingdom of God. “Because you have been faithful in a very little, you shall have authority over ten cities” (Luke 19:17). Both rest on these principles of success. First, economic success is a success indicator for success in history. Second, success in history is a success indicator for success in eternity.

This is not what most Bible commentators have believed. They have not taken literally the context of these parables seriously: economics. They assume that noneconomic success means success in history. Worse, they believe that economic success is a testimony to kingdom failure. They do not believe that this passage in Luke refers to economic success: “. . . give, and it will be given to you. Good measure, pressed down, shaken together, running over, will be put into your lap. For with the measure you use it will be measured back to you” (Luke 6:38). Their interpretation means that Jesus consistently misused language. He spoke of kingdom success as economic success, yet supposedly He really meant the opposite. He supposedly used pocketbook parables to teach that economic matters are *not* related to spiritual matters, and in fact are the *opposite* of spiritual matters. If such a principle of textual interpretation is correct, then how were Jesus’ listeners supposed to make sense of what He taught? Why did He use pocketbook parables to persuade listeners to understand principles of the kingdom of God? The parable of the minas begins: “A nobleman went into a far country to receive for himself a kingdom and then return” (v. 12). What kind of kingdom was this? Who was this nobleman? If this does not refer to Jesus’ in-

heritance of the kingdom, what else could it refer to?

For as in Adam all die, so also in Christ shall all be made alive. But each in his own order: Christ the firstfruits, then at his coming those who belong to Christ. Then comes the end, when he delivers the kingdom to God the Father after destroying every rule and every authority and power. For he must reign until he has put all his enemies under his feet. The last enemy to be destroyed is death. For "God has put all things in subjection under his feet." But when it says, "all things are put in subjection," it is plain that he is excepted who put all things in subjection under him. When all things are subjected to him, then the Son himself will also be subjected to him who put all things in subjection under him, that God may be all in all (I Corinthians 15:22–28).

To understand success in history, we must first understand this success indicator in history: economic success. The two successful servants were investors whose investments produced above-average rates of return. The servant with the highest rate of return was entrusted with the capital that had been entrusted with the servant who had produced zero increase. The owner could have turned the coin over to the bankers and would have received a return greater than zero. So could the rebellious servant. *Something is better than nothing.* The servant did not honor this fundamental economic principle. That cost him success beyond the grave.

The issue is covenantal representation. Which God is represented by economic success: God or mammon? This depends on the oath/confession of the steward.

21

DOMINION AND INHERITANCE

*The righteous shall inherit the land and dwell upon it forever
(Psalm 37:29).*

*A good man leaves an inheritance to his children's children, but the
sinner's wealth is laid up for the righteous (Proverbs 13:22).*

Analysis

These passages are aspects of point five of the biblical covenant: inheritance. Inheritance in history is governed by God's laws of inheritance. Inheritance is covenantal. These two passages are not limited to inheritance beyond the grave. The Old Testament does not speak of any inheritance beyond the grave. It is almost silent on life beyond death. The first three verses of Daniel 12 are exceptions.

At that time shall arise Michael, the great prince who has charge of your people. And there shall be a time of trouble, such as never has been since there was a nation till that time. But at that time your people shall be delivered, everyone whose name shall be found written in the book. And many of those who sleep in the dust of the earth shall awake, some to everlasting life, and some to shame and everlasting contempt. And those who are wise shall shine like the brightness of the sky above; and those who turn many to righteousness, like the stars forever and ever (Daniel 12:1–3).

Another passage is in the book of Job. "For I know that my Redeemer lives, and at the last he will stand upon the earth. And after my skin has been thus destroyed, yet in my flesh I shall see God, whom I shall see for myself, and my eyes shall behold, and not another. My heart faints within me!" (Job 19:25–27).

The first five books of the Old Testament are silent on this. There is

nothing in the Mosaic law on this. Therefore, we can be certain that the passages in the Old Testament that deal with economic inheritance deal with inheritance in history.

The heart of Christian economics is the doctrine of God's original ownership of the creation. He created it; He therefore owns it. This is point one of the biblical covenant: sovereignty. Second is God's dominion covenant with mankind. He delegated authority to mankind to act as His trustee or steward. This is point two of the biblical covenant: representation. Third is biblical law. There are biblical laws of economics. They are at bottom ethical. Fourth is sanctions: to these ethical laws are attached sanctions. Causation is ethical. Finally, there is historical succession. In economics, this is inheritance. In all these matters, ethics is dominant. *Economics as a separate intellectual discipline is inherently ethical. In no sense is it value-free.* Nothing is value-free. The creation reflects God, who is not value-free.

Inheritance is inter-generational. Each generation is supposed to leave an inheritance to the next generation. This inheritance is comprehensive. It involves worldviews. There is competition in history among people who hold rival worldviews. One way that adherents of a worldview can increase the influence of their worldview is to build an economic inheritance. The heirs will be able to use this capital asset to extend the worldview. This means that *every inheritance is supposed to be confessional*. Covenant-keepers are not supposed to subsidize rival worldviews with the capital they leave behind. Inheritance should be covenantal, not biological.

This is why the doctrine of adoption is central in Christian economics. Salvation is always by adoption. God adopts recent covenant-breakers into His covenantal family. This family is confessional. God is the father of all mankind, but the rebellion of Adam led God to disinherit Adam and all of his covenantal heirs. So, there are two families in history: the disinherited sons and the inheriting sons by adoption.

Blessed be the God and Father of our Lord Jesus Christ, who has blessed us in Christ with every spiritual blessing in the heavenly places, even as he chose us in him before the foundation of the world, that we should be holy and blameless before him. In love he predestined us for adoption to himself as sons through Jesus Christ, according to the purpose of his will, to the praise of

his glorious grace, with which he has blessed us in the Beloved (Ephesians 1:3–6).

God's dominion covenant with mankind (Genesis 1:26–28) defines man. There is no escape from the requirement of dominion. It is inherent in all mankind. This is why men seek to extend their influence and the influence of the organizations they belong to.

It is a mistake to regard leisure as the default setting for mankind. Men do not normally choose to do nothing. They choose to do something. In their sin, covenant-breaking men pursue evil. This was why God cursed men's labor and their environment (Genesis 3:17–19). This forced them to work in order to keep themselves and their families alive. This redirected their dominion impulses away from power-seeking to customer satisfaction.

The Bible makes it clear that righteous men leave an inheritance to their grandchildren. It also says that wealth is accumulated in order for righteous people to inherit it. The righteous will inherit the earth (Psalm 37:29). This means that they will inherit enormous responsibility. This is eschatologically certain. It is a prophecy. Jesus confirmed it. "Blessed are the meek, for they shall inherit the earth" (Matthew 5:5). The meaning is not that wimps will inherit the earth. It means that *people who are meek before God will exercise dominion*. This means that covenant-keepers must strive for mastery in their fields. They must therefore strive for success. *This is a moral requirement. It is not optional.*

History is a covenantal battlefield. This means that it requires well-armed, well-trained soldiers of the cross. The stakes are high: conquest in history. This has not been the attitude of the vast majority of those who call themselves Christians. They have been taught that the kingdom of God will fail in history. There will never be a worldwide Christian civilization, they believe. They have also been taught that poverty is a valid way of life for covenant-keepers. Yet ever since the 1850s, Western Christians have lived in the richest nations in history. They have been debt-burdened middle-class people who are richer than 90% of the world's population. They live in homes that would be considered mansions by most people. Yet they have the mentality of beggars. They see themselves as eschatological also-rans in a world in which covenant-breakers control most of the world's wealth and political power. They think this is what God wants for His people. They believe that the righteous will inherit the leftovers. They read the story of Ja-

cob and Esau, and they somehow conclude that Esau was the big winner in the economic competition with his brother.

Inheritance and dominion are linked ethically and also eschatologically. *Capital accumulation is a moral obligation for covenant-keepers.* Why? Because capital is a tool of dominion. Covenant-keepers, not covenant-breakers, will be the big winners in history. Preparation for dominion must begin in youth. This involves education in the broadest sense. It also involves money management.

A. Buyer

A buyer possesses capital: money. He can invest it, donate it, buy long-term consumer goods, or spend it on amusements. He must also transfer it to his heirs at his death, either with a written document or by neglect. He adopts this outlook: "You can't take it with you." Jesus said that this slogan is incorrect. Covenant-keepers can take it with them. "Do not lay up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also" (Matthew 6:19–21).

So, Jesus warned, men should not accumulate wealth only for history. If they intend to "take it with them," they must allocate some of their wealth for the world beyond the grave. *There is financial continuity between history and eternity.* Most people do not believe this. This is especially true of academic economists. Most people choose to allocate their wealth exclusively to history. This is especially true of academic economists.

In his capacity as a buyer of earthly goods, a person focuses on the return on expenditure. What benefits can he gain from specific expenditures? He may have no systematic plan for spending his money. He may go from expenditure to expenditure without a detailed shopping list. But he still buys whatever he buys in terms of *a hierarchy of priorities*. This list may change from moment to moment in a present-oriented person's mind. But he must decide: "Is hanging onto this money for a while longer better than buying this item?" The more present-oriented he is, the less attention he pays to his wealth in a year or a decade. He applies a high rate of discount to his expected net income in the future. He cares nothing about any inheritance that he might leave behind. He is not a buyer of future influence. He

is a buyer of present consumption. As for income beyond the grave, he has no concern. He thinks he either will not need any or else God will provide it as a matter of course. Paul taught otherwise.

According to the grace of God given to me, like a skilled master builder I laid a foundation, and someone else is building upon it. Let each one take care how he builds upon it. For no one can lay a foundation other than that which is laid, which is Jesus Christ. Now if anyone builds on the foundation with gold, silver, precious stones, wood, hay, straw—each one's work will become manifest, for the Day will disclose it, because it will be revealed by fire, and the fire will test what sort of work each one has done. If the work that anyone has built on the foundation survives, he will receive a reward. If anyone's work is burned up, he will suffer loss, though he himself will be saved, but only as through fire (I Corinthians 3:10–15).

Paul was clear: *there is an inheritance beyond the grave*. This is a reward. It is a positive sanction. It is not automatic. There is no equality of rewards, either in history or eternity. The Bible does not teach equality. It teaches inequality as a matter of ethics.

A man should build up an inheritance for his grandchildren in history and for himself beyond the grave. The price of these purchases is reduced consumption in the present. The covenant-keeper must learn to say “no” as a buyer of present goods. Without this self-discipline, he will deplete or consume whatever he has inherited. He will break the chain of compound economic growth. His children will start from scratch.

B. Seller

There are sellers of future dominion. They call on covenant-keepers to sacrifice in the present for the sake of the future. There are commissioned salesmen of investment programs. There are preachers of kingdom-building, who cry out for sacrificial giving in church. There are sellers of educational services who promise financial rewards for the investment of money and hard work associated with formal education. There are non-profit charities of many types, all of which promise to improve the world at the margin. They want our time, but above all, they want our money.

They come with a message: "You can't get something for nothing." They come also with this message: "You can often get nothing for something." They sell an idea: *sacrifice now, benefit later*. This is unquestionably a biblical message. The idea of something for nothing, other than the gift of salvation by grace alone, is anathema. The grace of God was paid for by the historical sacrifice of Christ. The grace of God imparts responsibility to the recipient.

For by grace you have been saved through faith. And this is not your own doing; it is the gift of God, not a result of works, so that no one may boast. For we are his workmanship, created in Christ Jesus for good works, which God prepared beforehand, that we should walk in them (Ephesians 2:8–10).

We are back to the Christian idea of counting the costs.

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish.' Or what king, going out to encounter another king in war, will not sit down first and deliberate whether he is able with ten thousand to meet him who comes against him with twenty thousand? And if not, while the other is yet a great way off, he sends a delegation and asks for terms of peace. So therefore, any one of you who does not renounce all that he has cannot be my disciple (Luke 14:28–33).

Jesus could not have been clearer. This is the cost of discipleship. The gift of salvation is free, but there are no gifts without comparable responsibilities. "And that servant who knew his master's will but did not get ready or act according to his will, will receive a severe beating. But the one who did not know, and did what deserved a beating, will receive a light beating. Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more" (Luke 12:47–48).

So, a man owes an inheritance to his grandchildren in history and to himself beyond history. This requires future-orientation. It also involves the

idea of counting the costs. These are aspects of making a spiritual inventory. This spiritual inventory is filled with marketable goods, or should be.

C. Pencil

A pencil is a tool of production. Engineers use pencils. Artists use them. I used them when outlining these chapters and marking up my books. The usefulness of this inexpensive tool is not compromised by its low price. On the contrary, its widespread use depends on its low price. A pencil is also a tool of consumption. Children draw pictures with them, or play tic-tac-toe with them. In this sense, a pencil is a multi-purpose tool.

A tool requires knowledge to be effective. Pencils are among the earliest tools children use. Pencils initially are used for play, but play soon becomes a form of work. The child learns what a pencil can do. He becomes familiar with its use. Then parents and teachers show him how useful a pencil is in school work. He learns to appreciate the eraser. A child uses a pencil in early youth, and then as an adult. Few tools of youth are part of adulthood. The pencil is.

Conclusion

Inheritance is basic to every social system. There has to be succession. We are mortal. We will be replaced. The questions of who will replace us and what they will do when they replace us are major issues.

In the West, the issue of dominion has been a continuing issue ever since the rise of Christianity. History is linear, the Bible teaches. It is not cyclical, contrary to the religions of the ancient world. History is also progressive. Men learn new things. They apply this learning to real-world issues. Christianity teaches that history is a battlefield between two rival worldviews: Christianity and mammon. There will be a winner and a loser. This is the issue of dominion. In whose name will men take control of nature? God or mammon?

This is the core meaning of inheritance. Whose ideas will prevail? Whose institutions will prevail? Whose capital will compound, and whose will be dissipated? Whose stewardship will be rewarded by God at the final judgment? These are social issues, not just issues of personal regeneration. To confine the Christian concept of inheritance to the soul, the church, and the family is to retreat from the great battlefields of life. It necessarily involves surrender.

22

DOMINION AND EDUCATION

You shall love the Lord your God with all your heart and with all your soul and with all your might. And these words that I command you today shall be on your heart. You shall teach them diligently to your children, and shall talk of them when you sit in your house, and when you walk by the way, and when you lie down, and when you rise (Deuteronomy 6:5–7).

Train up a child in the way he should go; even when he is old he will not depart from it (Proverbs 22:6).

Analysis

These passages are aspects of point five of the biblical covenant: inheritance. They deal with education, the most important economic aspect of an heir's inheritance. Education is an investment in human capital. There is no such thing as a free lunch. There is no such thing as a free education. Someone has to reduce his present consumption for the sake of educating members of the next generation. The central issues of education are revealed in the answers to these two questions. First, who should be in authority? The Bible answers: the family. Second, what is the supreme public mark of this authority? The answer is education's funding. The source of the funding is in charge of education. In short, follow the money.

Yet when we follow the money, we find that neither parents nor politicians control modern education. A specialized hierarchy does: professional educators. These people are certified by the educational institutions that are funded by families and civil governments. The parents have nothing to say about the curriculum. Neither do politicians most of the time. Neither do municipal school boards and college boards of trustees. Legally, politicians are in charge of tax-funded education, but operationally they defer to certified experts. Education is a huge cartel, one exceeded in revenues only by commercial banks.

So, while those who pay for education are economically in charge, and in the case of tax-funded education, also legally in charge, they are in fact not in charge. They have surrendered authority to salaried educational experts. The state has granted educators legal authority to create curricula and award degrees. The degrees are sanctions. Earning one is a positive sanction. The failure to earn one is a negative sanction. *The economic analysis of cartels applies to education.* Those who pay for education—parents, donors, and taxpayers—only rarely impose negative sanctions after the state has granted the exclusive right to impose sanctions to educational bureaucracies. The budgets always rise. This is the central positive sanction after the cartel has been set up. Rising budgets reward the existing behavior of the cartel-certified experts.

The family is the primary institution for the education of children with respect to informal education: language, social interaction, and ethics. Parents are responsible before God to rule their households as trustees. This responsibility cannot be deferred to others. The tasks can be lawfully delegated, but not covenantal responsibility. This is why parents should be the primary source of funding for formal education. There is an old phrase: “He who pays the piper calls the tune.” If the family refuses to fund education, then some other institution will take over. It will call the tune.

Most Christian parents pretend that this principle does not hold. They argue that education is neutral covenantally, and therefore the supposedly neutral state should fund education. They assume that the first principles of Darwinian evolution by means of unplanned, purposeless natural selection do not shape the entire public school curriculum from day care through graduate school. They assume that the ethical content of education is the same for all educational programs. They assume that state-funded instructors will be neutral in both their selection of facts and their presentation of facts. They are close to immune to the biblical idea that the content of education is not neutral. They pretend that the education provided by the king of Babylon was not a way to train Hebrew children to become agents of the Babylonian empire (Daniel 1). But then came the day of reckoning when payment for the free education was demanded. The payment was obedience to the king.

King Nebuchadnezzar made an image of gold, whose height was sixty cubits and its breadth six cubits. He set it up on the plain of

Dura, in the province of Babylon. Then King Nebuchadnezzar sent to gather the satraps, the prefects, and the governors, the counselors, the treasurers, the justices, the magistrates, and all the officials of the provinces to come to the dedication of the image that King Nebuchadnezzar had set up. Then the satraps, the prefects, and the governors, the counselors, the treasurers, the justices, the magistrates, and all the officials of the provinces gathered for the dedication of the image that King Nebuchadnezzar had set up. And they stood before the image that Nebuchadnezzar had set up. And the herald proclaimed aloud, "You are commanded, O peoples, nations, and languages, that when you hear the sound of the horn, pipe, lyre, trigon, harp, bagpipe, and every kind of music, you are to fall down and worship the golden image that King Nebuchadnezzar has set up. And whoever does not fall down and worship shall immediately be cast into a burning fiery furnace." Therefore, as soon as all the peoples heard the sound of the horn, pipe, lyre, trigon, harp, bagpipe, and every kind of music, all the peoples, nations, and languages fell down and worshiped the golden image that King Nebuchadnezzar had set up (Daniel 3:1–7).

The three young men who had been trained by the king refused to obey. He had them put into a furnace (vv. 8–23). It turned out that the king's curriculum was not neutral.

It takes years to train a child. It takes patience. It takes a methodology. This methodology must work for all of the family's children. It takes a broad accumulation of facts. Not all parents possess these skills. They are therefore allowed to hire tutors, but only those who share the parents' first principles of moral cause and effect in history, both individual and corporate. The model for this is Passover.

Every firstborn of man among your sons you shall redeem. And when in time to come your son asks you, 'What does this mean?' you shall say to him, 'By a strong hand the Lord brought us out of Egypt, from the house of slavery. For when Pharaoh stubbornly refused to let us go, the Lord killed all the firstborn in the land of Egypt, both the firstborn of man and the firstborn of animals. Therefore I sacrifice to the Lord all the males that first open the

womb, but all the firstborn of my sons I redeem.' It shall be as a mark on your hand or frontlets between your eyes, for by a strong hand the Lord brought us out of Egypt" (Exodus 13:13–16).

Anyone who violated the rules of Passover was cut off from membership in the congregation. "Seven days you shall eat unleavened bread. On the first day you shall remove leaven out of your houses, for if anyone eats what is leavened, from the first day until the seventh day, that person shall be cut off from Israel" (Exodus 12:15). This person could not become a tutor in a household headed by a covenant-keeper.

Not everyone was literate in Mosaic Israel. The cost of publishing was high until Gutenberg's revolution in the second half of the fifteenth century. A literate person would not have had much to read. So, the value of literacy was low except for priests, Levites, civil rulers, and businessmen. But Israel was called a nation of priests (Exodus 19:6). There was considerable social pressure to learn how to read and write. The king was required to read the law.

And when he sits on the throne of his kingdom, he shall write for himself in a book a copy of this law, approved by the Levitical priests. And it shall be with him, and he shall read in it all the days of his life, that he may learn to fear the Lord his God by keeping all the words of this law and these statutes, and doing them, that his heart may not be lifted up above his brothers, and that he may not turn aside from the commandment, either to the right hand or to the left, so that he may continue long in his kingdom, he and his children, in Israel (Deuteronomy 17:18–20).

The value of literacy increases as more people become literate. This is because more people can communicate with each other. This is called the network effect. It extends the division of labor. This in turn increases productivity. Literacy also furthers commerce. When archeologists discover troves of tablets in the Middle East, they find that most tablets are related to commerce: contracts and receipts. Military inscriptions in Israel from the era of the Babylonian conquest around 600 B.C. indicate that the military had extensive literacy. The costs of education historically have been borne primarily by families, and secondarily by priesthoods. Parents who can read teach their children. Literacy is a unique skill in primitive cultures. It con-

veys benefits to those who can read. Families that want their children to advance economically have an incentive to find tutors who can teach reading.

There is formal education. There is also apprenticeship. Both can lead to greater income. Students learn a trade. This is important education. The students can become master craftsmen. This was seen in the story of Aholiab and Bezaleel.

The Lord said to Moses, "See, I have called by name Bezalel the son of Uri, son of Hur, of the tribe of Judah, and I have filled him with the Spirit of God, with ability and intelligence, with knowledge and all craftsmanship, to devise artistic designs, to work in gold, silver, and bronze, in cutting stones for setting, and in carving wood, to work in every craft. And behold, I have appointed with him Oholiab, the son of Ahisamach, of the tribe of Dan. And I have given to all able men ability, that they may make all that I have commanded you" (Exodus 31:1–5).

Parents want their children to do better than they did economically. Formal education has been a common pathway to greater output and income. Even when parents do not expect their children to support them in old age, they pay for their children's education. This is part of the family's fulfillment of the dominion covenant: inheritance.

Adults also seek to improve their own employment opportunities. They pay for educational programs, especially when degrees serve as barriers to entry for future competitors. They use the cartel of higher education to create new cartels.

A. Buyer

A buyer of educational services in the modern world has a huge range of programs to choose from. Digital education is spreading rapidly, and will continue to. Prices fall. More is demanded.

The economic return on educational investment falls because of the increase in the number of degree-holding people in the work force. Supply increases. Demand does not keep pace with supply. This reduces the wages paid to people with academic degrees. This is why it now takes longer to earn back the cost of earning a college degree. But education still produces an above-average rate of return in most fields.

Because the buyers are parents, the expenditure is seen as socially mandatory even when the rate of economic return is falling. Parents can buy lower-cost programs by adopting distance education, paying as little as 20% of what is considered normal, but very few parents shop for these low-cost, fully accredited college programs. An accredited degree that costs \$15,000 has the same earning power as one that costs \$100,000 to \$250,000. Still, few parents take advantage of this. This indicates that the driving force of college education is social rather than economic. Parents fear unspoken social opinions from their peers that would impute to them a lower social position because their children do not attend college. Social imputation by non-paying peers is dominant.

Buyers compete against buyers. But the beneficiaries of college education are students who want four or five years of independent social life at the expense of their parents and away from their parents' social controls. Those who pay are not the economic beneficiaries: parents. Those receiving the formal educations are not always after economic benefits. They are after parentally subsidized social experiences. This discrepancy between paying and consuming undermines the dominion impulse of higher education.

The structure of profit-seeking education makes sellers more alert to the demands of buyers. It makes education more economically relevant and less theoretical, unlike the programs provided by nonprofit education and state-funded education. Market-driven education tends to be practical. It is geared to the desire of buyers to gain a positive rate of return on the money and time they invest in education. This furthers dominion. Sellers train buyers in the skills needed to increase the buyers' productivity, as imputed by consumers to whom the buyers sell final products. Education becomes consumer-driven. Buyers are economic agents of their customers. Customers retain authority. This is not social pressure. It is economic pressure.

B. Seller

Selling educational services is a traditional way to monetize specialized knowledge. If an individual can persuade buyers to pay for his output, this generally becomes his primary source of income. But he can also sell his ability to teach others the skills that he uses in his occupation. In each case, he is an entrepreneur, meaning a businessman.

Education provides continuity between generations. The structure of

formal education does not change much. The classroom lecture is the main form of academic communication, as it has been ever since ancient Egypt. The other major tool is the textbook, which has been basic to higher education ever since the late fifteenth century. Parents have been purchasing the same product and the same result for millennia: access to high-paying salaries that are available only to degree holders.

In a nonprofit environment, sellers are bureaucrats in administration. They hire instructors to provide teaching services, but there is no direct financial connection between the seller of information and the buyer. The modern college's administration acts as an intermediary. The administration hires marketers. Selling parents on the benefits of higher education for their children is a fine art. In the United States today, this generates over half a trillion dollars a year from parents and politicians. It is a gigantic industry.

In a profit-seeking legal environment that is unhampered by state licensing, sellers of educational services must offer measurable benefits to the buyers. Sellers are people who possess information that buyers believe will provide them with specific kinds of benefits. These benefits are primarily economic. The seller must deliver services that buyers regard as worth the cost.

In the field of finances, buyers have for over a century paid for subscriptions to newspaper and magazine publishers and newsletter editors who offer investment advice. Today, these services are online. This is surely education, but it is not formal education. The seller issues no academic degrees, but he does provide a form of education. He must continue to provide these services if he expects to have subscribers re-subscribe. He has a financial incentive to provide long-term educational services.

The seller must persuade buyers to impute greater value to his educational program than they impute to the money it costs to purchase these services. This requires marketing. Whenever the state does not subsidize education, educators adopt advertising. They must sell the buyers on the idea that there is great value to the form of education that the sellers are selling. Sellers compete against sellers. This economic competition pressures sellers to provide not only superior educational content but also motivational techniques to purchase the service and then renew it.

Free market voluntarism is the basis of this form of education. It forces sellers to compete in the marketplace if they want to survive and prosper.

C. Pencil

The common pencil has been used by children for centuries as part of their educational training. Students have written lessons with pencils because pencils have been inexpensive.

Manufacturers have targeted children as users, but with their parents as buyers. The pencil has been a tool of family inheritance. Its low price has been the great selling point: its unique selling proposition (USP).

When a family pays to educate its children, it pays in more than money. It pays in time, either donated by parents or supplied by professional educators. The pencil is barely noticed in this process, but it is integral to it. For generations, families have sacrificed to educate their children. This is a central aspect of inheritance and dominion.

The pencil is a low-cost tool of education. The pencil is capital. It conveys no social prestige. Its eraser points to the fact that learning is going on: trial and error.

The constantly increasing demand for pencils worldwide is evidence that parents are willing to pay to have their children educated. The pencil is a minimal expenditure. There is little price resistance on the part of parents. But competition among pencil manufacturers is steady. Sellers compete against sellers. This keeps down the price of pencils despite increased demand.

The pencil's versatility makes it ideal in education. It can be used for multiple purposes: taking notes, making outlines, and taking tests. If someone loses a pencil, the loss is minimal. It is easily and inexpensively replaced. It is not like losing a smart phone or a laptop computer.

Conclusion

Education in history has been tied to the family. It is only since about 1800 that the state has taken control over education by funding schools through taxation. The family has been the primary agency of welfare in every society. Education for children is a welfare function. It is not exclusively economic. Parents see education as a way to advance their children's careers as adults. They invest time and money for the benefit of their children, not simply a way to gain financial support in their old age. There has been a huge increase in the percentage of national production devoted to education at the same time that welfare payments to the elderly for pensions and medical care have also increased proportionately with the cost of education. So, de-

spite the fact that parents in their productive years expect to receive state-funded benefits in their old age, they have increased the amount of money they pay in taxes and also for college educations. These expenditures will not directly benefit themselves in old age. They will benefit their children and grandchildren. This is why education is a family welfare program. The motivation is to help their heirs, not to extend the kingdom of God. This motivation is an aspect of the dominion covenant, which is universal.

This is another example of what Adam Smith wrote about. The wealth of nations is a collective concept. Yet the self-interested transactions of individuals do more to increase the wealth of nations than mercantilism's attempts at central planning ever achieved. But there is this difference. The parents are not acting in self-interest. They are acting on behalf of their heirs. Yet, as an unplanned effect, they are also extending mankind's dominion over the earth. The positive results individually, child by child, also extend collective dominion.

23

CAPITAL AND CULTURE

And if you faithfully obey the voice of the Lord your God, being careful to do all his commandments that I command you today, the Lord your God will set you high above all the nations of the earth. And all these blessings shall come upon you and overtake you, if you obey the voice of the Lord your God. Blessed shall you be in the city, and blessed shall you be in the field. Blessed shall be the fruit of your womb and the fruit of your ground and the fruit of your cattle, the increase of your herds and the young of your flock. Blessed shall be your basket and your kneading bowl. Blessed shall you be when you come in, and blessed shall you be when you go out (Deuteronomy 28:1–6).

The Lord will establish you as a people holy to himself, as he has sworn to you, if you keep the commandments of the Lord your God and walk in his ways. And all the peoples of the earth shall see that you are called by the name of the Lord, and they shall be afraid of you. And the Lord will make you abound in prosperity, in the fruit of your womb and in the fruit of your livestock and in the fruit of your ground, within the land that the Lord swore to your fathers to give you (Deuteronomy 28:9–11).

Analysis

These linked passages are aspects point five of the biblical covenant: inheritance. Deuteronomy is the fifth book in the Pentateuch. It deals with inheritance. These were Moses' parting words to the generation of the inheritance.

This passage and its parallel in Leviticus 26 present the case for obeying biblical law. The bulk of each chapter lists negative sanctions for disobeying. The chapters deal with sanctions. Sanctions reinforce God's law.

The nation of Israel was set apart by its legal order. "The Lord will estab-

lish you as a people holy to himself, as he has sworn to you, if you keep the commandments of the Lord your God and walk in his ways" (v. 9). *Biblical holiness means being set apart ethically.* It has to do with sanctification. Israel's holiness was comprehensive. It involved every aspect of Israelite culture. Biblical holiness is corporate, not just individual. Deuteronomy 28 had to do with Israel as a nation. It had to do with Israel as the manifestation of the kingdom of God. That is, it had to do with *the civilization of God*. This is the meaning of a kingdom. It is a separate culture. This separation is above all ethical: issues of moral right and wrong. This is why any discussion of either economic theory or practice apart from a discussion of ethics is a monumental conceptual error. *There is no such thing as a value-free social order.* This includes economics. *There is therefore no such thing as value-free social analysis.* This includes economics. The economist should be familiar with biblical causation. It is ethical. But modern economists pride themselves on an illusion: value-free economic theory.

God's law applies to society as a whole. The biblical social order is intensely judicial and ethical. Crucial to this legal order is faith in historical sanctions. The Bible teaches that *causation is primarily ethical*. When the concept of ethical cause and effect is widely believed, biblical culture is optimistic. The positive sanctions are the basis of long-term inheritance. When coupled with the doctrines of God's grace, God's providence, and God's kingdom, the biblical worldview produces an optimism that is crucial for entrepreneurship. Entrepreneurs are future-oriented and optimistic. They are willing to forego consumption now for the sake of greater wealth in the future. *They are not primarily consumption-driven. Their primary goal is to accumulate capital.* They are willing to bear the burden of uncertainty for the sake of accumulating capital.

Biblical law rests on self-government. This is another way of saying self-discipline. Psalm 119 is a representative passage. It is the longest passage in the Bible that is related to a single theme. Its theme is biblical law. The Psalmist proclaims his commitment to mastering and obeying God's law.

I will meditate on your precepts and fix my eyes on your ways. I will delight in your statutes; I will not forget your word. Deal bountifully with your servant, that I may live and keep your word. Open my eyes, that I may behold wondrous things out of your law. I am

a sojourner on the earth; hide not your commandments from me (vv. 15–19).

Self-discipline is basic to success in every field. The comprehensive nature of God's law requires attention to details. The New Testament reinforces this attitude. Paul wrote the following:

Or do you not know that the unrighteous will not inherit the kingdom of God? Do not be deceived: neither the sexually immoral, nor idolaters, nor adulterers, nor men who practice homosexuality, nor thieves, nor the greedy, nor drunkards, nor revilers, nor swindlers will inherit the kingdom of God (I Corinthians 6:9–10).

...understanding this, that the law is not laid down for the just but for the lawless and disobedient, for the ungodly and sinners, for the unholy and profane, for those who strike their fathers and mothers, for murderers, the sexually immoral, men who practice homosexuality, enslavers, liars, perjurers, and whatever else is contrary to sound doctrine (I Timothy 1:9–10).

Another attitude that is necessary to success is the commitment to finishing what you start. The model is the creation week.

Thus the heavens and the earth were finished, and all the host of them. And on the seventh day God finished his work that he had done, and he rested on the seventh day from all his work that he had done. So God blessed the seventh day and made it holy, because on it God rested from all his work that he had done in creation (Genesis 2:1–3).

This attitude is to govern our lives.

Better is the end of a thing than its beginning, and the patient in spirit is better than the proud in spirit (Ecclesiastes 7:8).

For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all

who see it begin to mock him, saying, 'This man began to build and was not able to finish' (Luke 14:28–30).

So now finish doing it as well, so that your readiness in desiring it may be matched by your completing it out of what you have (I Corinthians 8:11).

I have fought the good fight, I have finished the race, I have kept the faith (II Timothy 4:7).

People should keep their promises. They should honor their contracts. They should be trustworthy. This would increase their opportunities for joint ventures. This would increase their output per capita through specialization.

If a man vows a vow to the Lord, or swears an oath to bind himself by a pledge, he shall not break his word. He shall do according to all that proceeds out of his mouth (Numbers 30:2).

It is better that you should not vow than that you should vow and not pay (Ecclesiastes 5:5).

The wicked borrows but does not pay back, but the righteous is generous and gives (Psalm 37:21).

A culture that is marked by such attitudes will experience economic growth. It will be marked by above-average rates of success. It will extend its dominion.

Economics is a subset of the overall society. It is an extension of the individual covenant and the family covenant. It does not have the same degree of importance as the two covenants possess. A contract between people does not have the same sanctity that a vow between man and God has. But a society's attitude toward covenants extends downward to contracts.

From an economic standpoint, culture is a form of *social overhead capital*. There is no market for it. Because it is primarily a product of self-government, which in turn is inculcated primarily by family government, it is funded on a mostly voluntary basis. There is no social overhead tax in the way that there are highway taxes or mosquito abatement taxes. Social overhead capital is paid individually, yet it has enormous social effects.

There is no government central planning bureaucracy that can improve culture. There is no central plan.

Consider the social effects of the Ten Commandments. When individuals adhere to them, this creates social overhead capital. People care for their parents (Exodus 20:12). They do not commit adultery (v. 14). They do not steal (v. 15). When most people adhere to these laws, this makes society safer. The benefits are individual. They are also social. They are one and many.

A. Buyer

A buyer more readily extends trust to a seller when he knows that the culture is marked by widespread self-discipline. People are committed to fulfilling their contracts. This reduces both uncertainty and risk. This in turn increases the number of transactions per time period.

When members of any society extend trust, this reduces their insecurity. This reduces the money invested in all forms of property-protection strategies, from padlocks to lawyers. This frees up buyers' money for purchasing goods and services, whether consumption goods or investment goods. Increased capital formation lowers the per unit cost of production. The economic rule holds true: when the price falls, more is demanded. *When the price of cooperation falls, there will be more cooperation.* This increases the division of labor. This in turn increases output per unit of resource input. People get richer.

The buyer wishes to reduce his risk. He does not want to pay for services that do not get rendered or that get rendered poorly. He does not want to feel cheated after the sale. When he finds a retail seller who is trustworthy, he is likely to buy from him again. In most businesses, repeat business is the main source of profits. The first sale is the most expensive one to generate. The buyer has doubts. After he benefits from the initial sale, he is more ready to make another purchase. The free market rewards both the buyer and the seller by means of uncertainty-reduction and risk-reduction. Reduced uncertainty and risk mean lower search costs for the buyer.

B. Seller

A seller competes against sellers. In a culture in which honesty is taught to children and enforced by the family, there is less temptation of sellers to use the equivalent of false weights and measures in their dealings with buyers. This reduces the range of cheating. There are many rival sellers competing for the buyer's money. They use self-discipline in their business dealings.

A seller who adopts practices that mislead buyers finds that repeat sales are minimal. His long-term revenues fall.

The competitive pressure of honest providers extends beyond market transactions. Better put, it extends into market transactions. Standards of behavior are high. People fear God. They think God is watching them. The Psalmist declared:

O Lord, God of vengeance, O God of vengeance, shine forth! Rise up, O judge of the earth; repay to the proud what they deserve! O Lord, how long shall the wicked, how long shall the wicked exult? They pour out their arrogant words; all the evildoers boast. They crush your people, O Lord, and afflict your heritage. They kill the widow and the sojourner, and murder the fatherless; and they say, "The Lord does not see; the God of Jacob does not perceive." Understand, O dullest of the people! Fools, when will you be wise? He who planted the ear, does he not hear? He who formed the eye, does he not see? (Psalm 94:1–9).

This widespread fear of God's negative sanctions restrains covenant-keepers. The larger the percentage of covenant-keepers is, the narrower the range of market deception.

A seller benefits from a moral order that condemns jealousy. "You shall not covet your neighbor's house; you shall not covet your neighbor's wife, or his male servant, or his female servant, or his ox, or his donkey, or anything that is your neighbor's" (Exodus 20:17). This is doubly true when it also condemns envy: the desire to tear down a superior. "Do nothing from rivalry or conceit, but in humility count others more significant than yourselves" (Philippians 2:3). A man's wealth is safer from the politics of envy.

The biblical moral order favors property rights, which are in fact human rights regarding ownership. "You shall not steal" (Exodus 20:15). It could not be clearer. But, just in case someone feigns ignorance: "You shall not move your neighbor's landmark, which the men of old have set, in the inheritance that you will hold in the land that the LORD your God is giving you to possess" (Deuteronomy 19:14).

C. Pencil

Buyers go to a retail outlet to buy pencils. They have confidence that

they will not be cheated by sellers. Most stores offer money-back guarantees for defective products. Retailers do not want to have to make refunds. They will not buy from a manufacturer that continues to sell defective products. Even in a morally loose society, the lure of profit pressures sellers to be honest. But in a society in which such behavior is widely condemned, this outlook increases the pressure on sellers. They find that honesty is the best policy, i.e., the most profitable policy.

Pencils are products for which there are repeat sales for decades. Such industries must conform to the ethical standards of the population. They will lose market share in the future if they do not deliver a good product for the money, and deliver it predictably.

Conclusion

Where a culture rewards individuals for acting honestly, there are corporate rewards. This is not an insight limited to Christian economics. But Christian economics rests its case for positive feedback between honesty and rewards on God's providence, not the profit motive. *The ultimate foundation of ethical cause and effect is supernatural. It is covenantal.*

A culture that reinforces honest behavior from outside the market also pressures those inside the market to conform to higher standards. There is positive feedback between the market and the other institutions in society. We might call this a virtuous circle. But because there are so many transactions in a developed market, the positive feedback within the market exceeds the positive feedback between the market and the general social order. This is why the example of the market is crucial for the social order. Citizens rarely experience rigged politics or rigged courts personally. They experience rigged markets constantly. While it is common for people to become oblivious to a rigged market when there is minimal competition over many years, the presence of competition makes the performance of a rigged market appear substandard. This is another argument in favor of free trade. *Free trade reveals the negative effects of collusion among sellers.* It is also an argument against the creation of government legislative barriers to entry into a market. This is the case against licensing by government.

In a society in which the law-order of God is respected, preached, and enforced by all four governments, meaning self-government, family government, church government, and civil government, the society is less likely to give civil government anything like a monopoly of enforcement. This limits

the creation of cartels and monopolies, which are almost always the result of government intervention into the market in the name of protecting the consumer. The politicians respond to political contributions. The existing sellers request that the politicians pass laws against unfair practices. Such unfair practices have one or more of these attributes: lower prices, better terms of sale, faster delivery, and no sales taxes because they are shipped from another tax jurisdiction.

A society that has adopted biblical ethics is a competitive threat to rival social orders. This is seen in market exchange more clearly than in other areas of the social order. Competitive offers to buyers are an aspect of Christian redemption: to buy back.

CONCLUSION TO PART 1

Now faith is the assurance of things hoped for, the conviction of things not seen (Hebrews 11:1).

A. Rival Faiths

Faith is basic to the lives of all people. Most of what we believe we take on faith. We have not scientifically examined everything we believe. Most of what we fervently believe is not subject to the rigorous but narrowly focused techniques of scientific testing. We believe it anyway.

Leonard E. Read fervently believed in the productivity of human creativity. So do I, but it is not the foundation of my worldview. It was for Read. He called the free market a miracle, meaning a miracle of creativity. I do not call it a miracle. I call God's creation of the cosmos in six days a miracle. In contrast to Read, I call the free market economy a predictable institutional result of society's acceptance and enforcement of these principles, all of which are mandated in the Bible: the doctrine of linear time, the doctrine of ethical progress (progressive sanctification), private property, the rule of law, civil laws against theft, taxes below 10% of income, men's strict legal responsibility for their actions, the rejection of envy, wealth as a confirmation of the covenant, and men's commitment to leaving an inheritance to their grandchildren.

Why did Read refer to a pencil as both a miracle and a mystery? First, it is the outcome of innumerable decisions. Second, there is no central planning agency coordinating these decisions. There could not be such an agency. No one knows how to make a pencil. Yet a pencil is common. It is also quite simple. Think of complex products as far greater miracles and far greater mysteries. How could this be? Read said it is the product of an Invisible Hand. But Read did not believe in a supernatural being that is shaped like a hand, yet invisible. The phrase is a metaphor, one coined by Adam Smith in 1759 and used again in 1776.

People do not trust their futures to a metaphor. They want to believe in a world with causation based on ethics, where good things happen to law-abiding, ethically righteous people. This is what they teach their children.

They do not teach their children to trust in an Invisible Hand (capitalized).

What is the source of the market's remarkable ability to produce wealth? God or man? If man, does this mean as individuals or the state? How is the system of economic cause and effect sustained?

B. Rival Explanations

Here is Read's position:

1. There is no mention of sovereign purpose.
2. There is no planning agency, only innumerable plans.
3. There is plan coordination. He did not explain what or how.
4. There is no mention of profit and loss.
5. The pencil is a predictable miracle.

This autobiography of a pencil was not a logical defense of the free market. It was clever as a teaching tool, but it did not offer any theory of economic cause and effect. It is not a substitute for a causal explanation.

I offer a rival theory of the origin of a pencil.

1. There is cosmic purpose: God's.
2. There is a central plan: God's. He delegates authority.
3. There is plan coordination through market-generated prices.
4. There are profit-and-loss accounting techniques.
5. The pencil is predictable, not a miracle.

Christian economics denies that the economy is autonomous. It also denies that economic laws are autonomous. Everything is providential.

Humanistic economists see the economy as autonomous. They see all law as autonomous: economic law and natural law. Law is not created by God. Economic laws are not really laws, they insist. They are patterns imposed by scarcity and men's interactions with scarcity, including civil laws. These explanations are not convincing to most people. Most people want to believe that the world is governed by ethical cause and effect. They want to believe that there are moral laws, not just statistical patterns. They want to

believe in God, not an autonomous universe. This is why they are attracted to humanistic statist economists who preach that the economic world should be operate in terms of moral purpose. Humanistic free market economists deny all this. They find that most people do not believe them.

Christians impute meaning to the universe. They believe that the world has meaning. It is not random. It is not meaningless. Christian philosophers argue that God imputes meaning to the world He created and now providentially sustains. They argue that God's imputation is authoritative. Men's imputations are derivative.

Humanists also impute meaning. They do this as individuals. They are philosophically divided as to whose imputation is authoritative. Innumerable individuals impute meaning. How can there be coherence? The same is true of economic value. Whose imputation is authoritative? Socialists say that the central planning committee's imputation is authoritative. But in whose name judicially, and on whose behalf economically, does such a committee impute economic value? Socialists do not say. Keynesians say that the national politicians' imputation is authoritative: budget surplus or deficit. They also say that central bankers' imputations are authoritative.

Here are the covenantal questions.

1. Who's in charge here? God, autonomous individuals, or the state?
2. To whom do I report? The free market or the state?
3. What are the rules? Private property rights or central plan targets?
4. What do I get if I obey? Profits or a medal?
5. Does this outfit have a future? On what basis?

There is no agreement on the answers to these questions. The answers are a matter of worldview. They are a matter of faith.

C. The Auction Process

I have built a case for economic coherence in terms of an analogy: an auction. But I have argued more than this. I argue that a local auction is a microcosm of the international auction known as the free market. Put differently, *the microeconomics of a local auction is the macroeconomics of the free market*. The reason why microeconomics is a valid representation of macroeconomics is because there is only one system of economics. It ap-

plies locally and internationally because its organizing principles are the same: private property, open entry, and the legal right to make a bid. The fundamental operational principle of an auction is this: high bid wins.

I am unaware of any other book on economics that is structured in terms of the auction process. Other free market economics accept the principles of the free market economy: private property, open entry, voluntary exchange, and free pricing. They use these principles to explain the market process. They believe in the principle of high bid wins, although with this modification: *most of the time*. But they do not begin with a statement of equivalency: auction and market.

As an analytical strategy, the principle of equivalency is superior to rival views of the market process. Why? Because an auction is analytically simple. In teaching, it is best to go from simple to complex. This was why Read told the story of a pencil. A pencil is simple. The system of voluntary cooperation that produced it is complex. The auction process is also widely known, just as a pencil is. In teaching, it is best to go from the known to the unknown.

There can be no sale without a buyer and a seller. Every buyer is a seller, and vice versa. Each party gains something by surrendering something. It is not possible to understand an auction without examining both the buyer and the seller. The same is true regarding the free market economy. This is why I devote space to discussions of both the buyer and the seller.

The heart of the auction process in the free market is the profit-and-loss system. There is a system of bidding: buyers vs. buyers, sellers vs. sellers. Out of this system comes an array of money prices. These prices reveal the limits of human action. Everyone asks himself: "What can I afford to pay?" People have subjective preferences. People order these hierarchically: first, second, third. *People's subjective preferences are limited by objective prices.*

People look ahead. They plan for the future. They buy and sell in the present as a way to deal with the future. Out of these plans come profits and losses. For the buyer, a profit is found when he pays less than what he was prepared to pay: *consumer's surplus*. For the seller, profit is a net return after all expenses have been paid: *seller's residual*. The quest for profit drives the free market economy. Profits are positive sanctions. Losses are negative sanctions. These sanctions determine winners and losers. This system of sanctions is inherent in the free market. They are *endogenous*. They are not applied from any institution outside the free market. They appear to be autonomous. They are not autonomous, as I showed in Chapter 12 of the student's edition.

Christian economics shows that a higher morality undergirds the market process. The market does not rest on autonomous and non-moral patterns. It rests on the laws of God against theft.

Conclusion

If you want to understand the differences separating the rival schools of economic opinion, start with this premise: "The high bid should win . . . most of the time." Pay attention to the qualification: "most of the time." Why not all of the time? Here is where self-professed ethically neutral economists sneak ethics into their analyses.

Throughout the history of economic thought, there has been a debate over the legal and moral foundations of the free market. Is the free market's system of production autonomous, or is it under the authority of the state?

A handful of economists have said that it is autonomous. The state has no legitimate function, either morally or practically. The most notable of these economists was Murray Rothbard, who died in 1995. He persuaded a handful of economists. All other economists believe that the market is not autonomous. It derives moral and judicial support from the civil government.

Economists have long debated these questions. First, what is the justification of state authority over the market? In which area of life? Second, who speaks for the state? On what basis? Third, what are the moral and legal limits of state intervention? How can we know? Fourth, which social sanctions are inherently political, and which are the outcome of market competition? Fifth, what system of ownership produces the highest rate of economic growth?

There is more to economics than the market process, as we shall see. Put in the language of Ludwig von Mises, there is more to praxeology than catallactics.

Part 2

A MORAL AUCTION

INTRODUCTION TO PART 2

Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day (Deuteronomy 8:17–18).

This passage is central to biblical economics specifically and social theory in general. It relates covenantal obedience to economic growth. *It describes economic growth as a confirmation of covenant-keeping.* Moses announced this to the assembled nation immediately prior to the invasion of Canaan.

This was an announcement of God's sovereignty over the nation's economy. It identified a temptation that would come with national success: belief in one's own autonomy from God. Men would declare their success as the outcome of their own efforts. This is a false claim, God said. Such a claim is a denial of something. But what? God's covenant.

What is this covenant? I have covered this extensively in *Christian Economics: Student's Edition*. It is an oath-bound affirmation of five points: God's sovereignty as Creator, man's authority under God, God's law, God's historical sanctions, and the inheritance of kingdom of God in history. There are five covenants: the dominion covenant (Genesis 1:26–28), individual covenant, family covenant, church covenant, and civil covenant. All five are established by verbal oaths. God declared the first oath verbally in the name of mankind. It was a representative oath. It is binding on God and mankind. It defines mankind, which is made in God's image and is fully responsible to Him.

The economy is not autonomous. Nothing created by God is autonomous, which is everything, past and present. This means that the universe is personal, not impersonal. Nothing in the creation is impersonal.

What about the economy? In what ways is the economy personal? How is it different from chemistry? Here are a few. First, the economy is governed by God's covenant laws, unlike chemistry. Second, there is no

hierarchical system of courts governing chemistry. Third, God does not intervene in history in order to restore moral order in chemical relationships. Fourth, God does not announce regarding the atomic weights of the elements:

You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small. A full and fair weight you shall have, a full and fair measure you shall have, that your days may be long in the land that the Lord your God is giving you. For all who do such things, all who act dishonestly, are an abomination to the Lord your God (Deuteronomy 25:13–16).

Fifth, an economic exchange is not predictable, unlike a chemical reaction. Sixth, there is little agreement about the laws of economics, unlike widespread agreement on the laws of chemistry. Seventh, just about everyone has a strong opinion on economics, unlike chemistry. Eighth, no one is elected to high political office based on his views about chemistry.

Here is a key philosophical problem faced by humanistic defenders of the free market. They begin with individuals who make choices. This is methodological individualism. They attempt to build the intellectual case for a coherent social order as the outcome of these decisions. The problem always arises with the question of ethics: right vs. wrong. It also comes with the question of political economic policy: good vs. bad, which is ultimately an ethical issue, but may seem to be merely pragmatic. There is no way logically to get from a multitude of opinions and decisions to a unified program of action. There is no way logically to get from microeconomic evaluations to macroeconomic policy. The policy decisions are at bottom ethical. Free market economists feign ethical neutrality. Defenders of economic planning by unelected state bureaucrats then announce that they come in the name of justice. Justice is based on morality. They get a hearing by the public and by politicians.

Free market economists attempt to counter this criticism of value-free economic theory by appealing to efficiency: reduced waste. Supposedly, everyone is in favor of reduced waste. Supposedly, this shared opinion is value-free. But it isn't. There is no agreement on which waste should be eliminated and at what cost. There is no agreement on what constitutes

waste. The economist's concept of efficiency always has a hidden component: an appeal to better and a rejection of worse.

Critics of the free market respond: "Better for whom? Worse for whom?" They invoke social justice for the common man. They claim that state bureaucrats must intervene into the auction process in order to create new economic incentives that will motivate capitalists to change their scheduled output. Here is their argument. "The free market favors the strong, the rich, and the well educated. It discriminates against the weak, the poor, and the poorly educated. Good men must therefore intervene by means of state power on behalf of these people." Defenders of the so-called social gospel then invoke the Bible's trio of victims of injustice: the widow, the orphan, and the stranger. Critics of the free market claim the moral high ground. This is a politically powerful line of reasoning. The vast majority of voters want to think of themselves as people of high moral ideals.

The free market's secular defenders counter the critics by arguing that the market really does not discriminate against the weak, the poor, and the poorly educated, but the voters rarely believe this line of reasoning. Why not? Because the free market's defenders are explicit deniers of the morality of any kind in economic reasoning. They are trying to counter critics who take what the critics claim is the moral high ground. Economists do not claim for themselves the high moral ground. In fact, they explicitly deny that there is any such thing as moral ground in economic analysis. Economic analysis is value-free, they say. They usually lose this argument in the court of public opinion. They *should* lose it. It is an illogical argument. From the moment that an economist recommends any public policy, he is smuggling value-laden criteria back into economic analysis. So, there is no level playing field between the free market's advocates and the free market's critics. The defenders of supposedly value-free economic reasoning are at a huge disadvantage from the outset.

The critics assert that the auction is inherently immoral. It is rigged in favor of the powerful, the rich, and the well educated. It is therefore unfair to the downtrodden. The market is actually a means of "trodding" them down. The market is not neutral, they say. It is downright immoral.

The defenders remain silent on this argument. They deny that morality has anything to do with economic analysis. Then they appeal to economic efficiency. They appeal to comparative rates of national economic growth. They pretend that the statistical indexes used to calculate this are in some way

morally neutral rather than expressions of ethics-laced opinions regarding what is to be counted as economic growth and what is not, such as the value of women's unsalaried labor in their homes. The voters refuse to believe in either the possibility or the desirability of value-free economic analysis. They want justice for the downtrodden, especially when the politicians promise to force the rich to pay for this, leaving most voters unscathed.

Christian economics denies the possibility of value-free analysis of anything, let alone the central economic institution of the modern world, the market. The defender of the free market says: "There ain't no such thing as a free lunch." The Christian economist adds this: "There ain't no such thing as value-free economic analysis." This assertion places a huge responsibility on him. He must do two things. First, he must show how the market process is at bottom moral. Second, he must show that all economic analysis is at bottom religious. In Part 2, I attempt the first task. In Part 6, I attempt the second.

24

DESIGN

For this is what the Lord says—he who created the heavens, he is God; he who fashioned and made the earth, he founded it; he did not create it to be empty, but formed it to be inhabited—he says: “I am the Lord, and there is no other. I have not spoken in secret, from somewhere in a land of darkness; I have not said to Jacob’s descendants, ‘Seek me in vain.’ I, the Lord, speak the truth; I declare what is right” (Isaiah 45:18–19).

Analysis

Point one of the biblical covenant is God’s transcendence, yet also His presence. This is the biblical concept of God’s original sovereignty. It asks: “Who’s in charge here?”

Here, we learn the following facts. First, God looked forward to the world beyond days one through three. He looked to an inhabited earth. In Genesis 1, we learn that on day four, He created the orbs in the sky. They would be used as the basis of calendars: signs, seasons, days, years. This looked forward to the creation of man. God needed no calendar. Man would. On day five, He created animals. On day six, He created man. God showed purposeful action. He had a plan before He began to create. This testifies to the existence of cosmic order. The universe has God-given purpose. It has had this from the beginning.

The existence of purpose testifies in turn to the existence of design. God designed the universe. Charles Darwin was wrong. So was Immanuel Kant, who offered a theory of the evolved cosmos. The universe was created by a series of sovereign decrees by God. He spoke. The creation responded. He spoke it into existence out of nothing. Before the first day, God had a design for history. Paul wrote:

Blessed be the God and Father of our Lord Jesus Christ, who has blessed us in Christ with every spiritual blessing in the heavenly

places, even as he chose us in him before the foundation of the world, that we should be holy and blameless before him. In love he predestined us for adoption to himself as sons through Jesus Christ, according to the purpose of his will, to the praise of his glorious grace, with which he has blessed us in the Beloved (Ephesians 1:3–6).

Isaiah said that God revealed this to him: God had not spoken in secret about Jacob, meaning the nation of Israel. He had spoken openly. God then added: “I declare what is right.” This reveals the ethical aspect of God’s decrees, as well as His revelation regarding His decrees. He does not speak secretly. This is the work of imputation: declaring publicly that which conforms to God’s standards. These standards are inherently ethical: right vs. wrong.

The implication of this for economic reasoning, and all other social science, is this: *there is no such thing as value-free analysis*. But it goes way beyond this. *All attempts to formulate a hypothesis of ethical neutrality for social analysis is an affront to God*. It is saying this: “Neutrality is possible.” This means, above all, neutrality toward God. This is another way of saying that the creation was originally autonomous: no God-provided design. Yet this passage makes it clear that God’s design was the very foundation of the creation. It preceded the creation.

The creation was inherently covenantal from the beginning. It looked forward to mankind’s dominion over the earth, even including calendars: signs and seasons (Genesis 1:14). Therefore, the covenant cannot be divorced from ethics: point three of the biblical covenant.

Here, I present some of the implications of the creation week as a covenantal process.

First and foremost for any consideration of the auction process of the free market, *there was coherence to the design*. All of the pieces fit together. The creation week was both systematic and sequential. At the end of each day except day two, God declared His work as good. These were acts of imputation: evaluating the outcome of His labor in terms of His design. Day by day, God fitted the pieces together into a systematic, coherent system. The week’s final day of creation was day six: the creation of man, and the announcement of the dominion covenant. This established a hierarchy: God > man > creation. I will explore the differences between humanism and creationism in Chapter 51, “Design vs. Darwinism.” At this point, I will say

only this: *Christian social theory must begin with an assertion of the underlying coherence of men's institutions.* This is based on the biblical story of the creation week as purposeful, systematic, and coherent. Ultimately, the creation was covenantal. It had to do with ethics. This is why God declared to Isaiah that He speaks the truth regarding what is right.

Covenant-breakers do not have this view of creation. They do not believe that there was purpose underlying the creation. Yet they insist that with man came purposeful behavior, systematic planning, and institutional coherence. That which a personal God did not provide to the universe, mankind does provide for his social arrangements. Yet they cannot avoid the analogy of man as God. The biblical account of creation asserts purpose, systematic planning, and coherence. It is difficult for Darwinian covenant-breakers to think in any other framework.

Economists assert that people are purposeful. Yet the defenders of the market invoke something analogous to the purposeless, evolving cosmos when discussing free market outcomes. No one planned them. No one designed them. They deny any element of planning with respect the creation. This leads to a major problem in persuasion. Most people find it difficult to imagine that there is any purpose, system, or coherence in an undesigned institution. This is why defenders of the free market find it almost impossible to persuade people regarding the efficacy of the evolutionary model for identifying how a totally free, undesigned, and unplanned market process is the source of the obvious benefits of the modern economy. *Men think that coherence is the outcome of design.* They cannot shake this pre-Darwin, pre-Adam Smith outlook.

Here is the key argument offered by Progressives and pro-government planning social Darwinists ever since Lester Frank Ward's book, *Dynamic Sociology*, was published in 1883. They say that science has now replaced purposeless, impersonal evolution as the source of progress, not simply in the natural sciences, but also in the social sciences, especially economics. They have moved from the model of purposeless, impersonal evolution to the model of scientifically designed and directed evolution. They have replaced the biblical God of creation with a new divinity: scientific man.

Defenders of the free market as an unplanned process face most people's instinctive response: skepticism. The skeptics cling to an image of an omniscient, omnipotent God who speaks a sovereign word, and the universe responds as ordered. They want scientific planners to speak nearly omniscient,

nearly omnipotent words, and the social world will then very nearly respond as ordered. In response to those social deviants who resist, authorized agents of the state will apply scientific negative sanctions. Next time, there will be less resistance. Next time, there will be greater coherence.

What is the source of order in mankind's institutions? Darwinists do not agree. A tiny handful invoke the model of the cosmos before man appeared: undesigned, unplanned evolutionary change. The other wing of the church of Darwin reply that the model of unplanned evolution fits the free market most of the time, but a designing political order must intervene to bring moral order into operation whenever the autonomous market does not produce fair outcomes for the weak, the poor, and the poorly educated. They insist that well-educated, well-paid state scientific planners must revoke and replace specific market outcomes. They place greater faith in scientific planning than they do in undesigned market processes.

Christians must deny the Darwinists' premise: the existence of impersonal evolution, whether cosmic or social. They must begin with this moral and legal premise: *the personal responsibility of each individual for the outcomes of his decisions*. The process of market competition is not impersonal. It was designed by God. God remains sovereign.

Then what is mankind's source of the moral and legal standards that God will use to assess the performance of everyone in history? Answer: God's revelation in nature and also in the Bible. Men deliberately distort His revelation in nature (Romans 1:18–20; 2:14–15). So, the Bible is necessary to restore covenantal accuracy, i.e., accurate imputation. So is illumination by the Holy Spirit. "When the Spirit of truth comes, he will guide you into all the truth, for he will not speak on his own authority, but whatever he hears he will speak, and he will declare to you the things that are to come" (John 16:13).

Here is the fundamental point with respect to design. The humanly unplanned outcomes of the market's auction process are legitimate whenever men have obeyed the economic laws of God. These laws are the outcome of God's mandated authorization of the private ownership of property (Exodus 20:15). God is the economic planner. He provides coherence. He has an integrated plan for the ages. This includes every area of life. Nothing is left to chance. He has mandated institutional arrangements that establish the free market. The market has evolved out of these laws whenever men have obeyed them. The market order has been unplanned by human beings. But it is planned. The market is the outcome of human action, not human de-

sign. But the absence of human design does not disprove the existence of an economic plan that is purposeful, systematic, and coherent. This is why people can safely trust the free market in most instances.

They can more safely trust the free market than regulation by state bureaucrats.

A. Buyer

A buyer is part of God's plan for the ages. He is not autonomous.

Thus says the Lord, the Holy One of Israel, and the one who formed him: "Ask me of things to come; will you command me concerning my children and the work of my hands? I made the earth and created man on it; it was my hands that stretched out the heavens, and I commanded all their host" (Isaiah 45:11–12).

As someone made in God's image, the buyer has purposes, just as God did in the creation week. He acts as a creature, but he is in a position to design a plan of action that he hopes will enable him to achieve some of these purposes. He possesses money. This gives him wide latitude. Money is the most marketable commodity. He has many sellers bidding against each other to sell to him. The more money he has, the more of his goals he will be able to attain if he plans wisely and executes these plans efficiently.

As an owner, he has a God-given right to bid. "Am I not allowed to do what I choose with what belongs to me?" (Matthew 20:5a). He may choose to bid for goods that he will consume. He may choose to purchase investments for future income. He may choose to give money away. The point is this: *he has the ability to bid because he owns money*. If he gained this money legally, no one should complain that he owns it. That is the distribution of income that God has planned. "Every good gift and every perfect gift is from above, coming down from the Father of lights, with whom there is no variation or shadow due to change" (James 1:17). "For he makes his sun rise on the evil and on the good, and sends rain on the just and on the unjust" (Matthew 6:45b). More ominously:

Beloved, never avenge yourselves, but leave it to the wrath of God, for it is written, "Vengeance is mine, I will repay, says the Lord."
To the contrary, "if your enemy is hungry, feed him; if he is thirsty,

give him something to drink; for by so doing you will heap burning coals on his head" (Romans 12:19–20).

People buy and sell. They make allocation decisions (point two). The outcomes will vary. There will be winners and losers as a result of these decisions (point four). These outcomes are legitimate (point three). They are not random. If they were voluntary and not based on false weights and measures, those who would have preferred another outcome should not complain. They should not call on the state to redistribute this income. Bureaucrats employed by the state are not in a position to determine who should have received how much net subjective income from any exchange. The state must not play God. Bureaucrats must not substitute their judgment of what is fair for God's judgment. The buyer should be free from guilt regarding the legitimacy of his wealth. He should not be made a target in a political campaign of guilt manipulation.

A man may pursue suicidal goals. This man did.

And he told them a parable, saying, "The land of a rich man produced plentifully, and he thought to himself, 'What shall I do, for I have nowhere to store my crops?' And he said, 'I will do this: I will tear down my barns and build larger ones, and there I will store all my grain and my goods. And I will say to my soul, "Soul, you have ample goods laid up for many years; relax, eat, drink, be merry." But God said to him, 'Fool! This night your soul is required of you, and the things you have prepared, whose will they be?' So is the one who lays up treasure for himself and is not rich toward God" (Luke 12:16–21).

It is not for the state to play God and announce a judgment against him. That is God's authority. God is the sovereign legal agent of final imputation: a declaration of "guilty" or "not guilty."

People design plans. They cannot speak their plans into existence. They are not God. They must therefore use means. The market is the primary institutional means of enabling individuals to pursue their plans. This was not true throughout most of history. The family was. But with the compounding extension of the division of labor through capital investment since about 1800, the market has become the central economic institution.

The moral validity (point three) of market outcomes (point four) is assured by God's design (point one) of the market. It is an extension of a series of biblical requirements: the principle of private property, the right of contract, the rule of law, future-orientation, capital investment, and accounting techniques. *The morality of the market is derived from the morality of God's Bible-revealed law.*

B. Seller

The seller is judicially comparable to an auctioneer. Like the buyer, he has designed a plan to let him fulfil his goals. He is acting purposefully, just as God did in the creation week. He is acting systematically, just as God did. He has decided to offer things for sale. Most sellers want money in exchange. That is because money is the most marketable commodity.

He decides on a rule governing exchanges: *high bid wins*. This is also what the buyer wants: high bids in the form of more goods per currency unit. Both the buyer and the seller are seeking to make an exchange at the highest available bid, given time constraints, geographical constraints, and marketing costs.

The Bible recognizes that buyers and sellers want better offers. But they are content with the offers they accepted. "Bad, bad," says the buyer, but when he goes away, then he boasts" (Proverbs 20:16). This is normal business in societies with a limited division of labor, where face-to-face bargaining is common. In a highly developed market order, there is no bargaining. It is this: *take it or leave it*. Time is too precious to waste on bargaining.

There is no coercion involved in the sale. This honors the principle of allowing people to use their property as they see fit. If they choose to exchange it, there is nothing immoral about this. So, the morality of the auction process is preserved.

C. Pencil

We know from Read's essay that there is a coherence of the production process that makes a pencil possible. He used the example of the pencil in order to clarify this coherence. But because he did not discuss the market as an auction, he did not focus on the central issue of production and distribution: pricing. He did not mention the auction's principle of exchange: high bid wins. Without an understanding of this principle, the production process remains a mystery. The pencil remains a miracle.

A miracle is comparable to God's speaking the universe into existence. It is outside the limits of repeatable operations. A miracle is designed to achieve some end. It requires special intervention by God into the auction's process of supply and demand. The pencil is the product of individual designs, but not a single design. No one knows how to design a pencil, Read wrote. He was correct. Nevertheless, manufacturers produce pencils by the billions. How can this be? A pencil has been designed by someone. The process has not been designed by anyone on earth.

Here are three facts. First, we can buy all the pencils we want at a local store. Second, someone produced them and delivered them. Third, there is coherence between someone's plan to sell pencils and our ability to buy them easily. How do these three facts fit together? By means of three words: high bid wins.

There is nothing immoral about a process that is mysterious in its details, but not overall, once we understand the auction's principle of high bid wins. There is nothing immoral about the principle of high bid wins. If the state were to enforce comprehensively a law against using the principle of high bid wins to govern exchanges, there would be no pencils. There would be few products. There would be poverty. I ask: How could something as simple as a pencil exist if there were no auction process? It could not exist. So, why should the auction process be criticized as immoral and therefore in need of coercive intervention by government bureaucrats?

Conclusion

Men are not divine. They cannot speak their creations into existence. To go from their designs to final products, they need the division of labor. They need the cooperation of other people.

Men are made in God's image. They therefore have the intellectual power to design things, just as God did in the creation week and still does. But men do not have the intellectual power to design the process of production that enables them to build the things that they design. This was the brilliant insight of Read's essay. Men can design simple products, but they cannot design the complex products that produce the simple products. Nevertheless, these complex products do come into existence. They keep getting improved by minor revisions.

There is an overall design. God is the author. He created a moral universe that from the beginning was based on a combination of fixed laws of

nature and social institutions based on moral cause and effect. He announced a few easily understood laws that, whenever most people obey them, they are enabled to produce complex products. *The original divine design, which is at bottom moral, governs the development of the auction process.* No human being could have designed it. Not many people even begin to understand it. But it works anyway.

25

PLANS

When Joseph's brothers saw that their father was dead, they said, "It may be that Joseph will hate us and pay us back for all the evil that we did to him." So they sent a message to Joseph, saying, "Your father gave this command before he died: 'Say to Joseph, "Please forgive the transgression of your brothers and their sin, because they did evil to you."' And now, please forgive the transgression of the servants of the God of your father." Joseph wept when they spoke to him. His brothers also came and fell down before him and said, "Behold, we are your servants." But Joseph said to them, "Do not fear, for am I in the place of God? As for you, you meant evil against me, but God meant it for good, to bring it about that many people should be kept alive, as they are today. So do not fear; I will provide for you and your little ones." Thus he comforted them and spoke kindly to them (Genesis 50:15–21).

Analysis

Point two of the biblical covenant is hierarchical authority. It has to do with God's delegation of limited sovereignty to man: the dominion covenant.

There is no clearer passage in the Bible than this one regarding the inescapable coherence of individuals' plans and God's overarching plan. The multiple plans of individuals throughout history are made in the context of a single plan for the ages.

Few people believe this. Few Christians believe it. But the Bible teaches it.

There are similar passages in the Bible regarding individual plans. This is well known: "The heart of man plans his way, but the Lord establishes his steps" (Proverbs 16:9). So is this: "The king's heart is a stream of water in the hand of the LORD; he turns it wherever he will" (Proverbs 21:1). And this: "For we are his workmanship, created in Christ Jesus for good works, which God prepared beforehand, that we should walk in them" (Ephesians 2:10).

But the passage in Genesis 50 is by far the clearest on the integration of the multitudinous plans of the many and the exhaustive plan of the One. *There is an overarching unity governing all diversity.* God's macro planning is consistent with men's micro planning. God's macro plan gives meaning to men's micro plans.

People raise this objection. If God's plan is sovereign, then why does He condemn evil? It is an ancient argument. Paul was well aware of it.

What shall we say then? Is there injustice on God's part? By no means! For he says to Moses, "I will have mercy on whom I have mercy, and I will have compassion on whom I have compassion." So then it depends not on human will or exertion, but on God, who has mercy. For the Scripture says to Pharaoh, "For this very purpose I have raised you up, that I might show my power in you, and that my name might be proclaimed in all the earth." So then he has mercy on whomever he wills, and he hardens whomever he wills (Romans 9:14–18).

This argument makes it clear that God's sovereignty is fundamental. God has a plan. He has made a decree. There is coherence to His plan.

This is the biblical solution to the problem of coherence between individual profitability and social benefits. Why is this a problem? It has two aspects. First, if we begin with the principle of methodological individualism, which free market economists do, then there is no scientific way to relate the success or failure of the collective with the success or failure of individuals, as judged by the individuals in question. There is no way to prove that microeconomic success produces increased macroeconomic success. Why not? Because, according to subjectivist economic theory, it is scientifically impossible to make interpersonal comparisons of subjective utility. There is no common, objective scale of economic value. This is the inescapable intellectual problem associated with all forms of what is called nominalism, which teaches that the meaning of the world is imputed by individuals. *There can be no collective meaning for the nominalist.*

When an economist recommends any policy to the government, if he is honest, he will say this: "There is no scientifically based advice that I can supply for the benefits of my recommendation. The best that I can do is to tell you what would be good for me, given my scale of economic value." This is not

what the government planners are paying him to provide. But this is all that he can legitimately provide, given the premises of methodological individualism. *There can be no proof of common social benefits in the world of methodological individualism.* There can only be individual assessments, which never agree. How, then, can politicians and bureaucrats discover or invent positive public policy? There is no answer from consistent individualists.

Second, a socialist planner, perhaps in North Korea or Cuba, might present this case. "Central planning can solve this problem. The Communist Party appoints economic experts. They decide what is best for the masses. They decide what to produce: quantity and quality. They control capital that is collected from taxes and borrowing. They allocate capital. They decide which classes shall receive what quantity of consumer goods. They tell managers what to produce." To which a critic replies: "How can they know what is best for everyone? How can they collect economic resources without threatening coercion? How do they know what the most efficient uses are for all forms of capital? How do they know what to pay each worker? How do they know what the price should be for each capital asset, each consumer good, each consumer service?"

There was a well-known saying in the Soviet Union regarding how workers performed on the job. "They pretend to pay us, and we pretend to work." The failure of central planning led to the economic crisis of the USSR in the late 1980s. Mikhail Gorbachev oversaw this collapse. His reforms triggered it. On December 25, 1991, he announced the end of the USSR. The Communist Party had already been overthrown in August. This was a peaceful end for the second-largest contiguous military empire in modern times.

There is no logical way for a methodological individualist to prove that what is economically satisfactory to any individual is beneficial for everyone. There is also no logical way for a methodological collectivist to prove that the outcome of central planning is good for all of the individuals or even a majority. In short, there is no logical way to resolve the conflict between the one and the many, the aggregate economy and the individual participants. This problem faces all philosophies and all economic theories.

The central planner necessarily plays the role of God. He assumes that the total economic value that he imputes to the proposed outcome of his central plan is what the masses would also conclude if there were some way to get inside their heads and measure each of their subjectively imputed values for everything they buy or sell. Yet no planner has ever used this

language. That is because every planner knew that such a line of reasoning would be ridiculed by anyone who heard it or read it.

No human being is omniscient. God is. No human being is omnipotent. God is. No human being possesses absolute sovereignty. God does.

How does God reconcile the problems of the one and the many? By delegating temporary and limited ownership to individuals and organizations. He has announced a series of rules regarding private ownership. He holds every owner responsible for what he does with this capital. This combination of private property, ethics-based laws of ownership, and divine sanctions in history and eternity has led to the free market economy.

The free market social order is the outcome of a moral order established by God. It is not autonomous. It is not self-sustaining. It is non-coercive. It allocates scarce economic resources by means of this principle: *high bid wins*. It was not designed by men. It was designed by God and developed by men as they worked out the moral, legal, and institutional implications of private ownership, legal responsibility, the rule of law, profit and loss, and capital formation.

In 1920, Ludwig von Mises wrote a long article, "Economic Calculation in the Socialist Commonwealth." He expanded this article in a long book, *Socialism*, in 1922. He argued that without private property, there is no way to estimate the value of resources. Without competitive markets, there can be no prices. Without prices, especially of capital goods, there can be no rational allocation of goods in terms of consumer demand. Therefore, he said, central economic planning is inherently irrational. Seven decades later, the Soviet Union's economy collapsed. In 1979, the Premier of Communist China, Deng Xiaoping, had concluded that it was no longer possible to sustain the economy through central planning. He restored planning authority to private farmers. The economy began to grow the next year. This launched the most rapid economic development of any large nation in history.

The solution to the problem of poverty is the auction process. No other economic arrangement has solved the problem of poverty. There is nothing immoral about reducing poverty. There is nothing immoral about the institutional arrangement that alone has reduced poverty for the masses. It is based on this moral and legal principle: private property, which includes the legal right to sell property. The guiding rule of the market is this: *high bid wins*.

A. Buyer

Money is the most marketable commodity. It conveys great responsibility, since the range of choices is so wide.

The person who owns money must focus his attention on what he needs and wants as a consumer. He must also decide between present consumption and future consumption. These are allocation decisions. These decisions require planning if they are to maximize the person's rate of return. The planning is highly specific: what one person wants to gain from whatever he possesses. This requires specialization. He is the best-informed person regarding what he possesses and wants to achieve. He is also the most responsible person. This responsibility matches the amount of money he possesses. The sanctions are highly personal. If he makes a mistake in his spending plans, he will suffer. If he is successful, he will benefit. So, with respect to both responsibility and motivation, the owner has an advantage over all others with respect to the available information as well as the accuracy of this information. *The free market is the most efficient arrangement for maximizing the return from accurate information, which is highly decentralized. The owner of specialized information is in the best position of profiting from it.* The market provides incentives for individuals to put this information to productive use for others, as paid for by others. This takes individual planning.

He is a kingdom agent. He serves either the kingdom of God or the kingdom of man. As a covenantal agent, he is inescapably a servant. There is no escape from covenantal hierarchy. He is God's representative. The mark of this is the requirement of the tithe. Individuals and families are required by God to pay this to their local church. Paying the tithe is a mark of subordination (Hebrews 7:7–10).

Because money is the most marketable commodity, it provides the greatest safety from error. A person with money can afford to buy his way out of unexpected problems. This means that keeping money in reserve is a form of insurance. If he makes a mistake due to insufficient information or bad judgment, he can recover more easily if he has money in reserve. Money is therefore a tool for making specialized plans. The inherent risk of specialization is this: a lack of knowledge about the broader economy, i.e., the macroeconomic picture. Money offsets the liabilities of specialized information.

The morality of the free market rests on the legitimacy of private property and the moral requirement of the rule of law by civil government. *Ownership is tied to personal responsibility*. Any attempt by economists to justify the morality of the market without also justifying the morality of private property is the equivalent of the blind leading the blind into the ditch. The market is not value-free. Neither is economic logic.

B. Seller

The seller is an economic agent of future customers. He must make plans in terms of what he expects future customers to pay him to supply highly specific products. He also must plan responses to rival sellers. He does not want to face unexpected challenges. His plan helps him avoid these unexpected events.

The responsibilities of ownership are four-way: upward toward God, outward toward buyers, downward toward those under authority, and inward. The asset owner is required by God to factor in these competing responsibilities. This is a complex task. It mandates the imputation of value. Then the individual must decide in terms of this hierarchy of economic values. He uses his resources to satisfy his highest-ranked values first. If he has money remaining, he goes to his next highest value.

Because he cannot see the future clearly, he must deal with uncertainty. If his plan is successful, he will not be caught unprepared by events. He will not have to use money to buy his way out of problems. His plan is a means of reducing future losses. It is also a means of gaining above-average returns on his investments of money and time.

As a seller, he reaps his reward by accurate forecasting, coupled with an efficient, money-saving plan of action. It is not good enough to forecast the future accurately. He must also take steps that are consistent with his forecast. Profitable planning is both theoretical and practical.

The reason why he can reap an above-average rate of return is his ability to understand a specific market. He competes against a relatively small number of producers. This is not like investing in the stock exchange, which is open to everyone with money anywhere on earth. A seller operates in a niche market. His tool of profit is his plan of action. The more specialized his plan, the greater the opportunity for both profit and loss.

Profit and loss are matters of monetary accounting. Customers who buy or refuse to buy impose these sanctions. Point two of the covenant, hierar-

chy, is always related closely to point four: sanctions. In business, entrepreneurship is a matter of future-orientation and planning, which are aspects of point two. But it is also a matter of profit and loss: point four.

A seller seeks to reduce his costs of production. This will enable him to gain greater profits. But competition will eventually force him to lower prices if he is to retain customers. This reduction in costs makes available production goods for other producers. More people are benefitted. This is a moral service to individual consumers and also society as a whole. It is an important aspect of stewardship.

A seller must reinvest in order to remain in the auction. He must find ways to deliver valuable products and services to consumers. This is an aspect of service. He must estimate what customers will want to buy in the future, and at what price. This is a speculative aspect of planning. He must plan on their behalf as their economic agent. If he guesses incorrectly, he will suffer losses. The customers are not badly hurt by his mistake. They can buy from other sellers. But he is badly hurt. The threat of losses and the lure of profits force owners of resources to be careful in their allocation. They must not waste resources. There is nothing immoral about this pressure.

The seller must not use force to gain sales. If he does, he is subject to negative civil sanctions. He must not cheat by lying. These moral restraints are imposed by civil law and also by market competition.

You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small. A full and fair weight you shall have, a full and fair measure you shall have, that your days may be long in the land that the Lord your God is giving you. For all who do such things, all who act dishonestly, are an abomination to the Lord your God (Deuteronomy 25:13–16).

The market is not autonomous. It is under law. Theft and fraud are illegal. When governed by covenant law and its specified negative sanctions, the market is a moral institution.

C. Pencil

It takes innumerable plans to produce all of the components of a pencil.

It takes coordination of these plans. It takes vastly more plans to produce the capital equipment necessary to produce a pencil. There is no possibility that any individual or planning board could produce a pencil, let alone an automobile. This is because no planner is omniscient. There must be planning. There must also be a way to coordinate these plans. The pricing system is the auction process' means of coordinating production.

The goal of individual profit produces the wealth of nations. That was Adam Smith's argument in 1776. If there were no auction process, there could be no prices. That was Mises' argument in 1920. *If there were no prices, there could be no pencils.* The critics of the market process have a moral obligation to show that a system that makes billions of inexpensive pencils available all over the world is inherently immoral. This is a difficult task.

Conclusion

On what moral basis do critics of the market process criticize the outcome of this process in delivering goods and services to consumers? The critics say that this process leads to economic inequality. But every system of economics does this. There are always winners and losers in every field, including the market process. Critics want the state to substitute other criteria for consumer demand. On what moral basis do they make their claim?

Christian economics provides an answer to critics of the market process who argue that, while the market's system of profits and loss does provide enormous productivity, the private property system is not legitimate. The state's planners must substitute other moral criteria for this system of private ownership. Critics of the free market argue that the plans of self-interested individuals to serve customers efficiently and therefore profitably are not moral, nor are the outcomes. Some of these critics say that the Bible teaches that reliance on private ownership is opposed to God's law. But they offer no exegesis of biblical law to prove their case. This is because the Bible does not teach the social gospel, i.e., wealth redistribution by politics.

There is a biblical moral foundation for private property. The market process is the institutional result. There is moral coherence of the plans of the many (property owners) and the one (society). The result of this moral coherence is increasing per capita wealth.

When covenant-keepers understand the origin of the market society as the outcome of God's sovereign plan and men's progressive adherence to

God's laws of property, they should have great confidence in the legitimacy of the market's auction process. They should also resist calls by welfare state advocates to redistribute wealth by the state's power.

26

COOPERATION

But now the LORD my God has given me rest on every side. There is neither adversary nor misfortune. And so I intend to build a house for the name of the LORD my God, as the LORD said to David my father, 'Your son, whom I will set on your throne in your place, shall build the house for my name.' Now therefore command that cedars of Lebanon be cut for me. And my servants will join your servants, and I will pay you for your servants such wages as you set, for you know that there is no one among us who knows how to cut timber like the Sidonians."

As soon as Hiram heard the words of Solomon, he rejoiced greatly and said, "Blessed be the LORD this day, who has given to David a wise son to be over this great people." And Hiram sent to Solomon, saying, "I have heard the message that you have sent to me. I am ready to do all you desire in the matter of cedar and cypress timber. My servants shall bring it down to the sea from Lebanon, and I will make it into rafts to go by sea to the place you direct. And I will have them broken up there, and you shall receive it. And you shall meet my wishes by providing food for my household." So Hiram supplied Solomon with all the timber of cedar and cypress that he desired, while Solomon gave Hiram 20,000 cors of wheat as food for his household, and 20,000 cors of beaten oil. Solomon gave this to Hiram year by year (I Kings 5:4–11).

Analysis

Point three of the biblical covenant is law. It asks: "What are the rules?"

Every offer to buy or sell is an offer to cooperate. Solomon wanted cooperation with Sidon. He planned to build the temple. The temple would be the most holy place in Israel. He wanted the temple to be constructed with the finest timber available. That meant timber cut in Lebanon, a pagan city. It would mean that covenant-breakers would transport the timber to Israel.

This meant that the people of God would become dependent on the people of a rival god. He negotiated a price for the timber and the workers who would deliver it. But this was a two-way street. The king of Sidon would become dependent on the people of Israel to supply wheat and oil. This arrangement would be known to the people of Sidon. So, people in both societies would benefit from the transaction.

The exchange was possible because the king of Sidon wanted wheat and oil more than he wanted timber and labor services of timber shippers. Also, Solomon wanted the temple in Jerusalem more than he wanted wheat and oil. He was rich. The king of Sidon was rich. Neither of them needed the other for his basic income. They acted as economic representatives of their respective populations. A mutually beneficial exchange was possible because each of the kings wanted what the other possessed more than he wanted what he possessed. There was no equality of exchange: like for like. On the contrary, there was *inequality of exchange*. Each wanted what the other possessed.

This was a not much of a negotiation. The king of Sidon could have refused to accept Solomon's offer. He could have asked for more wheat or more oil. But he thought the offer was a good deal for him as the economic agent of his people. Solomon was ready to make a long-term exchange at this price. No negotiating was required. There would be nothing like this: "Bad, bad," says the buyer, but when he goes away, then he boasts" (Proverbs 21:14). Both kings saw the benefits of such an agreement at the price Solomon offered.

This is an example of cooperation. In this case, it was cooperation between kings. But it was cooperation between the people who were represented by these kings. Most amazing of all, it was cooperation between the God of Israel and the god of Sidon. God allowed His temple to be built with timbers that were supplied by people of a rival faith. This leads to a remarkable conclusion: *voluntary exchange is basic to kingdom expansion*. It looked as though the deity of Sidon expanded his kingdom. But because of the progress of God's kingdom in history, God safely shrugs off all such criticisms of economic cooperation. The god of Sidon is long gone. The God of Israel is still with us. God knew this would be the case. The god of Sidon was no threat to Him, covenantally speaking.

In a mutual exchange, both parties expect to be better off after the exchange. If they are, they may trade again. It will be cheaper next time. Trust

will be greater. Uncertainty will be lower. Exchange costs will be lower. Here is a law of economics: "When cost falls, more is demanded." Both sides prosper. Individuals on both sides can then pursue their goals less expensively. Whenever the exchanges were based on negotiations between kings, the political kingdom of each king expanded. In the ancient world, kingdoms were confessional. So, each had a covenant. Yet the expansion of Sidon's kingdom was no threat to God. God knew who was in charge in history. So, the temporary expansion of Sidon's kingdom was no threat to God's kingdom.

This voluntary economic exchange was not based on a covenantal unification. The confessions were different. There was no covenant allowed (Deuteronomy 7:2). This means that an economic contract is not the same as a covenantal merging. It is not established by an oath to the same God. A promise to pay does not have the authority of a public oath to obey the laws of God: in marriage, church, or state. Jesus warned:

"Again you have heard that it was said to those of old, 'You shall not swear falsely, but shall perform to the Lord what you have sworn.' But I say to you, Do not take an oath at all, either by heaven, for it is the throne of God, or by the earth, for it is his footstool, or by Jerusalem, for it is the city of the great King. And do not take an oath by your head, for you cannot make one hair white or black. Let what you say be simply 'Yes' or 'No'; anything more than this comes from evil" (Matthew 5:33–37).

A contract is established by "yes." It rests on the integrity of the contracting parties. In contrast, a covenant is established by a formal oath in God's name. This rests on the idea of God as a covenant-keeper and a covenant-enforcer.

Solomon built the temple by means of a voluntary exchange. There was nothing immoral about this exchange. Despite the fact that covenant-breakers were involved in the construction of the temple, this in no way broke covenant with God. Cooperation economically is not the same as cooperation covenantally. A contract is not the same as a covenant. A promise is not the same as an oath. The division of labor does not extend through trade because of covenantal unfaithfulness. It extends as an outworking of covenantal faithfulness. The fact that covenant-breakers are better off economically after the trade is covenantally irrelevant. So are covenant-keep-

ers. The increased prosperity of covenant-keepers is what matters in history and eternity. This is because the kingdom of God expands over time at the expense of the kingdom of man. What matters is confession, not economic prosperity as such. The kingdoms of men rise and fall. They last for a few generations. The kingdom of God compounds.

You shall not make for yourself a carved image, or any likeness of anything that is in heaven above, or that is on the earth beneath, or that is in the water under the earth. You shall not bow down to them or serve them; for I the Lord your God am a jealous God, visiting the iniquity of the fathers on the children to the third and fourth generation of those who hate me, but showing steadfast love to thousands of those who love me and keep my commandments (Deuteronomy 5:8–10).

What is true of negotiations between kings under the Mosaic covenant remains true of negotiations between individuals today. When two people see an opportunity to better themselves through exchange, they negotiate. At some price, a deal may be possible. At some price, they may both be better off. This has to do with the wealth they both seek to extend their respective kingdoms. There are only two kingdoms: the kingdom of God and the kingdom of mammon. A person must serve either one or the other of these two deities (Matthew 6:24).

The issue is price. In a free market, there can be negotiations. But, in general, most prices are set by competition: buyers vs. buyers, sellers vs. sellers. *The more widespread the competition, the narrower the range of negotiation.* In a supermarket, there is no negotiating.

Prices are in the computer. This is the shopper's choice: "take it or leave it." In this case, "leave it" means shopping at a competing store or shopping online. Someone can use a phone to see competing prices online. He may not have to leave the store's premises in order to leave the opportunity behind. It is easy to "leave it."

An owner is responsible for the use of his property. He is responsible to God, to consumers, to those under his authority, and to himself. He knows better than anyone what his property is worth to him. Therefore, because of both greater responsibility and superior knowledge, he should be the person to decide the terms of rental (labor) or sale.

In contrast are the politician and the bureaucrat. They claim the moral authority and legal right to set the terms of exchange. They have no responsibility as owners. They have no specific knowledge of local market conditions. They do not know the subjective utility of owned assets in the minds of the owners. Yet they claim the moral high ground in setting prices, so as to protect the weak. They also protect members of special-interest groups from price competition, a fact they never mention in public.

A. Buyer

The buyer has what every seller wants: money. He has far greater market authority than a seller. Money is the most marketable commodity.

The auction principle is this: high bid wins. It works for both sides of the exchange. The high money bid wins among buyers. The low price per unit in money is the high bid among sellers: more consumer goods per currency unit.

A high bid sends a signal: "Cooperate with me. I'll give you greater cooperation than my competitors will." Is there anything morally wrong with an offer to provide greater cooperation? If there is something morally wrong, the critics of the free market ought to make clear what the objection is, and what moral principle supports it.

Someone owns money. There is nothing morally wrong with this if he obtained it legally. He decides that he wants to sell some of this money. He owns it. Therefore, he has the legal and moral right to exchange it for something he wants more. The meaning of ownership is this: *the right to disown something by trading it or giving it away*. If someone is not allowed by the government to disown something, he does not really own it. The government owns it. The government sets the terms of exchange. The government sets the price, not market competition: buyers vs. buyers, sellers vs. sellers.

The buyer is now in a position to say this to the government agent: "Am I not allowed to do what I choose with what belongs to me?" (Matthew 20:15a). The implicit answer is this: "No, you are not allowed to do this. You do not own the item. The state does. You are merely an unpaid agent of the state."

Critics of the morality of the free market's auction process have a moral obligation to explain why this auction process is immoral. Why is an offer to cooperate immoral? The politician and the bureaucrat face a challenge: "You can't beat something with nothing." The critic of the market should explain why the free market's principle of high bid wins is immoral. If it is not immoral in all situations, when is it immoral? Where? Why?

If a buyer or a seller does not have the right to sell at a lower price, then he does not fully own the item or service. A government bureaucrat has the legal authority to veto the sale in advance.

An example of a pre-sale veto is a price floor for a service. Another pre-sale veto is a price ceiling. In both cases, a government bureaucrat threatens someone if he accepts the offer. This means that the government is in charge of the pricing process. It prohibits this rule: high bid wins. It claims that such a rule is immoral because it discriminates against the weak. What this really means is that the government discriminates against the most desperate sellers and the most efficient sellers.

Price *floors* are imposed on *buyers*. An example is the minimum wage. An employer is prosecuted if he pays less than the minimum wage. Price *ceilings* are imposed on *sellers*. An example is rent control. The owner of the rental unit is prosecuted if he charges more than the rent ceiling. But both the buyer and the seller are harmed economically. They both lose the benefits of an exchange.

B. Seller

If the government imposes a price floor, such as a minimum wage law, it tells some workers this: "Your offer to work for a lower wage is illegal. That would be competitive against existing employees." The bureaucrat does not say this. He says this: "I am here to keep you from being exploited by a heartless employer." The result may be to persuade the employer not to make the offer. The job is not filled. The employer loses. So does the lower-cost worker he was willing to hire. So do all of the customers who will not be offered something to buy at a lower price.

Why does a politician vote for such a law? Officially, because he believes that every worker is entitled to a "living wage." But what happens to the worker who was willing to work for this "nonliving wage"? He receives no offer of employment. But no one notices him. His unemployment is the thing not seen. He becomes a statistic. This benefits the worker who keeps his job at a higher wage. He does not face competition. Critics of free market pricing call this kind of competition *cut-throat competition*. What kind of competition is this? *Price-competitive competition*.

Cut-throat competition is an offer: "Cooperate with me." It is a request to cooperate more profitably. A person is seeking cooperation in the form of a sale. He thinks that a buyer is willing to cooperate if the price of this co-

operation is low enough. This is an economic law: "When the price falls, more is demanded." When the price of cooperation falls, more cooperation is demanded. Why is it an immoral goal to foster more cooperation?

Sellers are specialists in selling some item or service in a niche market. They are intently focused on their market. Their livelihood depends on it. The general public barely notices. So, sellers find it easy to persuade politicians to pass laws restricting price cutting. They also favor laws restricting entry, such as licensing laws. This keeps prices higher than the market's auction process would have produced. But the politicians always defend these laws in the name of protecting consumers. These laws in fact protect existing sellers from competition.

Because few people understand the free market's auction process, even though they enjoy local auctions, the advocates of minimum wage laws, price floors, and even price ceilings never are challenged to explain in public why their position is the moral high ground. The price controllers may offer a vague platitude about reducing exploitation by businessmen. But they do not explain why a seller's offer to cooperate by reducing his price is immoral when the seller is a seller of labor. They do not explain their system of morality, which labels a price-competitive offer to cooperate as immoral.

C. Pencil

If a pencil manufacturer wishes to sell more pencils, he must find a way to persuade buyers why they should buy more pencils from him. Maybe he can persuade them to switch from a competitor and buy from him. Maybe he can persuade them to buy more pencils because there are more ways to use them, and therefore more ways to wear them out sooner than they had previously experienced. How can he do this? He can reduce retail prices. He can reduce wholesale prices, thereby encouraging retailers to stock more of his pencils than a competitor's pencils. He can advertise more.

What if he has found a way to cut production costs? Now he can afford to adopt a new marketing program for increasing sales. He can reduce his prices without suffering a reduction in net revenues. But if he does this, his competitors will try to find out why he can do this. If his innovation can be imitated, then the competition will get more rigorous. Other companies will cut their prices, too. Consumers will benefit, but the innovator will find that his pre-imitation profit margins have disappeared. This is the auction

process in action. It benefits consumers in the long run. It benefits innovators in the short run. Why is this immoral?

We have seen this process of innovation and price competition in action in the pencil industry ever since the late sixteenth century. The pencil today is so inexpensive that it is a child's plaything. This was not the case in 1585.

Conclusion

Every auction relies on this pricing principle: high bid wins. There are few critics of auctions. We are not told that the principle of high bid wins is inherently immoral. One reason why we do not hear critics of auctions is because they cannot find plausible reasons why high bid wins is immoral.

An auction is a rare event in most communities. There are specialty auctions, such as used car auctions for used car dealers. There are livestock auctions. But most auctions offer used goods. A company goes bankrupt. Its equipment is auctioned off. Someone dies, and the estate holds an auction. Auctions are for goods that are peripheral to the economy.

The public does not perceive that the free market is a gigantic auction. People do not make the connection. So, when a critic of some offer to cooperate brings his criticism before the public, he invokes the language of Karl Marx, the co-founder of Communism. He identifies one of the parties to an exchange as an exploiter. Not both. Just one. But it takes two parties to make an exchange. Both parties want a better deal. Both parties would prefer more to less. Both parties are owners. If asked, both parties would say this: "Am I not allowed to do what I choose with what belongs to me?" They are not asked. They are not allowed this right of choice. They are not free to choose.

The auction process is as morally legitimate in a factory as it is in a weekend flea market. The distribution principle of high bid wins is as legitimate in a labor market as it is in an estate sale. The principle of high bid wins is the principle of ownership. It is the principle of disownership. It is the principle of allowing anyone to make an offer to buy someone else's cooperation. A buyer makes this offer because he is also a seller, and vice versa. In any exchange, each party gives up something (seller) in order to obtain something (buyer).

The moral alternative to the auction process of pricing is state coercion of pricing. This prohibits voluntary exchange. It reduces personal responsibility of buyers and sellers. In what way? Because it places legal restrictions

on the right of owners to disown their property.

The Christian should have confidence in the morality of the auction process. The market is not an agency of exploitation. It is an agency of cooperation.

27

PROFIT

“For it will be like a man going on a journey, who called his servants and entrusted to them his property. To one he gave five talents, to another two, to another one, to each according to his ability. Then he went away. He who had received the five talents went at once and traded with them, and he made five talents more. So also he who had the two talents made two talents more. But he who had received the one talent went and dug in the ground and hid his master’s money. Now after a long time the master of those servants came and settled accounts with them. And he who had received the five talents came forward, bringing five talents more, saying, ‘Master, you delivered to me five talents; here, I have made five talents more.’ His master said to him, ‘Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master.’ And he also who had the two talents came forward, saying, ‘Master, you delivered to me two talents; here, I have made two talents more.’ His master said to him, ‘Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master’” (Matthew 25: 14–23).

Analysis

Point four of the biblical covenant is sanctions. It asks: “What do I get if I obey? Disobey?”

The free market rests on a legal system that reflects God’s delegated ownership rights to individuals, families, and other institutions. This is a system of delegated responsibility: a stewardship program. *Ownership establishes responsibility.*

This parable is about personal responsibility. It is therefore about personal motivation. It is about economic sanctions: positive and negative. It

rests on an assumption: *seeking a profit is morally mandatory*. As a goal, this is not an option. The fate of the third servant makes this clear.

“He also who had received the one talent came forward, saying, ‘Master, I knew you to be a hard man, reaping where you did not sow, and gathering where you scattered no seed, so I was afraid, and I went and hid your talent in the ground. Here, you have what is yours.’ But his master answered him, ‘You wicked and slothful servant! You knew that I reap where I have not sown and gather where I scattered no seed? Then you ought to have invested my money with the bankers, and at my coming I should have received what was my own with interest. So take the talent from him and give it to him who has the ten talents. For to everyone who has will more be given, and he will have an abundance. But from the one who has not, even what he has will be taken away. And cast the worthless servant into the outer darkness. In that place there will be weeping and gnashing of teeth’” (vv. 24–30).

The first servant received a reward commensurate with his performance. He doubled what had been transferred to him as a steward. So did the second servant. He had been entrusted with less. The first steward had greater responsibility because he had been given more capital. The third steward was a failure. He returned only what had been transferred to him. The owner was adamant: the servant could at least have lent out the coin and have received it back, plus interest. But the servant was too fearful to take any positive action. It was not that he had merely made nothing. He could have made something. He was a loser. The lack of a positive rate of return proved this. It is not sufficient in God’s kingdom to “break even.”

The three servants had to deal with life’s uncertainties. No one is omniscient except God. Men should not strive for omniscience as a goal. They should strive to make better forecasts than their competitors’ forecasts. They should also strive to devise plans that are superior to their competitors’ plans. It is not sufficient to have an accurate assessment of the future. You must also design and then implement a plan to deal efficiently with your forecast. James wrote: “But be doers of the word, and not hearers only, deceiving yourselves” (James 1:22). What do I mean, “deal efficiently”? This: “Buy low. Sell high.” You must own more capital at the end of your plan than

when you began. This is the basis of economic growth. This is the biblical definition of economic success in life: not simply more consumer goods, but also more capital.

Profit stems from the accurate forecasting of the future, coupled with efficient planning. It has its origin in the lack of omniscience. No one besides God knows the future clearly. "For now we see in a mirror dimly, but then face to face. Now I know in part; then I shall know fully, even as I have been fully known" (I Corinthians 13:12). We can buy low and sell high only because we possess more accurate forecasts than our competitors. We can buy low only because they have not yet bid up the price of capital, raw materials, and labor. We will sell high only because our competitors did not enter this market. They are not bidding down retail sales prices.

The biblical doctrine of salvation is accurately called redemption. Redemption means "bought back." God's plan of salvation is this: to buy back a lost world. Covenant-keepers are supposed to gain the capital that is required to buy back the world from covenant-breakers. This is God's plan of redemption. It is His plan of conquest. It requires the moral transformation of every area of life that is presently under the bondage of sin. No area of life is exempt. Active participation in this kingdom program of redemption is a moral obligation of every covenant-keeper. To argue otherwise is to grant to Satan the legitimate authority to exercise dominion autonomously in history.

The free market's profit-and-loss system is a result of individual responsibility. The consumers possess final economic authority. This is because they possess money, which is the most marketable commodity. Everyone in business wants to sell to them. The profit-and-loss system provides consumers with their means of disciplining sellers. They reward some sellers with purchases. They penalize rival sellers by refusing to buy anything from them. The successful competitors enjoy a stream of income. If they have forecasted accurately and planned wisely, they will reap a profit. This is the meaning of "buy low and sell high."

There is a hierarchy of authority: *consumers over sellers*. This hierarchy is established by money and the exchange system. Accounting allows sellers to calculate their success in buying low and selling high. They have objective evidence of their performance.

This system favors resource conservation. How? By reducing waste. It is wasteful to buy high and sell low. Sellers who persist in doing this are systematically eliminated from the marketplace. They run out of money.

Economic analysis identifies profit as a residual that remains after all costs have been paid. This includes the value of the managers' time: alternative income that managers must forego. This residual remains only until rival entrepreneurs identify the source of this profit, and then copy it. This residual is inherently temporary. It succumbs to competition.

The entrepreneur must be alert to possible losses. Jesus taught this clearly.

"For which of you, desiring to build a tower, does not first sit down and count the cost, whether he has enough to complete it? Otherwise, when he has laid a foundation and is not able to finish, all who see it begin to mock him, saying, 'This man began to build and was not able to finish.' Or what king, going out to encounter another king in war, will not sit down first and deliberate whether he is able with ten thousand to meet him who comes against him with twenty thousand? And if not, while the other is yet a great way off, he sends a delegation and asks for terms of peace" (Luke 14:28–32).

The fear of loss is a major inhibitor, as we see in the parable of the talents. One man buried his coin. But he failed to calculate accurately the response of the owner. The owner was not content with zero profit. He wanted a positive rate of return on his money. A banker could have provided this. This parable clearly establishes the moral authority of banking and interest. The church refused to acknowledge this for almost 1500 years. This was major restraint on economic growth.

The profit system is seen by socialists and social gospel welfare statistes as a system of exploitation. They do not understand either the origin or the role of the profit system.

Entrepreneurs guide the production system as owners, but only on this basis: to satisfy buyers sufficiently to persuade them to hand over their money in the quantity that entrepreneurs expected. This is not exploitation. This is voluntary exchange. Voluntary exchange is the outcome of ownership: the legal right to disown property.

The profit-and-loss system is grounded morally in property rights, which in turn are grounded on God's system of authority. Men are morally responsible to God for the use of the assets that God has transferred to them in history. This system of responsibility pervades the capitalist system.

A. Buyer

A buyer is responsible to God for the use of God's money. This money is God's delegated wealth. James wrote: "Every good gift and every perfect gift is from above, coming down from the Father of lights, with whom there is no variation or shadow due to change" (James 1:17).

Grace precedes law.

In the administration of his money, the buyer, just like the seller, reaps either profit or loss. He faces an uncertain future. He does not know for sure what is coming. So, he accumulates money as a way to shield himself from the uncertainties of life. Money is the most marketable commodity. It offers the widest range of purchases. If the buyer makes a mistake in forecasting or planning, he has money in reserve. He can smooth over the jarring disruptions of life. He can buy his way out of at least some of his problems.

Money makes him less of an entrepreneur than a seller is. He can sit tight if he has money. This is what the poor steward did with the coin. He buried it. He put it to no productive use, other than to shield himself from loss. But that was not good enough for God.

Then what can a buyer do with his money that will be productive? He can buy capital goods. He can use these goods to reduce uncertainty for others. He can switch from being a buyer of consumer goods to being a buyer of capital goods. He can switch to becoming a seller or renter of capital.

But what about his role as a buyer? He can still become a careful shopper. He does not waste his money. This way, he sets aside money to be used as capital. The more future-oriented he is, the more concern he will have about accumulating capital, especially appreciating capital. The lure of becoming an investor is supposed to increase as he becomes richer. Why? Because with each increase of income, he satisfies goals that were less high on his scale of values. But this assumes that his tastes do not change. The problem for economic theory is this: *men's tastes change as they get richer*. In short, other things do not remain equal. Buyers replace a desire of low-cost consumer goods for higher-cost goods. They get on the treadmill of consumption. Their criteria of satisfaction ratchet upward. The increased wealth that they had thought would satisfy them no longer does.

Here is where morality becomes crucial. Does a man use his wealth to satisfy God or himself? Does he worship God or mammon (Luke 16:13)? The secular economist refuses to say that one or another desire is immoral. He

attempts to adhere to his assumption of value neutrality. But God does not honor the principle of value neutrality. “But those who desire to be rich fall into temptation, into a snare, into many senseless and harmful desires that plunge people into ruin and destruction. For the love of money is a root of all kinds of evils. It is through this craving that some have wandered away from the faith and pierced themselves with many pangs” (I Timothy 6:9–10). The moral decision of spending vs. saving vs. giving is inescapable. Greater wealth increases the degree of personal responsibility. This is a benefit of the free market. It makes it more difficult for people to evade responsibility.

B. Seller

A seller possesses money capital. He uses this capital to buy production goods and services. He moves from money to goods. Why? Because he believes that he possesses advantages over other producers. He thinks he can buy lower and thereby make a profit. He makes himself more vulnerable to unexpected economic changes than someone who owns money. This is what the poor steward refused to do. But God’s system of economic authority is structured to penalize this attitude. God requires His people to show an increase.

The seller must please future buyers. He must serve them faithfully. If he refuses, or if he serves ineffectively, he will lose his a portion of investment, and perhaps all of it. He will suffer losses. If he goes bankrupt, his capital will be bought by more effective sellers. He bought high. He will be forced to sell low.

There is nothing immoral about a buyer who decides that he prefers the services of one seller over another. The seller has no legitimate complaint regarding buyers’ decisions to buy from a competitor. The seller is unhappy. He wishes that buyers had bought his product. He wishes that had foreseen this result of his efforts to buy low and sell high. But on what moral basis can he legitimately complain that buyers made this decision? If the decisions of buyers were not coerced, then the buyers’ decisions to buy from a competitor are morally legitimate. There is nothing immoral about an institutional arrangement that transfers final economic authority to buyers with money gained lawfully.

Sellers who failed to meet customers’ demand often collude with other frustrated sellers to persuade politicians to pass laws that restrict access to the market by price-competitive sellers. This is done in the name of protect-

ing buyers from unscrupulous sellers. The colluding sellers never come to the politicians in the name of restricting access to a market by highly efficient sellers who meet customer demand more profitably. Instead, they invoke a higher morality. But this morality always leads to a conclusion: restrict competition by threatening negative legal sanctions.

C. Pencil

A pencil is an ancient technology. While there are no doubt improvements from time to time, most buyers are unaware of these. The pencil looks about the same and works the same as 14 billion other pencils made every year. There is no strong name identification enjoyed by any manufacturer. There is little brand loyalty.

This means that opportunities for above-average rates of return are few and far between. The technology is old. The equipment used to produce pencils is old. It does not pay manufacturers to spend money on innovative manufacturing techniques. They do not expect to reap profits consistent with expensive capital investment. They limit their commitment to familiar expenditures because they do not expect consumers to reward them with increased purchases in response to innovation.

No one complains about exploitation by pencil manufacturers. A pencil is not seen as cutting-edge technology. The safety of the nation is not involved. Neither are the unemployment statistics if this industry should falter in innovation. A pencil is out of sight, out of mind. So is the industry that produces pencils.

No one would begin a moral critique of the capitalist system with a chapter on pencil production and distribution. The industry is not regarded by capitalism's critics as representative of capitalism. Yet it is. That is why Leonard Read's essay has been so successful over the years. It lays out clearly the system of economic coordination that makes possible a pencil. But Read did not discuss the profit-and-loss system in his essay. He did not explain the so-called miracle. The average voter does not understand it, nor could he explain it if asked to do so.

Could you? I hope so.

Conclusion

The parable of the talents is clear. God commands His people to make a profit. They are supposed to produce a positive rate of return in the broadest

sense. God has provided them with capital. It is not sufficient for them to return this capital and no more at their deaths. God expects more from them. They are supposed to buy low and sell high. They are to accumulate capital.

God does not tell His people to accumulate toys. He tells them to accumulate capital. This means that they must be thrifty. They must budget carefully. They must see to it that they spend less than they bring in. But that is not sufficient. They are to generate a positive rate of return on whatever capital they have accumulated. Their productivity must increase through greater service. This will increase their income. They must also become better investors.

It is clear from this parable and the parallel parable in Luke that profitability in the broadest sense is mandated by God. This is not optional. Why would God use market profitability as His model for the kingdom of God if there were some moral flaw in the market system? Free market profitability is based on private ownership, long-term planning, ethical performance, profit-and-loss accounting techniques, and future-orientation. The parable of the talents makes no sense on any other set of assumptions.

28

CAPITAL

A good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous (Proverbs 13:22).

Analysis

Point five of the biblical covenant is succession. It asks: “Does this outfit have a future?” Capital is part of succession.

This verse is clear: a good man leaves an inheritance to his grandchildren. We are not told how a good man is supposed to accumulate capital in order to leave it to his grandchildren, but there is no question that this is a moral responsibility. We must therefore begin any discussion of capital with a moral premise: *Christian economics is not value-free economics.*

In an economy in which there is exclusive state ownership of capital, meaning the tools of production, there is no way that a man can accumulate capital to leave to his grandchildren. He cannot legally own capital. He surely cannot bequeath what he does not own. This verse is therefore a powerful denial of all forms of socialism. This is not apparent on the initial reading, but the conclusion is inescapable. There is no possibility under socialism of an inter-generational transfer of wealth within a family. Capital is not owned by families. It is owned by the state.

Therefore, a good man cannot fulfill his responsibilities to God and to his heirs under socialism. This leads to an inescapable theological conclusion. *Socialism is inherently immoral.*

The focus of this verse is inheritable wealth. Wealth can come in many forms. It can be in the form of consumer goods. They can be sold for money. They can also free up money for investing, since the heir will not have to spend money to buy something equivalent. In most cases, however, inheritable wealth is in the form of either money or readily marketable assets.

This verse deals with family wealth. The section of Deuteronomy 28 that deals with positive national sanctions includes capital in the form of lending, i.e., money.

The Lord will open to you his good treasury, the heavens, to give the rain to your land in its season and to bless all the work of your hands. And you shall lend to many nations, but you shall not borrow. And the Lord will make you the head and not the tail, and you shall only go up and not down, if you obey the commandments of the Lord your God, which I command you today, being careful to do them (vv. 12–13).

This indicates that capital owned by individuals, families, and businesses can be used to lend abroad. This is international capital. By accumulating capital, individuals and organizations can extend the kingdom of God. This is done through lending. These are covenantal promises.

They had to do with Israel as a holy nation. There is no biblical reason to assume that these promises ended with the replacement of the Mosaic covenant with Christ's covenant. It takes capital to extend any kingdom.

To accumulate capital, people must be future-oriented. They forego the benefits of present consumption in order to accumulate capital. This capital can be used for consumption in the future. It can be given away. It can be used to fund projects that require money either to get started or to expand operations. It takes either money or tools of production to implement entrepreneurial ideas regarding future consumer demand. Without capital, there will be no innovation. These are the only sources of capital for businesses: (1) savings of the person starting the business, (2) savings of others who receive either shares of ownership or promises to pay, (3) an advance of money by consumers. The best example of case number three is a subscriber who sends money for a subscription. This is a loan that will be paid off by fulfilling the subscription.

Capital in the form of money allows a business to increase production. This is accomplished through the purchase of capital goods, labor services, and raw materials. This increases the division of labor, which in turn increases output. Increased output of goods that are purchased by customers increases per capita wealth. This is why individual investing for the sake of personal gain benefits the overall economy. It is the same as people bringing more goods to sell at an auction. The people bidding money to buy things are benefitted: a greater number of choices.

Jesus used agricultural parables to describe the kingdom of God. Here is one. It appears in the most important section of the parables of the kingdom.

That same day Jesus went out of the house and sat beside the sea. And great crowds gathered about him, so that he got into a boat and sat down. And the whole crowd stood on the beach. And he told them many things in parables, saying: "A sower went out to sow. And as he sowed, some seeds fell along the path, and the birds came and devoured them. Other seeds fell on rocky ground, where they did not have much soil, and immediately they sprang up, since they had no depth of soil, but when the sun rose they were scorched. And since they had no root, they withered away. Other seeds fell among thorns, and the thorns grew up and choked them. Other seeds fell on good soil and produced grain, some a hundredfold, some sixty, some thirty. He who has ears, let him hear" (Matthew 13:1–9).

The sower sacrifices present consumption for future income. There is great uncertainty about his investment of seeds. The soils are very different in their productivity, but the sower does not know which ones are truly productive. *There can be no expansion without sowing.*

There must be an investment of capital and time. There is hope of a huge return, but there is no guarantee.

It is the dream of covenant-breakers to have easy returns.

The dogs have a mighty appetite; they never have enough. But they are shepherds who have no understanding; they have all turned to their own way, each to his own gain, one and all. "Come," they say, "let me get wine; let us fill ourselves with strong drink; and tomorrow will be like this day, great beyond measure" (Isaiah 56:11–12).

This dream is futile, Isaiah warned. The biblical basis of getting rich is righteous behavior, hard work, wise investing, reinvested profits, and limited consumption. Extensive alcohol consumption is not the biblical pathway to wealth.

The pursuit of wealth for wealth's sake is also futile, Jesus taught.

And he told them a parable, saying, "The land of a rich man produced plentifully, and he thought to himself, 'What shall I do, for I have nowhere to store my crops?' And he said, 'I will do this: I will

tear down my barns and build larger ones, and there I will store all my grain and my goods. And I will say to my soul, "Soul, you have ample goods laid up for many years; relax, eat, drink, be merry." But God said to him, 'Fool! This night your soul is required of you, and the things you have prepared, whose will they be?' So is the one who lays up treasure for himself and is not rich toward God" (Luke 12:16–21).

The man in this parable owned enormous capital reserves. He owned grain and barns. He expected to harvest even more grain. He thought he needed more barns. But he ran out of time unexpectedly. He did not understand this: men cannot serve both God and mammon (Luke 16:13). But this is not an argument against planting grain and building barns. Jesus did not criticize his planting and harvesting. He did not criticize the free market in grains, or the hope of profits, or increased output per unit of resource input, i.e., reduced waste. He criticized only the entrepreneur's attitude of autonomy: "Soul, you have ample goods laid up for many years; relax, eat, drink, be merry." Moses had warned the generation of the conquest about this attitude.

Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day (Deuteronomy 8:17–18).

Increased output increases buyers' wealth: a wide range of choices. It helps to reduce poverty. Labor productivity rises because capital makes available better tools of production. Masses of people can attain greater comfort. But there are no free lunches in life. These benefits must be paid for. Someone must put up the money that will enable businesses to increase output. Someone must forego present consumption for the hope of greater wealth in the future. The free market makes this possible. No institutional arrangement has been more successful in reducing poverty. Why should anyone criticize it as immoral? On what basis? Surely not in terms of its economic result: compound economic growth after 1800.

A. Buyer

A buyer has money. He can buy anything offered for sale. He can buy consumer goods and services. He can buy capital goods. He can lend money to entrepreneurs who will buy capital goods. He can give money away. These are capital-allocation decisions. Someone must make them. In the free market social order, the person who makes these decisions is the owner of money. Personal responsibility is legally attached to ownership. This is true of the Bible's legal code. It is also generally true in every free market order.

The buyer must decide: consume now or invest. If he invests, he foregoes present consumption. This reduces demand for the goods he would otherwise buy and consume. This benefits businessmen who will take his money and hire workers, buy raw materials, rent space, and rent or purchase capital equipment. Prices do not rise because of the money spent by the business. Why not? Because the investor has foregone consumption.

The investor acts to improve his future economic condition. He is self-interested. Yet his self-interest makes possible added production. The customers of the business that uses his money to increase production are beneficiaries of this voluntary arrangement. No one is coerced.

Everyone believes that each exchange that he is involved in will make him better off. This may not always be the case. People make mistakes. Some transactions will produce losses. But the liberty to make mistakes is basic to liberty. The biblical legal order connects ownership and responsibility. He who owns money and invests it wisely, thereby benefitting customers, deserves the benefits of this decision.

So, a man can use his money to become a consumer, or he can become an investor. If he does the latter, he moves from being a present consumer to being a future consumer. He aids the seller to do his work more profitably. He will share in the benefits if he becomes a co-owner, and the venture is profitable.

The buyer foregoes being a buyer of consumer goods in order to become a co-owner of production goods if he invests as a shareholder. He can also choose to lend the money at a fixed rate of interest. The point is this: the buyer decides not to be a final consumer for a period of time.

If he wants to increase the inheritance he leaves to his grandchildren, he must forego present consumption. He may not invest wisely, but without

investing, he cannot attain the goal specified as mandatory by the author of Proverbs. It is a righteous goal. For a time, he must help fund the business community by providing money for capital creation.

B. Seller

What does the seller sell? He wants to sell to a customer. He wants money in exchange for specialized output. He wants to buy low and sell high.

In order to do this, he must become a buyer. He must buy raw materials, labor services, work space, tools of production, and above all, accurate information. Without these valuable assets, he will not be able to enter future retail markets with something to sell.

In order to become an investor, a buyer must temporarily defer consumption. He must hand over money to sellers for a time. In contrast, sellers, in order to become future consumers, must first become buyers of factors of production.

The producer of future goods and services must become future-oriented. He understands that future returns must offer hope that the return on investment will be positive. Present goods are safer than future goods. In order to persuade investors to turn over their money to producers, the producers must offer larger future returns. The man with money will apply a discount to future returns. They are not worth as much as guaranteed wealth today. Future goods sell at a discount to identical present goods.

The entrepreneur thinks that certain resources are underpriced. He buys them. This benefits resource sellers who would not otherwise have made a sale at that price. If the entrepreneur is correct about future prices and demand, he will make a profit when he sells. Then he will return and buy more goods and services from resource sellers. Other entrepreneurs will imitate him. Thus, increasingly accurate information spreads through the society about the true conditions of supply and demand. Resources will be priced more accurately. *Accurate information is not a free resource.* Someone has to pay for it.

Accurate information is decentralized and individual. The biblical system of private property makes it possible for sellers to buy the information they need in order to become and remain profitable. They build up capital by reinvesting their profits. This is positive for society. Those sellers who are most effective in meeting customer demand accumulate more capital. Wise investors are rewarded. This makes capital more productive.

But what happens when a wise investor dies? He passes the fruits of his wisdom to his heirs. This capitalizes them. They may be unwise owners. Solomon warned about this. "I hated all my toil in which I toil under the sun, seeing that I must leave it to the man who will come after me, and who knows whether he will be wise or a fool? Yet he will be master of all for which I toiled and used my wisdom under the sun. This also is vanity" (Ecclesiastes 2:18–19). This is an incentive for successful men to train their children. But grandchildren are two generations removed. He has limited influence in their lives. He has few opportunities to teach them economic wisdom. So, great fortunes get dissipated. This pattern is familiar: rags to riches to rags in three generations.

C. Pencil

Pencil makers have devoted years to studying the manufacture of pencils and their marketing. The capital is in the buildings and equipment that produce pencils. Another form of capital is information. This may be the most valuable capital of all.

The industry does not change much, decade to decade. A pencil sold today looks like a pencil sold half a century ago. It has the same features. It operates the same way. A pencil is sharpened in a classroom on a pencil sharpener that is ancient. Students sharpen pencils the same way that their grandparents did.

The value of the information has not changed over the years. It still keeps out competitors, but competitors are not lured into the market by high profits enjoyed by existing sellers. There is an inheritance of ownership from generation to generation, but profits are conventional.

No one is exploited. Everything is voluntary. Techniques are handed down from generation to generation: techniques for using pencils, and techniques for manufacturing and marketing them. There is continuity in this market. Few industries have greater continuity.

Conclusion

The morality of inheritance was proclaimed by Solomon over three millennia ago. The Bible's legal enforcement of private property was part of the inheritance of Mosaic Israel. This system of ownership was the inheritance of Israel. But the most valuable capital asset in Mosaic Israel was knowledge of biblical law.

You shall therefore lay up these words of mine in your heart and in your soul, and you shall bind them as a sign on your hand, and they shall be as frontlets between your eyes. You shall teach them to your children, talking of them when you are sitting in your house, and when you are walking by the way, and when you lie down, and when you rise. You shall write them on the doorposts of your house and on your gates, that your days and the days of your children may be multiplied in the land that the Lord swore to your fathers to give them, as long as the heavens are above the earth (Deuteronomy 11:18–21).

There would be an increase in biblical wisdom in Israel, generation by generation, as the sons became more skilled in interpreting and applying the Mosaic law to their circumstances.

They would then teach their sons. This would result in economic growth and prosperity (Deuteronomy 28:1–14). But there had to be continuity. There had to be a systematic effort of the people to teach their children the rules of success: biblical laws. This inheritance could be dissipated by covenant breaking by a single generation. This was the story of Israel under the Mosaic covenant, which led to captivity under Assyria and Babylon. Israelites lost their judicial independence. It was never restored after the return from captivity.

CONCLUSION TO PART 2

Whoever is not with me is against me, and whoever does not gather with me scatters (Matthew 12:30).

There is no neutrality. Neutrality is a myth. This myth comforts covenant-breakers who imagine that they can accurately discuss anything without reference to God, Christ, and the kingdoms of God and man. They have created a gigantic educational system in terms of this myth. Then they forbid any reference to the Bible as in any way authoritative for any academic discussion.

There is no such thing as value-free economic theory. There is also no such thing as value-free economic decision-making. Everything that happens in history happens only in terms of God's decree and also His interpretation of both His decree and historical causation. The world is connected covenantally. This includes the world of academic interpretation.

The free market is a gigantic auction. It is a series of simultaneous auctions. The morality of a local auction is the same as the morality of the free market. The rule governing the local auction is this: high bid wins. This is also the rule governing the free market. The person who insists that the auction process is inherently immoral needs to apply his moral assumptions to the local auction. There should be consistency. If he has no moral criticism of a local auction, then he should explain the existence of a moral disparity between a local auction and the international auction of the free market. If he cannot do this, or else chooses not to, then you may safely dismiss his criticism of the free market. He has not thought through the details and implications of his moral system.

To understand the market process accurately, you must have some understanding of the biblical covenant. Humanistic economists do not understand the Bible or the covenant's five-point structure. They are unable to respond effectively to critics of the free market who argue that the market's system of distribution is immoral. Humanistic economists cling to the myth of neutrality. They are unable to justify the free market morally. They instead invoke economic efficiency. They argue that the critics of the free market do not occupy the high moral ground, not because they offer

illogical arguments, but because there is no moral ground in economic analysis. That is because economic theory is all value neutral, they insist. This argument has persuaded few people who did not major in economics in college.

Then what about civil government? What role should it play in economic affairs? This is the topic of Part 3.

Part 3

PROTECTING THE AUCTION

INTRODUCTION TO PART 3

Moses chose able men out of all Israel and made them heads over the people, chiefs of thousands, of hundreds, of fifties, and of tens. And they judged the people at all times. Any hard case they brought to Moses, but any small matter they decided themselves (Exodus 18:25–26).

Let every person be subject to the governing authorities. For there is no authority except from God, and those that exist have been instituted by God. Therefore whoever resists the authorities resists what God has appointed, and those who resist will incur judgment. For rulers are not a terror to good conduct, but to bad. Would you have no fear of the one who is in authority? Then do what is good, and you will receive his approval, for he is God's servant for your good. But if you do wrong, be afraid, for he does not bear the sword in vain. For he is the servant of God, an avenger who carries out God's wrath on the wrongdoer. Therefore one must be in subjection, not only to avoid God's wrath but also for the sake of conscience. For because of this you also pay taxes, for the authorities are ministers of God, attending to this very thing. Pay to all what is owed to them: taxes to whom taxes are owed, revenue to whom revenue is owed, respect to whom respect is owed, honor to whom honor is owed (Romans 13:1–7).

The Bible mandates civil government. It categorically denies the legitimacy of the idea of a society without civil government. Throughout the history of Christianity, all ecclesiastical traditions have asserted the legitimacy of the state. There are no exceptions.

Paul went so far as to mandate that churches pray for civil rulers. “First of all, then, I urge that supplications, prayers, intercessions, and thanksgivings be made for all people, for kings and all who are in high positions, that we may lead a peaceful and quiet life, godly and dignified in every way” (I Timothy 2:1–2). If civil government were illegitimate, Paul would not have

commanded such a thing. He did not say to pray for leaders of gangs or criminal syndicates.

This raises a practical problem. There is no such thing as a free lunch. So, how are the legitimate services of the state to be paid for?

Second, there is a theoretical problem. Which services of the state are legitimate, and which are not? In Part 3, I deal with legitimate services. In Part 4, I deal with illegitimate ones.

Biblical social theory rests on this presupposition: God has delegated limited sovereignty to men and women. This is the teaching of the dominion covenant (Genesis 1:26–28). These are four other covenants: individual, family, church, and state. Each requires support: confessional and economic.

The free market is not created by an oath-bound covenant before God. It is contractual, not covenantal. It is an institutional extension primarily of families, although unmarried individuals also participate. The point is, the free market is not autonomous. Nothing is autonomous except God, but I am speaking about its judicial status. It is not established directly under God. It is derivative.

As an institution that is judicially subordinate to individuals and families, it requires protection from violent men and thieves. Individuals and families also deserve protection. This is the judicial function of the state, as we seen in both the Old Testament and the New Testament.

Paul said churches must pray for rulers in order to obtain peace. Providing peace is the state's primary function. Some institution will always provide peace. The family is not the primary agency of enforcing peace. Families sometimes conflict with each other. The feud is the traditional sign of families in conflict. The clan war is an extension of the feud.

Then there are gangs. They provide a kind of peace through obedience. But gang wars are common. Beyond the gang is the warlord. He offers a kind of state. But an oath to the warlord is personal. It ends with his death. Then who will inherit? A struggle for power ensues. Perhaps a war between factions will settle this. If there is a system of succession, then the warlord's army becomes the state.

In short, the state is an inescapable concept. It is never a question of state vs. no state. It is always a question of which kind of state.

The necessary functions of the state in providing protection of life and property are far more predictable than the same function provided by the

gang or the warlord society. Because there is greater predictability, there is greater peace. There is greater self-government.

In Part 3, I survey three elements of state protection: justice, national defense, and taxation.

29

JUSTICE

You shall do no injustice in court. You shall not be partial to the poor or defer to the great, but in righteousness shall you judge your neighbor (Leviticus 19:15).

Analysis

Point four of the biblical covenant is sanctions. It asks: "What do I get if I obey? Disobey?"

This law is a specific application of one of the laws of Passover: "There shall be one law for the native and for the stranger who sojourns among you" (Exodus 12:49). These two verses are the biblical foundation of the principle of the rule of law. Hebrew or gentile, rich or poor, there was to be one civil law-order. This was crucial in the Mosaic law's concept of justice. No one was exempt from the rule of law.

The Mosaic law was authoritative in pre-exilic Israel. The law was enforced by civil courts. These courts had to contain Levites and civil rulers. There was no separation of church and state in the civil court system. Levites were citizens as members of a tribe. They were the also teachers of the Mosaic law: specialists.

If any case arises requiring decision between one kind of homicide and another, one kind of legal right and another, or one kind of assault and another, any case within your towns that is too difficult for you, then you shall arise and go up to the place that the Lord your God will choose. And you shall come to the Levitical priests and to the judge who is in office in those days, and you shall consult them, and they shall declare to you the decision. Then you shall do according to what they declare to you from that place that the Lord will choose. And you shall be careful to do according to all that they direct you. According to the instructions that

they give you, and according to the decision which they pronounce to you, you shall do. You shall not turn aside from the verdict that they declare to you, either to the right hand or to the left. The man who acts presumptuously by not obeying the priest who stands to minister there before the Lord your God, or the judge, that man shall die. So you shall purge the evil from Israel. And all the people shall hear and fear and not act presumptuously again (Deuteronomy 17:8–13).

Civil courts were required by God to bring negative sanctions against convicted law-breakers. The whole nation was to understand the law. No one could legitimately claim ignorance of the law. Civil rulers were not legislators. They were judges. They could not legally multiply laws. The law code was short enough to be read to all the people every seventh year. God had declared it. The judges enforced it.

Then Moses wrote this law and gave it to the priests, the sons of Levi, who carried the ark of the covenant of the Lord, and to all the elders of Israel. And Moses commanded them, “At the end of every seven years, at the set time in the year of release, at the Feast of Booths, when all Israel comes to appear before the Lord your God at the place that he will choose, you shall read this law before all Israel in their hearing. Assemble the people, men, women, and little ones, and the sojourner within your towns, that they may hear and learn to fear the Lord your God, and be careful to do all the words of this law, and that their children, who have not known it, may hear and learn to fear the Lord your God, as long as you live in the land that you are going over the Jordan to possess” (Deuteronomy 31:9–13).

The people of Israel were supposed to fear God and the negative sanctions of God’s Bible-revealed law in history. There was no concept of natural law in Mosaic Israel or anywhere else in Moses’ day. The idea of a universal natural law-order that supposedly can be discovered by all rational minds was an invention of Roman Stoic philosophers over a century after Rome defeated the remnants of Alexander’s empire. The Greek city states were gone. They had rested on local gods and rituals. Alexander’s empire had

absorbed them. Greece was polytheistic. The civic gods were local. They had been defeated by the empire. Rome had the same problem: an empire based on local gods that had lost to the gods of the city of Rome. Roman legal philosophers invented natural law theory as a way to justify the legitimacy of Rome's empire. This began about 150 years before the birth of Jesus. In Mosaic Israel, there was no theory that a universal civil law could be intuited or discovered by the common man or anyone else. The people had to hear the Bible-revealed laws of God.

God's law made it clear that there were covenantal institutions above the individual and the family: church and state. The individual is not autonomous. The economy is not autonomous. The Bible established a principle: *theonomy, not autonomy*. This was the legal foundation of self-government. It was self-government under biblical law. It was self-government under a chain of command: *a bottom-up civil appeals court system*. This hierarchical civil appeals court system was imposed by Moses in response to advice from his father-in-law (Exodus 18).

Christian economics cannot be based on the idea of an autonomous free market. Paul made this clear. The civil magistrate is a God-ordained minister.

Let every person be subject to the governing authorities. For there is no authority except from God, and those that exist have been instituted by God. Therefore whoever resists the authorities resists what God has appointed, and those who resist will incur judgment. For rulers are not a terror to good conduct, but to bad. Would you have no fear of the one who is in authority? Then do what is good, and you will receive his approval, for he is God's servant for your good. But if you do wrong, be afraid, for he does not bear the sword in vain. For he is the servant of God, an avenger who carries out God's wrath on the wrongdoer. Therefore one must be in subjection, not only to avoid God's wrath but also for the sake of conscience. For because of this you also pay taxes, for the authorities are ministers of God, attending to this very thing. Pay to all what is owed to them: taxes to whom taxes are owed, revenue to whom revenue is owed, respect to whom respect is owed, honor to whom honor is owed (Romans 13:1–7).

Every society needs and wants peace. Paul wrote: "First of all, then, I urge that supplications, prayers, intercessions, and thanksgivings be made for all people, for kings and all who are in high positions, that we may lead a peaceful and quiet life, godly and dignified in every way" (I Timothy 2:1–2). Peace reduces the costs of defending private property. This is a great benefit for society and also the individuals who make up the society.

To gain and sustain peace, there must be civil government. Civil government is an inescapable concept. It is a God-ordained institution. It is supposed to be a terror to evil men. Without civil government, gangs would rule. These are criminal brotherhoods bound by blood oaths. The economic principle of the division of labor applies to the realm of violence. There is specialization. Some men are specialists in violent crime and extortion. They do not honor the libertarian's principle: "Do not initiate violence." They constantly violate it or else threaten to. If there is little or no resistance, they violate the principle with impunity. The cost of imposing violence falls. So, more of it is demanded. The gang leader may become a warlord. He extorts money from the masses, who have no official authority. *The warlord society is not a free society.* The ruler is not limited by civil law. His word is law.

The answer to the warlord society is biblical civil government in which representatives of the people participate in law making and law enforcement. A civil government answers to the people. The people therefore have some say in the selection of rulers and the laws they impose. There is no such representation with a gang or a criminal syndicate. The legal system is *endogenous*: laws generated from within the government. It is not *exogenous*: laws imposed by a judicially independent agent, not ordained, e.g., a warlord or a gang leader.

People in a biblical commonwealth are responsible for the actions of their rulers, civil and ecclesiastical. This is made clear in Leviticus 4, where the congregation offers sacrifices for the sins of their rulers. The people and their rulers are bound by oath and law in twin covenants: church and state. This is the judicial setting of the market. The market is sustained by this covenantal arrangement.

The state protects citizens and residents from private violence. This service must be paid for through taxation. There are no free lunches. The level of taxation must be predictable. In a free society, those who pay taxes have authority in establishing taxes judicially. The alternative to this system is private "protection": regular payments to a gang or a criminal syndicate

which promises to protect people from rival secret societies. Anyone who refuses to pay faces negative sanctions from the criminal syndicate. The common man has no voice in such a hierarchy. This is why the state is a blessing, not a curse. *Taxation is an inescapable concept.* It is never a question of taxation vs. no taxation. It is always a question of taxes paid to which organization: state or gang. The state is not an oath-bound gang. It is an oath-bound ministry authorized by God.

The auction is never autonomous. It is always operating under the protection of civil government. The costs of defending the auction from predators is borne by the taxpayers. So, any analysis that deals with the auction as a self-sustaining arrangement among participants is incomplete and therefore erroneous.

A. Buyer

A buyer must get to and from the auction in peace. He wants safety from predators on the highways and byways of life. He wants to enjoy either his money or whatever his money can buy at the auction. The auction is better attended because the participants are protected. The costs of protection are not borne by either the buyers or the sellers. This means that there will be more auctions. He will have additional opportunities to buy the things he is interested in buying.

A buyer also wants assurance that whatever he purchases at the auction will remain his after he pays for it. He forfeits his money for the sake of ownership. He therefore wants security of ownership. The auctioneer cannot guarantee this. He will not pay for this. At best, he can provide evidence of original ownership, which is transferred to the highest bidder. The auction process is therefore sustained by law-enforcement agencies that are not economically or legally connected to the auctions. This is true of every business, every nonprofit organization, and every other association. *The entire auction system rests on a system of legal predictability.* Without this support, there would be fewer auctions. There would be reduced specialization and therefore reduced production. People would be poorer.

A buyer also wants protection against government confiscation. This can only be done by gaining political influence. He seeks justice. If he thinks the government is unjust, he wants to be able to protest legally. This is why civil government involves more than protection. It also needs legitimacy. It will not gain this if it is unjust.

B. Seller

A seller also wants the protection that a buyer wants. He wants safe access to the auction and then back home. He wants to be sure that the money he receives from a buyer is not counterfeit or stolen. He wants to know that he will be allowed to keep this money. He wants protection. But he also wants justice.

As a producer, he wants to deal with other sellers in a series of exchanges. He wants protection from fraud. They also want this protection. The division of labor requires predictability of the enforcement of contracts.

The auctioneer who serves as an intermediary wants the liberty to conduct the auction on the basis of this rule: high bid wins. He wants no interference from outsiders regarding the conduct of his auction. He does not want a gang asking for protection money. He wants a strong third party to keep the business free from extortion by criminals.

C. Pencil

In the complex division of labor, there must be peace. There must also be predictability. There must be confidence that participants will fulfill their contracts. If producers must resort to threats of violence to get contracts fulfilled, the system of multiple auctions will break down. There will be fewer pencils brought to market. The auction process depends on a low level of fraud and violence. But this cannot be paid for by a myriad of companies. There are too many products to protect.

Why couldn't there be insurance companies that provide such protection? The problem is the lack of protection for the uninsured. Criminals will prey upon these people. The level of violence and insecurity will remain high. This is bad for business.

When there is minimal fraud and violence, the forces of free market competition lead to the production of more pencils, better quality pencils, and cheaper pencils. This has been the experience since the invention of the pencil in the late sixteenth century. It has been the experience of mass production ever since 1800 in the West.

Conclusion

One of the costs of production is protection from violence and fraud. A related cost of production is the provision of justice. When the public is persuaded that the law and the courts are just, they are willing to cooperate.

They use self-government to restrain their own lusts. They know the justice system may bring negative sanctions against law breakers.

For any business transaction, there may be a sales tax. But buyers and sellers do not know what percentage of sales taxes go to law enforcement related to the legal issue of ownership. In the modern welfare state, this percentage is minimal.

There is a benefit: reduced crime. But no one is sure about the expenses of crime prevention and the actual reduction of crime. How much money does the society save? No one knows. It is guesswork. Most people pay no attention to this cost-benefit analysis. So, governments get bigger and more expensive.

Because there is sharing of costs, this leads to overuse of services. If people don't pay directly for law enforcement, they will demand more of it. There will be more lawsuits. There will be more lawyers. This is sometimes called the tragedy of the commons, the title of a famous essay in 1968, written by Garrett Hardin, a biologist.

Voters are willing to live in a statistical fog about costs and benefits in order to have a sense of security. They fear violence. They fear fraud less. They want to know that there are threats to criminals that are sufficiently fearful as to reduce the crime rate.

They also want a sense of justice. They do not want to live under a court system that is perceived as no better than a gang. They want confidence that right makes might, not the other way around. They cooperate with civil governments in order to gain what they want.

The problem comes when there is no widespread agreement in a society regarding what constitutes justice. This undermines the courts. People then seek their own forms of justice, which involves imposing negative sanctions. Insecurity increases. Predictability decreases. Protection costs rise.

30

DEFENSE

The Lord spoke to Moses, saying, "Make two silver trumpets. Of hammered work you shall make them, and you shall use them for summoning the congregation and for breaking camp. And when both are blown, all the congregation shall gather themselves to you at the entrance of the tent of meeting. But if they blow only one, then the chiefs, the heads of the tribes of Israel, shall gather themselves to you (Numbers 10:1–4).

And the sons of Aaron, the priests, shall blow the trumpets. The trumpets shall be to you for a perpetual statute throughout your generations. And when you go to war in your land against the adversary who oppresses you, then you shall sound an alarm with the trumpets, that you may be remembered before the Lord your God, and you shall be saved from your enemies (Numbers 10:8–9).

Analysis

The Mosaic law made it difficult for the nation to go to war. There was no king initially. The tribal leaders had to call a war. Their decision had to be supported by the priests in order to be valid. Second, other tribes were not required by law to join the ones that wanted war. This is clear from the account of Deborah's war against the Canaanites. Some tribes refused to join her. She criticized them in her song (Judges 5:15–17). But she did not attempt to impose negative sanctions. There were none to impose. The Mosaic law was silent on this.

In addition, there were exemptions from a compulsory draft.

The officers shall say to the army: "Has anyone built a new house and not yet begun to live in it? Let him go home, or he may die in battle and someone else may begin to live in it. Has anyone planted a vineyard and not begun to enjoy it? Let him go home, or he may

die in battle and someone else enjoy it. Has anyone become pledged to a woman and not married her? Let him go home, or he may die in battle and someone else marry her." Then the officers shall add, "Is anyone afraid or fainthearted? Let him go home so that his fellow soldiers will not become disheartened too" (Deuteronomy 20:5–8).

The soldiers who went into battle were committed to the war. It had been authorized by both the civil government and the priesthood. This was not some foolhardy war started by a king on his own authority.

The biblical doctrine of war is based on the need for defense against invasion. Israel's conquest of Canaan was a one-time event. But it remained as a model for Israel. God was the defender of Israel, but only for as long as Israel remained obedient (Deuteronomy 8:19–20). He established a military chain of command. This was why He twice ordered Moses to count the number of men above age 19 (Numbers 1:45–46; 26:4). This was the age for enrollment in God's holy army (Exodus 30:12–15). Initially, this numbering was tribal: multiple chains of command in one army. This manifested the one and the many. The tribes had their own flags (Numbers 2:2).

A military chain of command was God's way to establish responsibility. With the creation of a king, Israel established a single chain of command (I Samuel 8). A chain of command is basic to national defense. Military commanders must be under political control. Rank determines the degree of authority and therefore personal liability of each member of the hierarchy. Military authority requires this sanction to be used against desertion and mutiny. This power of life and death is an aspect only of the civil covenant. No other covenantal organization possesses this sanction. No strictly contractual organization possesses it.

National defense is inherently a monopoly of civil government. Why? First, to allow profit-seeking armies, navies, and air forces to bid for market share would legalize warlords until one of them was victorious over the others. He would then set up a state. Second, profit-seeking military forces would also destroy a fundamental military strategy: concentration of force. The nation would be militarily weak and therefore less costly to conquer. "When the cost falls, more is demanded." There would be more invasions than would be the case under a single, tax-funded military. Another state would conquer. There is no way to avoid the establishment of civil government. It is an inescapable concept.

The state must fund this single chain of command. Why? Because if the free market funded the military by voluntary donations, everyone would seek to minimize his payment. Most residents would refuse to pay. They would assume that someone else would pay. Or they would think this: "Why should I pay if others don't pay?" This is the familiar theoretical problem of the *free rider*. The free rider benefits from others' expenditures while not paying for this benefit. In the area of national defense, voluntary payments would lead to a level of military funding that is less than individuals would vote for if everyone in the geographical region by law had to pay his predictable percentage.

Wars must be paid for. There are only three ways: taxation, borrowing, and central bank monetary inflation. Modern governments use all three methods. In August 1914, World War I broke out. All European nations revoked the gold coin standard by the end of the year. This enabled them to inflate their currencies to pay for war materials. This led to rising prices. Rising prices forced people whose incomes did not rise as rapidly as prices did to restrict their purchases. This was an inflation tax. This helped pay for the war.

The war consumes raw materials that would have been used to produce consumer goods. Government spending redirects production from consumer goods to war goods. Citizens can no longer purchase as many consumer goods as before. Their standard of living falls. It falls dramatically for people who are conscripted into the armed forces. They lose their freedom. Their lives are placed at risk. Even if they volunteer, they face a decline in living standards. Those who are killed experience the definitive decline in living standards.

The people who are now part of the armed forces can no longer contribute to the production of goods and services in the consumer sector of the economy. Labor services get scarce at the old prices. So, employers must raise wages to recruit replacement workers, especially women, out of their homes and into factories.

In order to conceal the effects of price inflation from the public, governments in major wars place price controls and wage controls on the economy. They also substitute ration coupons for currency. They do this to make it more difficult for rich people to buy as much as they can afford to buy with money. Politicians fear envy of the rich by the masses, whose sons have been drafted into the armed forces. "They are profiting from the war!" Envy is bad for morale, both in the armed forces and at home. Controls always dis-

rupt price signals to producers. Meanwhile, various government planning agencies issue exemptions to certain producers of war materials.

These producers are able to buy at above-market prices. This is another way to move the economy from the production of consumption goods to war goods.

The controls create illegal black markets where people can use fiat money to buy goods at prices above the official prices and also without ration coupons. The black market subsidizes exchanges based on the exchange of personal favors, which leave no traces. Favors become an unofficial currency.

Price controls generally do not apply to used goods. This is because sales are difficult to trace. Also, common people want to be able to trade what they no longer want for things they need. They think they have a right to what whatever they want with their own property. The politicians do not want to alienate these people. It would be bad for morale. The controls therefore subsidize used goods markets and specialists in these markets.

The rich buy war bonds, since they have fewer investment opportunities, and the economy offers fewer things to do with their money legally. This does not reduce the costs of the war. The war must be paid for now, with today's weapons and lives. Borrowing makes it easier to get rich people to stop spending money in the private sector. They hope to be repaid. The problem is, they will be repaid with depreciated money. So, the rich try to buy things, such as undeveloped real estate or works of art, that may appreciate along with the price inflation.

The Bible does not specify how taxes are to be collected. It does criticize monetary inflation and its effects. "Your silver has become dross, your best wine mixed with water" (Isaiah 1:22). It recognizes monetary inflation as a form of theft: tampering with the scales.

You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small. A full and fair weight you shall have, a full and fair measure you shall have, that your days may be long in the land that the Lord your God is giving you. For all who do such things, all who act dishonestly, are an abomination to the Lord your God (Deuteronomy 25:13–16).

A. Buyer

If the government is paying for the war by direct taxation, a buyer has less money to spend than he did before the war began. The government extracts money from him so that he will not be able to bid against the government in the market. The market process is allowed to function. Prices reveal accurate information about what buyers want to buy. But the government is now a major buyer.

A buyer must readjust his budget. He has less money to spend today. But it is likely that this situation will get worse if the war escalates. So, he may decide to save more money. Even better in terms of historic practices in wartime, he will go out and buy items that he knows will get scarce under wartime controls. If he acts before price controls are imposed, this is legal. He must become an entrepreneur. He must figure out which goods will get scarce or more expensive. He must factor in the possibilities of barter. He should budget in terms of this assumption: used goods will not be under the controls. In other words, he should estimate how the auction process will allocate goods under conditions of government controls.

On December 7, 1941, the Japanese Navy bombed Pearl Harbor in the Hawaiian islands. That was a Sunday. On Monday, an economically wise man would have taken a day off. He would have gone to his bank and withdrawn most of his savings. Then he would have gone out and purchased a new set of tires for his car, including inner tubes. He would have bought spark plugs. He would have bought spare parts for any piece of equipment in his business. If he was a farmer, he would have ordered a delivery of gasoline for a buried fuel tank. His wife would have purchased sugar in bulk in 25-pound sacks. Maybe she would have gone one town away, where no one knew her. She would have bought steel trash cans to put the bags of sugar into. Rats and mice were a threat. She would have bought anything that might wear out in a long war. She would have bought pairs of nylon hose by the dozens. They became great barter items. They had been on the market for less than two years. Nylon would soon be used to produce parachutes, not hose. She would have bought razor blades by the dozen. So would her husband if he did not use a straight razor. Women who ran out of blades had to use their husbands' razors.

Prices are set by competition: buyers vs. buyers. But the biggest buyer in a war is the national government. The citizen is unable to compete. He must do without.

B. Seller

A seller of anything the government is buying is assured of sales. His problem will be in obtaining raw materials and labor. He may be granted special exemptions from controls to buy them. All other producers will have to scramble to obtain production goods. There is no problem in selling goods under price controls. The problem is obtaining production goods and labor.

Prices are set by competition: sellers vs. sellers. But sellers who cannot obtain scarce goods will not be in a position to compete.

In the days before price controls, prices were set by open competition. Whoever had the most money to bid for production goods would remain in the market as a seller. After controls are imposed, the government is the main buyer.

Sellers of consumer goods after World War II began faced government rationing and a shortage of supplies. Consumers had to cut back on expenditures. Someone who sold to the rich probably was able to continue. The rich always have money to spend on luxuries. But someone who sold to the middle class faced reduced demand for most goods. Families bought staples, but not luxuries. Someone who sold to the poor faced reduced demand, but probably not so great as the person who sold to the middle class. The poor could barter. They bought only basics. A nation that could not supply basics to the poor was in danger of losing the war. Basic foodstuffs were available unless the war was going very badly.

The person selling repair services fares well in wartime. He can work at his own pace. He does not answer to anyone except the customer. When supplies get scarce, people must keep existing equipment going. The person who can keep old equipment going finds demand. He can barter if the buyer has no extra money. He can swap for broken equipment that he can fix. He can use broken machines for spare parts. The jack of all trades is in a strong position as a seller.

Buyers have few options. Demand is high. Supplies of such services are scarce, since younger men are in the armed forces.

C. Pencil

A pencil is representative of a common consumer good. Because pencils are used in schools, the government must make sure that sufficient pencils are available for schools. Also, pencils are used in government offices. The problem is in obtaining the raw materials used in their production. If there

are price controls, prices no longer send accurate signals. The division of labor suffers. A pencil has so few components that it is more likely that they will be available than the raw materials used in complicated goods. It has fewer production processes that are dependent on accurate prices. Prediction of supplies is easier. Yet the problem remains: coordination under a price control economy. Prices cease to offer accurate information about supplies.

Conclusion

The state is an agency of coercion. That is its specialty. It is inherently an agency of violence. *It is covenantal under God, not contractual under individuals.* Therefore, national civil governments fight wars. Profit-seeking businesses do not have the specialized skills and enormous resources required to fight a war. They can provide equipment and services to a central agency of violence, but they are not specialized providers of violence. The national government monopolizes the supply of these services. The voters control who is elected to high office to supervise these services. They possess no similar authority over private businesses in a biblical commonwealth.

31

TAXATION

So Samuel told all the words of the Lord to the people who were asking for a king from him. He said, "These will be the ways of the king who will reign over you: he will take your sons and appoint them to his chariots and to be his horsemen and to run before his chariots. And he will appoint for himself commanders of thousands and commanders of fifties, and some to plow his ground and to reap his harvest, and to make his implements of war and the equipment of his chariots. He will take your daughters to be perfumers and cooks and bakers. He will take the best of your fields and vineyards and olive orchards and give them to his servants. He will take the tenth of your grain and of your vineyards and give it to his officers and to his servants. He will take your male servants and female servants and the best of your young men and your donkeys, and put them to his work. He will take the tenth of your flocks, and you shall be his slaves. And in that day you will cry out because of your king, whom you have chosen for yourselves, but the Lord will not answer you in that day" (1 Samuel 8:10–18).

Analysis

The people of Israel were in rebellion against God. They wanted a king. Why? Because the nations around them had kings. Israel had done without a king or anything like one ever since the death of Joshua. Now they told Samuel to anoint a man to serve as king. This displeased Samuel. He prayed to God.

And the Lord said to Samuel, "Obey the voice of the people in all that they say to you, for they have not rejected you, but they have rejected me from being king over them. According to all the deeds that they have done, from the day I brought them up out of Egypt even to this day, forsaking me and serving other gods, so they are

also doing to you. Now then, obey their voice; only you shall solemnly warn them and show them the ways of the king who shall reign over them.” (vv. 7–9)

High taxes and centralized civil government go together. Kingship represented a major move in Israel toward political centralization. God told Samuel to warn them what this would mean in terms of taxation. The king would tax them at a rate of 10%, which was equal to the mandatory tithe they paid to the Levites. This threat did not impress the people. They demanded a king.

A tax of 10% was half of what the Pharaoh of Egypt collected before (Genesis 41:34) and after (Genesis 47:24–26) the famine. This tax rate was twice as oppressive as the tax that Israel’s king would impose. Yet in terms of taxation in the West during and after World War I (1914–18), the level of taxation in Egypt would be regarded as a major reduction of taxes. The central government of the United States consistently collects about 20% of Gross Domestic Product. State and local governments collect another 15%. In the nations of Western Europe, tax rates are often above 50%. On average, taxes are close to one-third. But this counts government payments as a productive sector of the economy (GDP). If we compare taxes with the private sector (Rothbard’s PPR: private product remaining), as in Egypt under Pharaoh and Israel under the kings, tax rates are much higher than one-third in Western nations. They would approach 50%. So, the West’s taxpayers have grown accustomed to rates of taxation that are double or triple the onerous taxes of Egypt. Israel under the kings would be regarded as a tax haven.

The nation of Israel divided over the issue of taxation under Solomon’s son, Rehoboam. The ten tribes of the North seceded.

Rehoboam went to Shechem, for all Israel had come to Shechem to make him king. And as soon as Jeroboam the son of Nebat heard of it (for he was still in Egypt, where he had fled from King Solomon), then Jeroboam returned from Egypt. And they sent and called him, and Jeroboam and all the assembly of Israel came and said to Rehoboam, “Your father made our yoke heavy. Now therefore lighten the hard service of your father and his heavy yoke on us, and we will serve you.” He said to them, “Go away for three days, then come again to me.” So the people went away.

Then King Rehoboam took counsel with the old men, who had stood before Solomon his father while he was yet alive, saying, "How do you advise me to answer this people?" And they said to him, "If you will be a servant to this people today and serve them, and speak good words to them when you answer them, then they will be your servants forever." But he abandoned the counsel that the old men gave him and took counsel with the young men who had grown up with him and stood before him. And he said to them, "What do you advise that we answer this people who have said to me, 'Lighten the yoke that your father put on us'?" And the young men who had grown up with him said to him, "Thus shall you speak to this people who said to you, 'Your father made our yoke heavy, but you lighten it for us,' thus shall you say to them, 'My little finger is thicker than my father's thighs. And now, whereas my father laid on you a heavy yoke, I will add to your yoke. My father disciplined you with whips, but I will discipline you with scorpions'" (I Kings 12:1–11).

The Bible is hostile to high taxes. High taxes are identified as rebellion against God. But taxes are inevitable. They are legitimate when lower than the tithe owed to God. Jesus made this clear in his rejection of a tax revolt by Israel. The Pharisees tried to trap him.

Then the Pharisees went and plotted how to entangle him in his words. And they sent their disciples to him, along with the Herodians, saying, "Teacher, we know that you are true and teach the way of God truthfully, and you do not care about anyone's opinion, for you are not swayed by appearances. Tell us, then, what you think. Is it lawful to pay taxes to Caesar, or not?" But Jesus, aware of their malice, said, "Why put me to the test, you hypocrites? Show me the coin for the tax." And they brought him a denarius. And Jesus said to them, "Whose likeness and inscription is this?" They said, "Caesar's." Then he said to them, "Therefore render to Caesar the things that are Caesar's, and to God the things that are God's." When they heard it, they marveled. And they left him and went away (Matthew 22:15–22).

The denarius was a coin used to collect taxes. It was also used to conduct commerce. It was the basis of the division of labor. The coinage was provided by Rome. So was protection from gangs and other criminals. Jesus made it clear: the coinage belonged to Caesar. Israel was using Rome's coinage to conduct business. Taxes are legitimate. High taxes are a curse. But God-fearing men should pay them to avoid trouble, Jesus said (Matthew 17:27).

There is no discussion in the Bible about the right level of taxation, as long as the rate is under 10%. If it is as high as 10% for the central government, it is equal to the tithe owed to God. The state is claiming equivalence with God. Such a level of taxation is clearly tyrannical. It should be resisted politically on principle.

There is no biblical case for graduated income taxation: higher percentage rates for people with higher incomes. Graduated taxation violates the principle of the tithe: a flat rate mandated by God on all adult church members. Graduated taxation is a mark of moral and political corruption. The Bible specifies the rule of law: the same punishment for a crime. "You shall do no injustice in court. You shall not be partial to the poor or defer to the great, but in righteousness shall you judge your neighbor" (Leviticus 19:15). This principle applies to tax rates.

The payment of half a shekel at the time of a military census prior to a war was not a civil tax. It was not a head tax. It was a judicial covering: *atonement*. It was an offering paid to the tabernacle, not a tax paid to the state. The state had nothing to do with atonement.

The rich shall not give more, and the poor shall not give less, than the half shekel, when you give the Lord's offering to make atonement for your lives. You shall take the atonement money from the people of Israel and shall give it for the service of the tent of meeting, that it may bring the people of Israel to remembrance before the Lord, so as to make atonement for your lives (Exodus 30:15–16).

It is a theological mistake to argue that this payment to the temple was a head tax. The state is not limited to head taxes.

A. Buyer

A buyer has less money after the payment of a tax. This is a cost of civil

government. The payment of money shifts ownership to the state. The state is now in a position to buy goods and services and make other payments. This shifts demand from the private sector to the state sector.

The state pays for resources. This payment shifts resources to different buyers from what a private buyer would have determined. This benefits those people who sell to the state or who collect welfare payments from the state. Sellers re-direct production to these new holders of money.

A buyer receives some benefits from this transfer. Benefits provided by the state include protection from private coercion and fraud, including military invasion. Citizens do not have to pay as much for protection. The state also provides a system of courts for resolving disputes without private violence.

There is a huge risk of unfair taxation. When politics is involved, voters may see the state as a way to extract money from the rich. This is especially true of income taxes. They are never set at a flat rate, unlike the tithe. Poorer voters see higher taxes on the rich as a way to get even. Yet in practice, the rich hire lawyers and pressure legislatures to create loopholes. The rich get richer and more powerful.

The citizens grow fearful of the tax collectors. This is another liability of unfair taxes. The tax collectors are arbitrary. This is because the laws are complex. The United States federal tax code in 2016 totalled about 76,000 pages, plus regulations. Only specialized lawyers and accountants can interpret the specialized language. There are always rival interpretations of the meaning of these provisions. In addition to federal taxes, there are state tax codes: 50 more jurisdictions, plus the District of Columbia, where the federal government is located. There are over 3,000 counties. There are over 19,000 towns and cities. Each jurisdiction has its own tax codes. The common man is helpless to decipher the tax laws that affect him: federal, state, and local.

B. Seller

A seller sells to buyers. He usually knows little about them. A seller does not care if a buyer works for a government, or receives payments from a government, or works in the private sector. He wants money from buyers. As long as buyers are not criminals, they find willing sellers. Sellers may fear selling to criminals.

He wants safety. So do buyers. The state promises to protect law-abiding residents in their jurisdiction. This is a benefit if the protection actually is provided.

A seller pays business taxes. He may collect sales taxes from buyers. If he does, he becomes an unpaid tax collector of the state. He becomes legally liable for the collection of these taxes. It is not in his interest to live in a jurisdiction that imposes sales taxes. Sales taxes reduce sales. They impose unpaid tasks on sellers.

Tariffs are sales taxes on imported goods. Some sellers want high tariffs to reduce competition from foreign sellers. Other sellers want lower tariffs. They import goods and sell them retail. They prefer not to pay taxes on the goods they import.

There is a widely believed idea that a seller can raise prices when he has to pay new taxes. This is incorrect. Not all sellers can do this. Sellers cannot raise prices just because they want to, with or without higher taxes. Some sellers can get away with raising prices. Others cannot. Some buyers refuse to pay higher prices. In this case, the seller bears the brunt of higher taxes. Prices are set by competition: buyers vs. buyers and sellers vs. sellers. There is no way to know in advance what the effects on a particular price will be after a new tax is imposed.

Tax exemptions function as economic subsidies. They benefit those sellers who receive them. It is common for sales taxes to be imposed on some products but not others. The exemptions redistribute wealth from sellers who must pay the tax to sellers who do not.

High taxes reduce output. Sellers worry more about the tax collector than the unsatisfied buyer. Sellers adjust production to meet the requirements of the tax code. This redistributes wealth to the government. This reduces the economic authority of those buyers who are not recipients of government money. It therefore redistributes wealth away from sellers who would otherwise have sold to these buyers. Sellers who sell to the recipients of government spending prosper at the expense of sellers who cater to the private sector's wage-earners. A seller may be able to pass the tax to consumers. But this might reduce sales and therefore profits. The outcome must be tested by the market process.

C. Pencil

A pencil is an inexpensive item. Few people must adjust their budgets in order to deal with the tax consequences of higher sales taxes on pencils. So, pencils are not tax-sensitive. In contrast, cars are tax-sensitive. They are a large expenditure item.

The cost of production will rise when taxes rise. While pencils are not tax-sensitive, the products that are used to make a pencil may be. So are the products that are used to make the products that are used to make pencils. The complexity of the production process is high, despite the fact that a pencil looks simple. We do not get something for nothing. Some sellers must pay the higher taxes. Competition sorts out which sellers these are.

Conclusion

The Bible authorizes some taxes. It does not authorize graduated income taxes. It in principle prohibits them. This is an aspect of the biblical principle of the rule of law. The Bible also does not authorize the central government to collect taxes as high as the tithe's limit of 10%. A government that does this is tyrannical. By this definition, almost all central governments since 1914 have been tyrannical. The voters do not care. Christian voters do not care. This is because they do not take biblical law seriously. They declare: "We're under grace, not law!" They are therefore under the tender mercies of tax collectors.

Graduated income taxes have been accepted by voters ever since the early decades of the twentieth century. When politicians imposed income taxes in the years immediately before World War I, they always imposed graduated taxes to "soak the rich." This enabled some national legislatures to raise the top rates above 75% after the war broke out. These top rates never reverted to the rates that had prevailed prior to the war. There was a ratchet effect. The voters were willing to pay confiscatory rates to win the war. The politicians never allowed them to escape after the war was over.

Any attempt to impose a flat rate tax is attacked by Left-wing politicians as favoring the rich or subsidizing the rich. The predecessors of these politicians persuaded voters to accept the principle of graduated taxation, which is a violation of the rule of law. Then, when tax reformers call for a return to the principle of the rule of law, the Left defines this as a subsidy to the rich, who have been victims of discrimination. Tax justice is opposed as injustice. On the contrary, it would be a restoration of biblical justice. The Left does not want biblical justice. It wants permanent political theft in the name of humanistic justice. Most of the Left want even higher rates of theft. The top rate in the United States was 91% for 13 years until 1964. Of course, few people paid it. There were always loopholes. It was cut to 77% in 1964 and

70% in 1965. It remained at this level until the mid-1980s, when it was reduced in two steps to 28% under President Ronald Reagan. It was put at 39% under President Bill Clinton in 1993. (<http://bit.ly/TopTaxRates>)

CONCLUSION TO PART 3

If a man steals an ox or a sheep, and kills it or sells it, he shall repay five oxen for an ox, and four sheep for a sheep. If a thief is found breaking in and is struck so that he dies, there shall be no bloodguilt for him, but if the sun has risen on him, there shall be bloodguilt for him. He shall surely pay. If he has nothing, then he shall be sold for his theft. If the stolen beast is found alive in his possession, whether it is an ox or a donkey or a sheep, he shall pay double (Exodus 22:1–4).

The free market is not an autonomous institutional arrangement. It was not designed by men. It developed unpredictably and slowly out of the legal protection given to private property by society. It operates as an extension of family covenants, individual covenants, and contracts. It is not an agency of violence. On the contrary, it is an agency of peace. It flourishes under a regime of peace.

In a social order that is based on the division of labor, those people who are most skilled in the techniques of violence and fraud extend their power over people who do not possess these skills. This is a threat to the free market social order. But the free market is incapable of defending itself against violence. Why? Because its fundamental principle of success is “high bid wins.” But this bidding process must not be coerced or fraudulent. Also, the system of competitive bidding depends on a legal order that allows open entry of bidders and auctioneers. The free market is incapable of providing a final earthly court of appeal with both the authority and the power to impose negative sanctions on those who employ violence and fraud on the innocent. *The essence of the free market is the absence of final resolution.* Everything is open to another bid. The free market therefore needs protection from outside the market order. That is to say, it is not autonomous.

Civil government is the agency of protection. It has the final say in specific disputes, short of revolution. There has to be an agency that possesses this final say in order to put an end to disputes that threaten to become violent. The state puts an end to family feuds and clan wars. By protecting

private property and by enforcing the rule of law, the state furthers the extension of the division of labor through market contracts. This increases people's wealth.

No civil government can create wealth. It is not a source of net positive sanctions. It can provide positive sanctions to members of some special-interest groups only by extracting wealth from taxpayers. The state must therefore be supported financially from the productivity of taxpayers. *Inherent in the idea of limited civil government is the idea of its inability to create wealth.* A major moral and intellectual problem arises from the idea of the state as a legitimate provider of net positive sanctions. This is the idea of the autonomy of the state. Whenever this idea takes hold in any society, people impute to the state the power of healing. Whenever this happens, there are no theoretical limits as to what the state is thought capable of providing. It becomes messianic.

The greater the level of self-government in any society, the less money that taxpayers must spend on civil government in order to suppress evil acts. *Self-government restricts the expansion of the jurisdiction of the state.* Self-government is therefore basic to liberty. It restricts the call for the creation of a messianic state.

In Part 4, I explore examples of false ideas that rely on the idea of the state as a provider of net positive sanctions. These ideas have become common in the era of scientific Darwinism. So has the idea of the messianic state.

Part 4

**MANIPULATING
THE AUCTION**

INTRODUCTION TO PART 4

Also it causes all, both small and great, both rich and poor, both free and slave, to be marked on the right hand or the forehead, so that no one can buy or sell unless he has the mark, that is, the name of the beast or the number of its name. This calls for wisdom: let the one who has understanding calculate the number of the beast, for it is the number of a man, and his number is 666 (Revelation 13:16–18).

There have been many theories about what this passage is all about. Theologians debate endlessly about whether this is historical, prophetic, or symbolic. But one thing is clear: the mark of the beast has to do with controlling people's access to the free market. There is no open entry. This is an economy that denies the authority of a free market. *There is no free market apart from open access: the legal right to bid.* This description of the beast's power over access to the market is meant to be fearful. It is a matter of life and death. This civil government has the mark of tyranny.

The mark of the beast is economic. This was understood in the first century A.D. The author of this epistle understood that his readers would recognize the nature of tyranny in this description. Tyranny culminates in controlling people's access to the market. But what about lesser interventions by the state into the market's process? We can legitimately describe them as pre-tyrannical.

With respect to auctions, there is a widely known phenomenon as rigging the auction. This means tampering with some aspect of the bidding process before the bidding begins. This rigging influences who will offer the highest bid and thereby purchase the item. The auction may appear to rest on open entry and high bid wins, but the highest bid is the result of pre-auction manipulation.

No auction can function apart from its supreme principle: high bid wins. No one would attend. Yet there is hostility, sometimes intense, against the allocation principle of high bid wins. Whenever critics undermine this principle, auctions cease. We do not hear the crucial word: "Sold!"

In Part 4, I discuss how the state rigs the auction. Sometimes its rules against the principle of high bid wins undermine the auction. Sales diminish. Sales take place increasingly in illegal markets, sometimes called the black market. In other cases, voters demand that certain practices cease. When enforced, these rules alter the bidding process. This in turn alters the winners and losers in the various auctions, market by market. Fewer people participate. Sometimes fewer sellers show up to offer things for sale. Sometimes fewer buyers show up. The outcomes of the auctions are no longer those that would have resulted from an auction process in which there was open entry, unlimited bidding, and competitive auctions.

When analyzing the many possible ways that the state rigs the auctions, remember this. They all in some way modify the governing rule of the auction process: high bid wins.

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REGULATION

"When a man opens a pit, or when a man digs a pit and does not cover it, and an ox or a donkey falls into it, the owner of the pit shall make restoration. He shall give money to its owner, and the dead beast shall be his (Exodus 21:33–34).

When you build a new house, you shall make a parapet for your roof, that you may not bring the guilt of blood upon your house, if anyone should fall from it (Deuteronomy 22:8).

Analysis

The Bible always connects ownership with responsibility. In these two cases laws, the owner of real estate is made responsible for certain kinds of damages that result from his actions.

In the case of a pit, the owner is responsible if a neighbor's animal falls into it and is killed. An animal cannot be expected to understand legal boundaries separating land. The beast wanders onto a neighbor's land and is killed. The person who dug a pit and failed to cover it or fence it is responsible. By implication, if a neighbor's small child is injured or killed, the person who dug the pit is responsible. The person who digs a pit is aware that animals or small children do not know about such dangers. They also do not know that they have crossed into another land owner's jurisdiction.

The person who built a home with a flat roof was required to build a railing. Homes in the region had flat roofs. They were used for entertaining. If someone invited another person onto his roof, and the roof was not fenced, the guest was placed at risk. The owner was required to build a railing. He was liable if another person fell off the roof and was killed. This was the meaning of the King James Version's phrase, "guilt of blood."

This law did not apply to owners of homes captured in the conquest of Canaan. The victors were allowed to inherit the homes of the defeated Canaanites. The Book of Deuteronomy is the book of the inheritance: the fifth

book of the Pentateuch. Point five of the biblical covenant is inheritance. So, a man who did not have the funds to build a parapet was not required to. The principle of inheritance was covenantally superior to the law of liability.

The person who had enough wealth to build a home had enough money to build a protective railing. The question is: Was this law enforced by a government official? There is no evidence that it was. The law made it clear to home builders that their homes were high-risk dwellings if they did not have railings. They were high risk for an accident, and they were high risk in a case brought before the elders after someone had died in a fall. The home owner was automatically guilty as charged. But if he refused to build a railing, and no one fell off, that was his decision. He could place a barrier to access to the roof. That would suffice judicially. The barrier paid was the judicial equivalent of a railing.

There was no system of fines to the civil government under the Mosaic law. The only money collected by judges was for restitution to victims. So, what could have been the civil penalty for failing to build a railing? There is no biblical text identifying it. This means that the law was given as a warning. The penalty would be imposed retroactively after an accident. In the case of accidental death, the penalty would have been execution: eye for eye, life for life. The accident could have been prevented by a railing. The law mandated a railing. By failing to build one, the home owner was guilty of shedding another's blood. "Whoever sheds the blood of man, by man shall his blood be shed, for God made man in his own image" (Genesis 9:6).

These two laws placed a premium on self-government under law. People knew in advance that they were liable. They had the laws of Israel read to them at the feast of booths or tabernacles every seventh year: the sabbatical year (Deuteronomy 31:10). The Mosaic law was simple enough for Israelites and resident aliens to understand them.

The Mosaic laws were case laws to guide judges in making their decisions. There was a written code of law. There was a hierarchical system of civil courts to make judgments (Exodus 18). The responsibility for making assessments of written laws and their application to specific cases began with individuals. *The judicial principle of self-government under God's law was the foundation of Israel's system of justice.* The judicial system was not a top-down bureaucratic system of administration. It was a bottom-up system of courts. The first court was the individual's conscience. A person was supposed to bring judgment against himself before he committed a tres-

pass, just as Adam was required to do. This principle of law enforcement is basic to biblical justice. "And if your eye causes you to sin, tear it out and throw it away. It is better for you to enter life with one eye than with two eyes to be thrown into the hell of fire" (Matthew 18:19).

These laws must not be used to justify the creation of a top-down bureaucracy that imposes regulations for safety's sake. The legislature must declare liabilities after the fact. The case must be settled in a court. In the absence of legislation, a judge may determine liability.

The modern bureaucratic system known as administrative law has grown in the West since 1900. Agencies write rules, and then they sue individuals. The bureaucracies supply the judges. In the United States, they are called administrative law judges. They are not independent. They are not part of the judiciary. They are part of the executive. They declare the laws, try the laws, and impose sanctions. In the United States, regulatory agencies publish over 65,000 pages a year of fine-print rules, three columns per page, in the *Federal Register*. The rules are written in legal terminology. They can be understood only by specialists. The individuals or businesses that are brought to trial must pay legal fees as high as \$1,000 per hour per defense attorney. Most people capitulate. The agencies go after small businesses to get precedents. Then they demand that larger businesses comply.

Large established businesses have lawyers on retainer. They can afford to fight rules that will cost them a lot of money. They appeal to federal courts after their cases are decided against them in the administrative courts. These cases drag on for years. The agencies' resources are drained. But large businesses are happy to see the agencies prosecute small competitors. This reduces the competitive threat from small businesses.

The agencies are almost autonomous. They are funded by the government. Few politicians pay any attention to what agencies do. The agencies' employees cannot be fired except for criminal activity. They are protected by Civil Service laws. They are close to lifetime employees.

These government functionaries attempt to regulate entire sectors of the economy, agency by agency. The agencies do not agree with each other. There is no central plan. There are hundreds of these agencies in the United States government, each independent, each with the authority to issue regulations. There are at least 250 agencies and departments. There may be as many as 430. No one knows. This is why they are autonomous. Their rules govern production. This reduces the authority of customers. Businesses are

afraid of violating rules. They do what they are told by bureaucrats, not what they are told by paying customers.

Unlike the governing principle of the Mosaic law, that every citizen heard the laws read publicly once every seven years, administrative law can barely be understood by specialized lawyers. There are so many rules issued by each agency that its bureaucrats can interpret them almost any way they choose. A bureaucrat can be arbitrary in picking and choosing which rules to enforce. He decides how the rule should be interpreted. The agency will back up its agents' decisions most of the time: solidarity. Not to do so would be a public admission that the agency has made a mistake. No bureaucracy does this voluntarily.

The cost of regulations in modern economies is beyond accurate calculation. Businesses must spend money complying with the regulations, not complying with customers' preferences. Regulations raise prices in some cases, or reduce production in others. Sometimes they do both at the same time.

Voters do not perceive that their choices are reduced by regulations. They do not understand that economic growth is reduced. They think they are being protected from exploitation by businesses. Instead, they are being exploited by bureaucrats.

A. Buyer

A buyer assumes that he is being protected by the state from fraud or unsafe products. He assumes that he therefore has reduced personal responsibility for investigating the terms of a proposed exchange. This assumption of safety may not be true. True or not, he wants the state to protect him. This is the first step in his surrender of his personal responsibility, and therefore also his liberty, to the government. He has transferred to state bureaucrats the responsibility of protecting him. But by reducing his range of choices by forcing businesses to sell only on state-approved terms, the state may also suppress innovations that would benefit customers. The state's bureaucrats determine what production processes and offers are best for customers. They substitute their judgment for the judgment of buyers and sellers.

Regulations impose higher costs on sellers. Some sellers attempt to pass these costs on to customers. Others fear doing this because some customers may seek less expensive substitutes. Businesses may respond by reducing output or lowering investments in research and development. These decisions

lead to a reduced range of choices for customers. *This is the best definition of lower wealth: a reduced number of choices for the same amount of money.*

The public is unaware of this cause-and-effect process in wealth reduction. Voters do not know about the negative effects of regulations. They do not know what specific businesses do in response to the regulations. They are poorer than they would otherwise have been as a result of most regulations, but they do not perceive this. They believe that regulations protect them. This is what regulatory bureaucracies tell them. The voters do not know the details. As the famous phrase says: "The devil is in the details."

B. Seller

A seller benefits from sales. He seeks customers who will be willing and able to pay for his output. The better informed these shoppers are, the less range there is for cheating. Competition among sellers also reduces the range of cheating. *The market process weeds out deception.* For major cases of deception, the courts can rectify the situation. Buyers who believe they have been cheated can join together in class-action lawsuits. They can receive restitution if they win their case.

Regulation adds another component to the plans of businessmen. They must meet new requirements or else face administrative action by a bureaucracy, which will be adjudicated in the bureaucracy's court. Only after the businessman has lost in this court is he entitled to appear to the conventional court system. It costs a lot of money to get the right to appeal the decision.

There is constant insecurity for a seller. There can be new a new rule issued at any time. A new rule can turn a profitable business plan into a loss. The seller must bear this cost.

The regulatory system protects large enterprises from competition from upstart companies. These new companies do not have the experience or the money to hire the legal talent necessary to fight new rules. This is a benefit for large companies. It creates barriers to entry.

This reduces competition: sellers vs. sellers. The result is either higher prices or else reduced quality of the output of established businesses.

Over time, the procedures of businesses begin to resemble the procedures of bureaucracies. Bureaucracies establish the rules. Businesses must adopt the required procedures. Paperwork increases. *The top-down hierarchy of state agencies replaces the customer-driven, bottom-up hierarchy of profit-seeking businesses.* State agencies have guaranteed income from the govern-

ment. Profit-seeking businesses do not. State agencies are governed by a rule book written in the past. A profit-seeking seller looks to future customer demand and future competition. He is future-oriented. The bureaucrat is past-oriented. This is a clash of institutional sanctions, a clash of financing, and a clash of cultures. To the extent that a seller conforms his operations to what bureaucrats mandate, to that extent are customers thwarted.

The seller seeks positive sanctions: future sales. He also seeks to avoid negative sanctions: future administrative fines. The greater the threat of administrative fines, the less he will be motivated by his image of future customers. We know from behavioral economics that most people fear a monetary loss more intensely than they savor a future gain of the same amount of money. We also know this from the Bible.

Or what woman, having ten silver coins, if she loses one coin, does not light a lamp and sweep the house and seek diligently until she finds it? And when she has found it, she calls together her friends and neighbors, saying, 'Rejoice with me, for I have found the coin that I had lost.' Just so, I tell you, there is joy before the angels of God over one sinner who repents (Luke 15:8–10).

C. Pencil

The pencil industry is heavily regulated. Here is a description from a company that manufactures wood that is used in pencils.

The main consumer safety concerns with pencils relate to potential toxicity issues. These generally refer to potential exposures to lead in surface coatings, potential allergic responses to latex that may be found in some erasers and more recently Phthalates which are occasionally used as plasticizers in some surface coatings. . .

Pencils sold in the United States are subject to numerous safety regulations including the Consumer Product Safety Improvement Act (CPSIA), Labeling of Hazardous Art Materials Act (LHAMA) and several state based regulations such as California Proposition 65. Differences in consumer product safety regulations also exist from country to country.

Machinery used to make pencils is well known. Sometimes, the machines are ancient. Workers are used to them. There is so little innovation in the industry that there are few rules for bureaucrats to announce. This is not true of the industries that supply pencils with their raw materials and components.

There is another factor restricting regulations in this industry. There is no headline value for a bureaucracy by announcing a major improvement of the public's safety from (say) pencil erasers. Worse, there might be derisive laughter. A bureaucracy wants the media and the public to cheer a new regulation. "We have been saved!" This is unlikely to happen in response to new regulations on the pencil industry.

There is therefore considerable liberty in the making and marketing of pencils. But because this market is of marginal importance to the economy, the degree of liberty here is not of major importance.

Conclusion

The biblical judicial system for civil government rests on the rule of law. The law was revealed by God. It is to be taught by fathers. It is to be taught by churches. It is to be taught by civil government.

The other major principle of biblical government is self-government. Law enforcement is supposed to begin with conscience. No society has sufficient economic resources to enforce the law where self-government is lacking. Only tyrannies attempt to do this. They always fail.

In the case of public safety, the two case laws that introduced this chapter make it clear that the laws were widely known before the conquest of Canaan. Individuals knew that they would be held personally responsible for deaths that came as a result of their negligence. The laws were clear. The inexpensive steps required by the civil government to eliminate this responsibility were also clear. Biblical civil law is not perfectionist. It is aimed at reducing major risks and major conflicts with a minimal expenditure.

In contrast to this system of law is administrative law. This approach to law is becoming dominant in the West. In 1983, legal scholar Harold Ber-
man warned in the Introduction to his book, *Law and Revolution*, that administrative law threatens to destroy the Western legal tradition. It is a major threat to liberty.

Nowhere is this threat better organized than in the area of economic regulation. The vast expanse of administrative rules, the immunity of bureaucrats from being fired, the lack of oversight by legislators, the complexity

of the rules, the judicial arbitrariness of the bureaucrats, and the political immunity of the agencies to budget cuts all combine to reduce liberty.

33

LICENSING

Now when Simon saw that the Spirit was given through the laying on of the apostles' hands, he offered them money, saying, "Give me this power also, so that anyone on whom I lay my hands may receive the Holy Spirit." But Peter said to him, "May your silver perish with you, because you thought you could obtain the gift of God with money! You have neither part nor lot in this matter, for your heart is not right before God. Repent, therefore, of this wickedness of yours, and pray to the Lord that, if possible, the intent of your heart may be forgiven you. For I see that you are in the gall of bitterness and in the bond of iniquity." And Simon answered, "Pray for me to the Lord, that nothing of what you have said may come upon me" (Acts 8:18–24).

Analysis

The Bible does not authorize occupational licensing of market-based professions or services. A man's skills are his gift from God. He is responsible for serving God faithfully by serving customers faithfully. Any attempt by the state to interfere with a man's offer to serve other people in exchange is a violation of God's dominion covenant (Genesis 1:26–28). It interferes with both buyer and seller in their pursuit of their goals. They are responsible for their decisions regarding exchange.

In contrast, there are barriers to entry on covenantal institutions: church, family, and state. These institutions are established by public covenantal oaths before God. They are not market institutions. They are not governed by the market's principle of high bid wins.

Simon the magician did not understand this distinction between a market occupation and a covenantal calling before God. He saw that the apostles had unique abilities. He wanted to be an apostle who had the power of miracles. He thought this was an office that was available to people who were willing to pay. He thought he could buy his way into a profitable profession: high bid wins. He was wrong.

There was a restriction on who could become an apostle: the laying on of hands (Acts 8:17–19). An apostle could baptize someone. This was a matter of covenantal authority. The office was bound by a public oath to God as the oath's enforcer. This screening process had nothing to do with a competitive market. The office of king, priest, or prophet was not for sale. These offices were protected by barriers to entry: oaths. A king had to be anointed. An apostle had to experience the laying on of hands. A prophet was called by God. Married couples are permanently and exclusively joined in a public ceremony.

Laws that establish occupational licensing are attempts by politicians to create economic and legal barriers to entry into a profession. These barriers reward existing practitioners. These laws discriminate against sellers who are outside of the existing guild. Licensing is designed to reduce competition. Competition is the essence of economic liberty: the legal right to make an offer. The legal right to bid is the essence of an auction. This is also true of a free market. Sellers compete against sellers. Buyers compete against buyers. Out of this competition come prices and voluntary exchanges.

Existing sellers want to avoid competition from newcomers. They want exclusive access to the money offered by buyers. They want to prevent newcomers from offering better deals to buyers. Better deals will force down prices. Thus, sellers join together and offer donations to political candidates who will vote to create licensing boards run officially by the government, but which are advised by members of the profession. The guild's members recommend that licensing boards establish regulations that favor the existing sellers. For example, they recommend mandatory examinations that are written by members of the guild. Existing sellers are not required to take the examinations that applicants into the profession are required by law to take. Members also pressure the boards to make the exams more rigorous every few years.

Applicants are often required to attend state-licensed schools before they are allowed to take qualifying exams. These schools are run by members of the profession. These are sometimes expensive schools. Medical schools are by far the most expensive. The instructors require applicants to pass exams before graduation. Only after graduation do the graduates have a legal right to take the state board-required exam. Screening is by money, by time spent in class, by a series of school examinations, and finally by a general examination.

These are barriers to entry. They are always justified by the existing businessmen as ways to protect consumers. Otherwise, members insist, shady, fly-by-night sellers will enter the market and defraud customers. These unlicensed sellers will provide substandard service. Politicians go along with this line of reasoning if the payoffs from existing businessmen are large enough.

The existing standards defend guild members from competitors who may possess far superior skills at a lower price. They may self-enforce higher standards. There is an old slogan: "If the performance standards of the ancient world had been enforced by law, there would be no steel axes today, but there would be flawless stone axes." Existing standards fall further behind as society grows more competitive. This is why existing sellers want the government to legislate legal barriers to entry. Existing sellers will be able to keep up with technology at a slower pace. In the name of banishing substandard suppliers of services, they also banish above-standard suppliers. My point is this: these standards are imposed by legislation. They are not the product of market competition.

The medieval towns of Europe were run by businessmen. Successful businessmen sat in the seats of civil authority. They passed laws prohibiting entry into the local market. They required anyone who wanted to manufacture anything that was already made by someone in town to serve for years as a low-paid worker, followed by years spent as an apprentice. They prohibited sellers from outside the town from bringing in goods for sale. The only exceptions were during regional fairs, which were rare. This was the guild system. It created an inherited system of manufacturing and political control. It worked for centuries against consumers.

This system of closed access still operates in every nation. What was once confined to towns now spreads across nations. Large manufacturers and established professions are protected by literally thousands of laws that keep them safer from competition. Licensing closes off markets from offers by unlicensed sellers. Potential buyers are forced to buy from local sellers. Their choices are limited by law.

This system is being undermined by digital services. These can be sold from anywhere on earth. Prices are low because sellers live in nations with low living costs. They also do not have to jump through bureaucratic hoops set up by bureaucrats, who in turn are authorized by politicians. However, for face-to-face selling of services, there is still protection through licensing.

Licensing is an intervention into the market by the state. It works against consumers, who are not allowed by law to make decisions about which offers are best for them. Instead, those sellers who want to reduce competition are in charge, through licensing boards, of which kinds of offers are legitimate.

Licensing is a violation of the biblical principle of the rule of law. The rule of law is clear: "There shall be one law for the native and for the stranger who sojourns among you" (Exodus 12:49). This has to do with civil law. Civil law is not to discriminate against a stranger. Defenders of licensing argue that a licensing law really does apply equally. It discriminates equally against covenant-keepers who want to sell unlicensed goods and resident aliens who want to sell unlicensed goods. In other words, there is equality before an unequal law. This justification of licensing is universal today.

For defenders of licensing, it is not enough that a seller uses scales that are the same for buyers and sellers, as the Mosaic law required. They say that this is not what equality before the law means. Equality before the law means equality before a law that keeps buyers from coming to agreements with unlicensed sellers.

These laws undermine personal responsibility. Buyers are not allowed to make decisions in terms of their judgments regarding which offers are best for them. They are not allowed to bargain with unlicensed sellers. They are required to submit to the criteria established by local bureaucrats. These criteria are recommended by existing sellers.

In terms of my argument that the free market is a gigantic auction, the classic example of a licensing law in the United States is the licensing of auctioneers. Auctioneers want lots of buyers to attend their actions. Competition among buyers will be fierce. Bids will therefore be higher. But auctioneers do not want competition from other auctioneers. They have reduced the supply of auctioneers through licensing.

A. Buyer

A buyer owns money. He is in a stronger position than sellers most of the time because he owns the most marketable commodity. Licensing laws restrict this authority. They make buyers' money less marketable. They say this: "Your money is no longer universally marketable in markets that are controlled by state licensing. It is marketable within a narrow range of choices: licensed sellers, licensed goods, and licensed services."

This is bad for buyers in general. These laws are always passed in the name of protecting ignorant buyers from wily sellers. But the most wily sellers of all are the ones who call for licensing in the name of protecting buyers. They are systematically restricting the buyers' legal right to make bids with their money. They are feathering their nests at the expense of competing buyers and competing sellers who would otherwise have made a transaction.

Licensing reduces the supply of legal goods and services. It reduces the range of variation of both the quality and the prices of goods and services. This is the explicit aim of licensing laws. Bureaucrats insist that the narrower range of prices and quality is advantageous to most buyers. "Buyers must not be allowed to buy substandard goods at market prices. To do so would be opposed to their true interests, which are best understood by experts in the field. Market prices under open conditions get too low. They increase the sales of substandard goods."

Technological progress gets ahead of regulators. It makes it more difficult for regulators to regulate. This is especially true of digital products and services, which get more efficient at rates of change never seen in history. By the time the regulators write new rules and standards, the goods are obsolete. So, governments' attempts to license sellers of these goods fail. The services and software can be offered online. They can be downloaded from anywhere. National boundaries no longer restrict sales significantly. Licensing is limited by geographical jurisdiction. These geographical jurisdictions are not recognized by sellers who live outside them. Buyers regain their authority.

Buyers who are restricted by licensing are shielded from increased innovation and lower prices. This is detrimental to buyers' interests. It is also restrictive on their responsibility. They are not allowed to take action in terms of their best estimates of what is good for them. They must buy from state-licensed sellers only. The supply is restricted. Therefore, prices are higher: same demand, reduced supply.

Occupational licensing after 1960 has spread steadily in the West. Politically unorganized consumers are no match for well-organized business and professional trade associations that hire lobbyists to promote it.

B. Seller

Existing sellers are licensed. They benefit from restricted markets. They reap higher incomes. Would-be sellers are not licensed. They are harmed by

licensing laws. They receive no income from sales in these restricted markets.

Existing sellers can hire less expensive employees if years of employment in a licensed business are required for licensing. People who want to get licensed compete against each other for these jobs. In the United States, the most grievous example of this is internship in a hospital. An intern is a physician. He has passed all academic hurdles. He has one hurdle to go: a year working in a hospital as a low-paid intern. This arrangement was established early in the twentieth century. Existing physicians wanted to require all new physicians to attend medical school before being licensed. This would have reduced the number of young physicians eligible for jobs in hospitals. Hospital administrations therefore opposed this educational requirement. State governments compromised. They mandated internships as also required for licensing, thereby silencing the objections of hospitals, which then gained the services of low-paid physicians.

Businesses grow dependent on the state. Their high incomes are the result of state interference. They continue to donate money to political campaigns. They fear losing this legal protection.

Licensing leads to reduced economic mobility. Poor people are kept out of some professions. The children of rich people in the field receive advantages. They are sent to school by their parents.

Newcomers are robbed of their traditional competitive advantage: price competition. Some may decide to go into black markets to find buyers. This undermines respect for civil law by both buyers and sellers. People who cheat do not make reliable citizens. But state licensing increases cheating.

For expensive services, such as medical operations, people fly to foreign nations where prices of medical procedures are a fraction of prices in nations where highly restrictive medical licensing is common. Air fares keep falling. The number of surgeons in foreign nations keeps rising. *The price discrepancies between nations keep increasing.*

C. Pencil

There are numerous regulations on pencils, but there is no licensing of pencil manufacturers. The ability of local governments to control the sale of pencils would be limited. It is easy to buy pencils through the mail. The public would not take seriously any suggestion that unlicensed pencil sellers pose a threat to the safety of buyers.

The pencil market has traditional barriers to entry. This is a mature market. There are few opportunities for savings through innovation. Pencil brands in each nation are familiar. Still, most buyers do not think that one brand of pencil is superior to another. Children do not ask for specific brands. We do not see television commercials for pencils. Price competition has been operating for centuries. New sellers rarely enter the market. They can gain no advantage. Profit margins are minimal.

Conclusion

There is no biblical justification for state licensing of professions or businesses. There are explicit biblical reasons against such licensing. It restricts customer choice. It restricts sellers' services. Sellers are not allowed to pursue their occupations or their callings without getting through bureaucratic restrictions that exist primarily because existing sellers want less competition. The sellers persuade politicians to create barriers to entry. This keeps out newcomers who are ready to offer services to customers. This restricts choice. It keeps prices above what they would be under open competition.

The creation of licensing procedures expands the power of bureaucrats into the lives of entire populations. The state must tax the public in order to staff these agencies. The public is squeezed from two sides: reduced customer choice and higher prices in the marketplace, and also higher taxes in the realm of politics. This is done in the name of protecting the public from incompetent or unscrupulous sellers. The public is considered incompetent to judge the quality of services offered to them, yet the public is considered competent to vote in elections for politicians who possess coercive authority over them. Then the politicians pass laws that are enforced by armies of bureaucrats who cannot be fired. The public knows nothing about what these bureaucrats do or how they do it. The voters know nothing about their budgets. Yet this is imposed on them because they are considered incompetent to shop for services on their own authority.

34

MONOPOLIES

The people curse him who holds back grain, but a blessing is on the head of him who sells it (Proverbs 11:26).

Am I not allowed to do what I choose with what belongs to me? (Matthew 20:15a)

Analysis

The fundamental principle of private ownership is found in Jesus' parable of the vineyard. The employer has the legal right to offer any arrangement he chooses. At the same time, those who hear the offer are under no obligation to accept his offer. He offers money: the most marketable commodity. He has what most workers desire most in exchange. As a buyer, he is the more powerful party in the transaction. He therefore has greater responsibility in the eyes of God and men.

When customers come into a market with money to spend, they are in the strong position. They possess the most marketable commodity. Sellers of goods and services compete to gain ownership of money. The buyers therefore have greater responsibility than sellers with respect to the allocation of their money. Yet most people do not understand the market process in this way. They see buyers as weak and sellers as strong.

What about the seller of grain? Is he in the strong position? No, except in times of famine, which are rare. In the modern world, this does not happen in peacetime outside of sub-Saharan Africa. Agricultural productivity is high. Markets are well developed. International transportation is cheap: huge ships. Transportation from farm regions to port cities is cheap: long trains. Food prices are low. They have been falling ever since the mid-1800s.

The proverb does not indicate that there is a biblical civil law against withholding grain in a time of food shortage. The person who does this is cursed by the people, but there are no civil sanctions available to force him to sell grain. Similarly, there is a blessing on the person who sells food

in a time of hunger. Presumably, this blessing is imputed. People hold the seller in high esteem. Perhaps God blesses him. But the state is not involved here, either.

The rule governing every auction is this: high bid wins. The rule for making a profit is this: buy low, sell high. These rules are foundational to every free society. They have produced wealth on a scale unknown before 1850. There is no doubt that someone who sells grain cheaply in a famine is charitable. But there will be far greater demand for his grain than there is supply. He will soon run out of grain to sell. Then what? Who will be helped then? The charitable impulse cannot be sustained for long. It will be beneficial only to a few participants in the market.

High food prices send a signal to food suppliers: there is demand in this market. If these high prices are above the costs of production, including transportation and marketing costs, then suppliers will shift production to meet this unforeseen demand. As new food supplies arrive in the region where there has been a food shortage, food prices will begin to fall. This is the result of forces known as supply and demand. This is what buyers want in the region with the food shortage. The auction process works. There has not been a famine in peacetime in the West since the Irish potato famine of the 1840s. The free market has solved this problem.

What has this to do with monopoly? It should encourage people to consider why the high prices gained by a monopolist do not produce a similar response. How can a monopolist maintain high prices far above his costs of production year after year? What is there in the marketplace that keeps the auction process from producing increased supplies and lower prices?

Economic logic tells us that there has to be a barrier to entry. This is obvious in the case of a water well in the Sahara desert. Someone who owns the well can charge a great deal of money. But there will be few buyers. There are few examples of this kind of geographical monopoly in the modern world. These are called natural monopolies. Usually, these are natural resources. Here is an example: a property with a spectacular view. The owner can restrict access. He sells tickets. No one else can offer this particular view. But there are other properties with spectacular views. There is no public clamor to force this person to open access free of charge or at low ticket prices. No one cares.

Water is a natural resource. Local civil governments create monopolies for water districts. These are usually privately owned, but there is a govern-

ment agency that regulates prices and standards. The widespread assumption is that having five competing water/sewer companies would be wasteful. There would be too many pipes buried along the side of each street.

Electricity is also assumed to be a natural monopoly, although falling prices for solar panels are calling this assumption into question. Low-priced batteries will make decentralized power economically feasible in some regions. Because there is bureaucratic control over these natural monopolies, the public pays little attention to them.

Consider that rare item, a natural monopoly over a unique raw material. The owner may be able to receive a high price per unit of resource. This is a form of resource conservation.

Voters who think of themselves as environmentalists or as conservationists do not discuss these monopolists favorably as examples of resource conservation. They want conservation, but only by the state. They do not want private owners to profit from their policies of resource conservation. In terms of the principle of the rule of law, why isn't it better that a private owner be allowed to benefit from his monopoly control rather than have a state bureaucracy gain power over its terms of use? What makes the legal claim of the state superior? Why should the state be allowed to confiscate the property from the owner, which is a violation of property rights? This is a violation of the rule of law.

In almost all cases, a large monopoly is established by a legal barrier to entry. Politicians pass a law that blocks access to a market by sellers. One seller benefits from this grant of immunity from competition. He gains a profitable monopoly. The politicians who pass the law demand some kind of payment, either in quiet payoffs in money or in special pricing for the state. The classic example of this kind of monopoly is a national central bank. I will cover this topic in Chapter 36.

There are also the monopolies enjoyed briefly by professional athletes. There are few of them. Most sports do not have paying crowds. The star players in a few popular sports can command high wages for short periods of time. They are paid fortunes to make product endorsements. There are no replacements for them. There are no government-established barriers to entry. No one cares. They are rarely discussed in the media as examples of monopoly power. The same is true of celebrity entertainers and artists. The public will pay high ticket prices to gain access to these entertainers' performances. Rich art collectors pay high prices for certain signed works of art.

The number of these suppliers is always highly limited. They are able to generate monopoly returns from their unique features and abilities. But this causes no cursing by the public.

The most common form of monopoly is the monopoly created either by a patent or copyright. A government agency issues patents to inventors who meet certain bureaucratic requirements. The inventors are granted immunity from competition for several years. Copyright is easy to obtain. All it takes is for someone to publish an article online. This can be done virtually free of charge. Someone sitting in a free public library in the United States can post an article on a free public blog host, such as WordPress. Automatically, his words belong to him and then his heirs for 75 years after his death. He or his heirs can get a court in the United States to enforce legal title. But almost nothing published in this way will ever be stolen for commercial purposes. Most words online have no market value. There is vastly more supply than demand.

Some monopolies are enjoyed by products that are priced low. One such product in the United States is Arm and Hammer baking soda. There is no other competing brand whose name is known to anyone except supermarket managers. The company controls an estimated 95% of the market. It is a widely used product, although few families go through more than one box of the product in a year. Its bright yellow boxes are instantly recognizable. The box's logo never changes. But no one cares that the firm has such control in the market. The product is not vital to anyone except the owners of the company. Almost no one is aware that the seller of this inexpensive product has maintained an almost complete monopoly for several generations.

There have been companies that have enjoyed a large market share. The question is this: has the public been harmed? If so, why are these firms so large? Because they have so many customers. Technological innovation can replace these firms. Kodak, the camera company, had a huge monopoly in 1900 and throughout most of the twentieth century. In 1976, the company controlled 90% of film sales and 85% of camera sales in the United States. Today, film no longer exists as a popular consumer product. Digital cameras have replaced film cameras. Kodak went bankrupt in 2012. Yet Kodak invented the first digital camera in 1975. The company failed to develop the invention.

When a customer buys something that he would have paid twice as much for, he reaps what economists call a consumer surplus. He retains

more money to spend on other items. Every buyer would like to enjoy a consumer's surplus every time he purchases something. But this is not possible. There is always some buyer who pays exactly the maximum price he was willing to pay. He reaps no consumer's surplus. Another would-be buyer decides that he just cannot afford to buy. These last two people are the marginal participants in the market. Every sale involves a marginal buyer and a marginal non-buyer.

On what moral basis does the state intervene and demand that the state change the market's arrangements? On what basis is a company broken up by the state? It is done in the name of competition. Consumers will benefit, we are told. Yes, some consumers will benefit: marginal buyers and marginal non-buyers at some price. But there will always be marginal buyers and marginal non-buyers. Some people will enjoy a consumer's surplus, but most people will not. There will still be scarcity after the monopoly is broken up or regulated. At zero price, there will still be more demand than supply.

A. Buyer

A buyer takes home the item he buys. He offered the highest price. He won. This is the auction principle in action.

He would like to have more sellers competing for his money. He would benefit from this competition: greater supply, same demand. He would like more auctions going on. This would give him more opportunities to spend his money. He would have a greater range of choices. This would make him richer. So, he is in favor of having the government break up a monopoly. After the break-up, there will be more firms seeking his money. They will offer better deals. So, he chooses to organize politically with others who seek such a break-up.

There is a problem with his political plans. If the politicians respond to this political pressure by breaking up a firm, and if the courts accept this as legal, then this will send a message to businessmen: do not gain too great a share of the market. The government may enter and break up the company. Therefore, the company's senior managers conclude, they should not offer deals so good that the company gets too large a share of the market. Consumers suffer as a result. They are offered fewer terrific bargains.

When the principle of the rule of law is violated by the state, this sends a message to successful businessmen: "Invest more money in politics, and invest less in product development." The politicians and bureaucrats are in a position

to impose severe negative sanctions. These sanctions are a greater threat than customer sanctions, i.e., customers' refusal to buy all of the output of the businesses. *This shifts economic authority from customers to bureaucrats.*

In the long run, few monopolies maintain their market dominance. Customer tastes change. New technologies disrupt market patterns. Dominant firms lose market share. They may even go bankrupt. They are replaced. This is the auction process in action. Customers retain their authority if they are allowed to buy in terms of the auction's principle: high bid wins.

Prices are set by this process: sellers vs. sellers, buyers vs. buyers. When buyers decide to seek lower prices through political action, they transfer power to the state. The state may break up a dominant seller into smaller companies, but in doing so, it undermines the commitment of sellers to compete for the customers' money in an open market. Established sellers will begin to focus on political advantage rather than market advantage. In the name of increasing competition through anti-monopoly legislation, politicians reduce competition in the long run. They remove the threats from rivals. Large producers seek profits by influencing the permanent regulatory agencies in their sector of the market. This is called industry takeover, and it is widespread.

Firms pay high salaries to retired employees of the agencies in their market sector. This benefits established firms in the industry at the expense of innovative firms that have no indirect influence over the regulatory agencies. Established firms recommend forms of regulation that undermine newer firms.

B. Seller

A seller who enjoys a monopoly is protected from competitors, who are for some reason unable to enter the market and bid against him. This barrier to entry protects the seller from the normal price pressures in an open market. Among sellers, low price wins, meaning a low monetary price. This in effect means the highest bid in terms of units for sale at a specified price.

A seller has options of how to take advantage of his special situation. He can charge a high price. The difference between his cost of production and the selling price constitutes his profit. Under normal competitive conditions, this profit gets smaller. More competitors enter the market and make competing bids. Only when the cost of production equals the net return, minus

whatever the prevailing interest rate is, do producers cease to add production. Obviously, if the cost of production equals total revenue, the seller should leave the market and invest in low-risk bonds. Why work hard and bear uncertainty if you can sit back and collect interest on your capital? A monopolist can generate monopolistic returns, but a high profit is a lure for competitors to find ways around the monopolist. They may find a substitute product. Digital cameras are a classic example. They replaced film cameras.

A seller may choose to keep the selling price low. This way, competitors do not enter the market. This is the strategy adopted generations ago by Arm and Hammer for its baking soda. The company enjoys a steady return on its investment of capital.

A seller may keep the wholesale price low, thereby allowing retailers to keep the money in between costs and revenues. This makes the retailers responsible for most of the marketing responsibility. This creates almost automatic income for the manufacturer. The high profit margin for retailers keeps out competing manufacturers.

If the sellers' monopoly is dependent on government intervention into the free market, it is at risk. A new political administration may replace the existing one. It may change the law so as to remove the barrier to entry that protects a monopolist. There is also a possibility that the bureaucracy that enforces the law may change its interpretation of the law. It may impose new regulations. But this is unlikely. Bureaucracies rarely change apart from pressure from the legislature. The legislature usually ignores the bureaucrats.

Pencil

The pencil is a good example of a monopoly that lasted for almost two centuries. The heart of a pencil is what we call lead, but which in fact is graphite. A single graphite mine in Borrowdale, England, controlled the supply from at least 1565 until the late 1700s. Eventually, the mine's output fell. Other mines were discovered in Ceylon and Siberia in the first half of the 1800s. Pencil prices fell steadily throughout the nineteenth century.

There is no question that tight controls by the Borrowdale mine's owners kept production low and prices high for two centuries. This was a form of resource conservation. The British government did not interfere. It did not break up the mine into competing businesses. The pencil nevertheless became a tool used all over the West.

Conclusion

The fear of monopoly is misplaced. There are a handful of goods that cannot be distributed to large local markets because of physical restrictions imposed by municipally owned streets: water/sewer lines, phone lines, and power lines. These services and goods are not large components of Westerners' budgets.

Most monopolies are harmless. They enable owners to extract higher-than-normal rates of return on physical or intellectual capital. But the public is willing to pay high prices because of the value of the services rendered. Buyers would like lower prices, but there is no biblical justification for the state's intervention in order to break up the ownership of resources. This is a violation of the judicial principles of private ownership and the rule of law. It creates uncertainty. It reduces people's confidence in the rule of law, which undermines public trust in the political system.

The market's principle of high bid wins is undermined when politics changes the rules. Normally, no one forces buyers with money to spend to spend it with any seller. The transactions are made only because both the buyer and the seller agree on the terms of exchange. Each expects to achieve his goals. Otherwise, no transaction would take place.

35

CARTELS

Am I not allowed to do what I choose with what belongs to me? Or do you begrudge my generosity? (Matthew 20:15).

Analysis

In Chapter 34, I wrote about monopoly. A person or a business produces goods that others want to rent or buy. There are no competitors. The owner can charge a higher price to buyers because they are willing to pay what he asks. He refuses to sell for less. This upsets buyers who would like to pay less, which means all buyers. A few buyers complain to politicians about the terms of sale. They seek state intervention to force the seller to lower his prices.

The legal principle announced in Matthew 20 supports the legitimacy of monopoly pricing. This is the principle of competitive bidding. If a seller does not face competitive bidding, he can charge more. High bid wins.

This principle of ownership cuts both ways. It also supports the idea that an owner should be allowed to price his services or product lower than has been common. Price competition is a familiar strategy for newcomers in a field, or outsiders, or innovators. This marketing strategy is resented by established sellers. They do not want to face price competition. It lowers their income.

There may be more than one seller who is in a position to sell at a lower price. Some sellers may collude with the monopolist to set prices higher. These sellers control enough of the market so that most buyers are unable to obtain all they would like to buy at a lower price. The quantity demanded would rise in response to a lower price, but supplies would not rise with it. The major sellers would refuse to sell at this price. So, they informally agree not to sell at a lower price. This is called an oligopoly.

A cartel is similar, but with this distinction: a formal structure exists. Members of a group of sellers formally agree with each other to maintain high-cost production techniques and therefore high prices. There is some form of

enforcement system within the cartel to maintain adherence to the agreement by all members. The main enforcement is exclusion from the cartel.

Why would expulsion matter to a seller? Here is one reason. There might be high perceived value associated with the group. Some buyers see a cartel's logo, and they conclude: "This product must be higher quality. I am willing to pay more." But not all buyers are impressed. They want lower prices, not an industry logo. These buyers offer a deal to a member of the cartel: full payment at the time of sale in exchange for lower prices. This is a tempting offer.

Here is the problem for the cartel. If one member decides to sell at a lower price, this will reduce sales by other members. If this continues, another member of the cartel may defect. He also may sell at a lower price. This threatens to cause what might be called a chain reaction. The cartel may blow up. Better put, it may implode. It will no longer be possible to enforce the agreement. This is why cartels usually break down. The cartel has no institutional means of bringing negative sanctions against members who violate the agreement, either openly or clandestinely.

Why not? Because courts do not recognize the legality of most cartel agreements. In fact, cartel agreements are illegal in most nations. So, a cartel agreement is enforceable only if it avoids openly calling for price fixing. Higher prices must be regarded by courts and regulators as a side-effect.

If the cartel gets the support of the state, this makes it difficult for its members to sell at a lower price than the cartel's members have informally agreed to. Its lawyers must dream up an excuse that is not openly related to price-fixing. For example, the cartel may be able to gain state support in the name of consumer protection.

Lawyers in America have a cartel: the American Bar Association. Membership is mandatory in order to practice law for a fee. This is a case of licensing by the state. Lawyers who are elected to the legislatures pass laws that support the lawyers' cartel, sometimes called a guild. From 1908 until 1977 in the United States, it was declared by the American Bar Association to be a violation of ethics for a lawyer to advertise his prices. He might be willing to sell his services at a low price, but he was allowed to reveal this information only when a potential client spoke with him face to face. This way, it was difficult for low-cost lawyers to make buyers aware of their lower prices. This cartel agreement was declared unconstitutional by the United States Supreme Court in 1977. Within hours, law firms be-

gan advertising lower prices. This transformed the practice of law within a few years.

For decades, the airline industry in the United States was a regulated cartel. Its members kept fares high. This was accomplished with the cooperation of a government regulatory agency that was controlled by the airlines, the Civil Aeronautics Board. It existed from 1938 until 1985. Any airline whose planes flew across a state line came under the CAB's jurisdiction. The CAB also assigned routes to airlines. Because the airlines could not legally compete in terms of price, they competed in non-price ways. They served free meals. It was free to ship luggage. The stewardesses were young, good looking, and single until the stewardess's union forced airlines to keep ageing married women on the job.

Non-price competition is a standard strategy of cartels. Rich people or people with business expense accounts are the targeted market. When the cartel breaks down due to the removal of government regulation, its members begin to cut prices. The targeted market moves from rich people to middle-class people. Services grow more sparse. This displeases the previous buyers, but it pleases the middle class. They had been kept out almost completely by high prices. Now this changes. They can afford a stripped-down version of the service. They take advantage of this. The market gets larger as prices decline. This is in accord with a fundamental law of economics: when the price declines, more is demanded.

Another mark of a cartel is *discriminatory pricing*. Rich people are charged more for the same item. This is not possible in an industry with open entry. In a supermarket's checkout line, you will be charged the price on the item. The cashier at the checkout does not ask about your income. You are not charged less because your income is low. But when a high school student applies for entrance at a college, and he seeks financial aid, his parents must fill out forms on their income and net worth. All students ask for aid. The admissions office charges full tuition to rich parents, but offers various kinds of aid to most students. Sometimes the aid comes in the form of a scholarship. But there was no money donated to the college for these scholarships.

They are rarely set aside for a specific amount. Then where does the money come from? It comes from parents who pay full tuition. These scholarships are discounts. The admissions office knows that a particular student may not attend if his parents do not receive a discount, so the school calls it

a scholarship. The school would otherwise be perceived as a bargain store, not an educational institution.

How can a school or any seller charge different prices for the same item, depending on the wealth of the buyer? Because the cartel allows discount pricing for certain people, but not others. Normally, price competition sets the same price for all buyers. Why would any buyer pay more than the lowest price? Any seller who tried to charge richer buyers more money would find competition from other sellers. They would tell richer buyers this: "We will sell it cheaper." But in a cartel, the members agree to charge lower prices only to poorer people. Any cartel member who charges the same price to everyone would be expelled.

The cartel for higher education receives protection from the state. Each state sets standards for any institution selling higher educational services. Sellers cannot use the word "college" or "university" unless they meet standards set by a board. The board's standards are recommended by colleges and universities in the cartel. Regional accrediting associations do not grant accreditation to low-cost, low-price schools that do not have large libraries and other marks of cartel members. This has begun to change with a handful of online colleges that offer degrees by distance education. They charge a low flat rate to all students. This pricing policy is a major threat to the higher education cartel, which charges different prices to different families. Parents may begin to shop price. This would bankrupt hundreds of small private colleges with mediocre reputations.

Physicians and hospitals also use discriminatory pricing. They can do this only because they are licensed by states. This keeps out price-competitive sellers who would otherwise charge rich patients the same fees as poor patients. This would take rich patients away from rivals who charge the rich full price, but offer lower prices to poorer people. The rich would no longer be forced by the cartel to pay a discriminatory high price.

A. Buyer

A buyer who faces a cartel has difficulty getting low prices. Members of the cartel have informally agreed with each other not to sell at prices close to their cost of production. They seek a higher rate of profit per sale. So does every other business, but a cartel is different. It can police its members to see if any of them is selling items for less than an agreed-upon price. This keeps rival sellers from adopting the marketing strategy of price competi-

tion. Price competition forces prices toward the cost of production. The sellers' surplus disappears.

Because prices are higher than prices in a market with open entry, some lower-income buyers are unable to buy. Their budgets do not allow this. Sometimes these buyers can locate a seller who offers discounts for lower-income people. These sellers are not allowed to advertise this policy, however. To do so would be a form of price competition against sellers who do not offer discounts.

Cartels sell to people with above-average incomes. They discriminate against low-income buyers. Their marketing strategy is to skim the cream off the market: sales to rich people who can afford to pay more. These buyers are less likely to balk at high prices than poor people are.

A buyer who wants a lower price must order in bulk. Cartels usually allow members to offer discounts for bulk sales. Discounts for bulk purchases are common with non-cartel businesses. The cartel's members do not fear bulk sales by competitors, because they know that most buyers buy only one or two retail items at the most. The exceptions are not numerous enough to affect the distribution of income in the cartel-controlled market.

Cartels are fragile arrangements. Without the ability to bring negative economic sanctions against a member who defects, the cartel cannot easily sustain the informal price-fixing agreement. Some members cheat. This is why it is not necessary that the state break up a cartel, nor is it necessary to pass legislation against price fixing. We are back to this principle: "Am I not allowed to do what I choose with what belongs to me?" (Matthew 20:15a). To honor this principle, the state should neither break up cartels nor create them by creating legal barriers to entry.

B. Seller

Price competition forces prices close to the cost of production of the most efficient producers. Sellers with high production costs may go out of business.

Sellers that enjoy high margins between sales prices and production costs want to maintain this advantage. This is the seller's equivalent of the consumer's surplus. He therefore is interested in arranging an agreement with other sellers not to compete in terms of price.

Competition must be in terms of non-price advantages. The problem is

this: for the masses, these non-price advantages are marginal. What they want is lower prices.

There are sellers whose marketing strategy is to generate high income by means of low prices and volume sales. This strategy is the opposite of the seller with a high mark-up of prices and reduced volume. The former strategy targets the middle class or even the poor. It undermines the second strategy. By making goods available at lower prices, the seller lures buyers away from high-priced goods. These buyers want deals. They want bargains. Even if they are buying high-prestige items, they want to buy at a discount. There are rich people who take this attitude: "Let everyone think I paid retail. I don't pay retail. Ever."

Cartel leaders strive to keep its members in line: refusing to offer low prices for anything except volume sales. When successful, this leads to high income for low-cost manufacturers.

There is a large seller's surplus. But this surplus becomes a target of cartel members with lower costs of production. They seek to increase sales by reducing prices. They cheat.

C. Pencil

A pencil has no attributes that cannot be easily copied by other producers. The design has not changed much since the late 1800s. It is a mature industry. Any company can enter the trade. Not many do.

The attributes of rival brands of pencils are not advertised. Everyone knows about them: buyers and sellers. This means that no seller can come up with a unique selling proposition within the industry. So, price competition is an obvious way for a seller to gain market share. If existing producers attempted to create a cartel, new competitors could enter the market and underbid the cartel members' prices. There is nothing unique about pencil manufacturing that would serve as a barrier to entry to new competitors. It is an old industry.

The product is sold to parents who are buying them for school children. This is a price-competitive market. A pencil is not a prestigious item. The seller cannot easily make the case that a child will do better in school with as more expensive pencil.

There might be a case for selling an expensive unique pencil to artists. But this is a tiny share of the pencil market.

Conclusion

A cartel is a market anomaly. On the one hand, a deliberate price-fixing agreement among sellers will run afoul of the law. Such agreements are universally illegal. On the other hand, cartels that have been created by the state in order to achieve other ends besides price-fixing can withstand defections from within the cartel and also entry into the market by price-competitive outsiders.

Wherever there is price discrimination against buyers with a lot of money, there is a cartel in action. This means discounts to the poor. The main exception is discounts for senior citizens. The reason why these are offered by sellers in a non-cartelized industry—mainly restaurants, movie theaters, and air fares—is because the public is willing to accept this. People expect to grow old. They want to take advantage of such discounts when they are old.

Wherever there are laws against unlicensed producers making offers to sell to consumers, there is a cartel in action.

Wherever there is a threat by a regulatory agency to revoke the license of a producer that offers lower-priced products or services to the general public, there is a cartel in action.

36

BANKING

But his master answered him, 'You wicked and slothful servant! You knew that I reap where I have not sown and gather where I scattered no seed? Then you ought to have invested my money with the bankers, and at my coming I should have received what was my own with interest (Matthew 25:26–28).

Analysis

Banking is a legitimate business. Jesus' parable of the three stewards makes this clear. The owner is a metaphor of God, who delegates wealth to stewards for them to manage. Two stewards multiplied the coins he had given to them. The third steward buried his coin. The owner is outraged. He deserved at least some positive rate of return on his investment. A banker could have provided this.

There are critics of banking who come in the name of the Bible. They misinterpret Mosaic statutes prohibiting lending at interest in charitable loans. These laws did not forbid interest-bearing commercial loans. Then the critics say that the Bible opposes all lending at interest. They never comment on this passage, where the opposite is taught.

Banking has a legitimate function. Bankers serve as intermediaries between people with money to lend and people who want to borrow. The bank locates borrowers it believes will repay the money on time, plus a rate of interest. It charges a fee to the borrowers. It pays interest to depositors. It makes money on the difference between what the borrowers pay and what it pays depositors. This activity is not inflationary. No new money is created by the banking system.

A problem arises when banks make this offer to depositors. "If you deposit your money in our bank, we will pay you a rate of interest. But you can withdraw your money at any time." This offer is inherently dishonest. If someone earns a rate of interest from money in a bank, then the money has

to be lent to a borrower who will pay an even higher rate of interest. But this means that the money will not stay in the bank's vault. "You can't get something for nothing." You cannot earn interest from money sitting in a bank's vault. On the contrary, you will have to pay the bank for the service of storing your money in its vault. Vaults are not free resources. Neither are bank guards. So, how can the bank offer to let the depositor withdraw currency at any time? Only by using other depositors' money to pay off the depositor who asks for his money back. The banker assumes that everyone will not want his money back on the same day. Sometimes this assumption is incorrect: during banking panics.

Here is how the offer should be revised. "If you deposit your money in our bank for a year, we will pay you a rate of interest. We will put your money in a lending pool. We will lend this pooled money to borrowers for one year. If you need your money in less than a year, we will lend it to you at the prevailing rate of interest." This arrangement protects the bank and its depositors from a mismatch: borrowing short-term from depositors (withdrawal on demand) and lending long-term to borrowers.

Another problem arises when a bank makes loans for more money than it receives from depositors. How is this possible? The money it issues is in the form of drafts: IOU's on the bank. They serve as money in society. Someone can take a bank draft or check to the bank and demand currency. But there is not an equal amount of currency in reserve in the bank's vault. There may be only 10%. There may be less than 10%. So, the bank pays interest on the currency that people have deposited, but it collects interest from all of the borrowers. It therefore makes a far higher rate of return. The economic effect in the economy is the same as if the bank had counterfeited currency and lent it, which would be illegal. But the government does not pass laws against banks that issue more bank drafts than there is currency in the vault. *Banks become legal counterfeiters.*

When all banks do this, the effect multiplies. If the average reserve is 10%, whenever a depositor deposits \$1,000 in currency, his bank keeps \$100 and lends \$900. The borrower takes \$900 to his bank, which keeps 10% (\$90), and lends \$810. That borrower takes the check to his bank, which keeps 10% (\$81) and lends \$729. The process continues. At the end of the process, the banking system issues \$9,000 of money from the initial deposit of \$1,000. The lower the rate of reserves, the more money it creates. This is inflationary. It has a name: *fractional reserve banking*.

As prices rise, people who own money or IOU's to money see the market value of their assets fall. Each unit of currency purchases less than it did before the multiplication of deposits in the banking system. *This is a form of theft.* Although these people did not agree to become counterfeiters, their banks did this for them. They now suffer a negative sanction: reduced wealth.

There is another effect. The multiplication of bank deposits creates a boom. People borrow more money, since interest rates are low as a result of the new money flowing into the economy. They spend this new money. This creates demand. The economy booms. But then the artificial boom turns into a real bust when the increase in the number of deposits slows or even stops. Businesses go bankrupt. Banks go bankrupt. More people lose their jobs than before the boom.

This is a system of multiple indebtedness. The banking system creates enormous debts. The banks also promise that every depositor can withdraw currency at any time. So, in a banking panic, people go to their banks and demand payment in currency (or gold coins prior to World War I). The process then moves from multiplying money to contracting money. If the original depositor demands his \$1,000 in currency, his bank must call in the loan of \$900. The borrower must come up with the money. He goes to his bank and asks for \$900. The whole system implodes as it goes into repayment mode. The \$9,000 becomes \$1,000 again. This is deflationary. Some banks go bankrupt (bankrupt = bank + rupture). They cannot honor their promises. So, the banks that lent to the depositors of these bankrupt banks are unable to pay their depositors. The pyramid of debt topples. This is what happened around the world in the early 1930s. It caused the Great Depression, the worst economic downturn in the West since the process of compound economic growth began in 1800.

Banking is a cartel in every nation. It is a closed industry. Governments limit the number of banks that can be created. This becomes highly profitable for banks. But they still are at risk in a banking panic. If one bank goes bankrupt, fear of more bankruptcies can spread. More depositors go to their banks and demand payment. So, the cartel of banks want a way to secure the system from the depositors. They petition the government to create a central bank. This bank is a government-created monopoly. It has the legal authority to create money out of nothing. It can buy government bonds with this counterfeit money. It can make loans to banks that are suffering a bank run. In practice, it lends money to the largest banks. It does not lend to

small banks. The large banks then buy the assets—deposits—of small failed banks. They buy these assets at a huge discount. Now they can use these reserve assets to issue lots of counterfeit money.

The central bank sets rules for member banks. It becomes the enforcer of rules for banks inside the cartel. *The central bank is the enforcing agency of the bank cartel.* It offers benefits for this loss of individual bank sovereignty. It protects the largest banks. It becomes the insurance policy for the biggest banks in the economy. The politicians want this protection for large banks. A banking panic threatens the entire economy. It can create a recession or a depression. A depression leads to new politicians in office. Incumbents want to avoid this outcome. In the United States in the Great Depression, 9,000 out of 24,000 banks went bankrupt, 1930–33. These were small-town banks and rural banks. Not one large bank went bankrupt. They were protected by the Federal Reserve System, the central bank.

Fractional reserve banking violates a specific biblical law governing loans.

If ever you take your neighbor's cloak in pledge, you shall return it to him before the sun goes down, for that is his only covering, and it is his cloak for his body; in what else shall he sleep? And if he cries to me, I will hear, for I am compassionate (Exodus 22:26–27).

Why would a lender take a cloak as collateral for a loan? What good is it to the lender if he has to go to the trouble of giving it back at night? It does a great deal of good. *The borrower cannot use the same collateral for two or more loans.* This restricts his indebtedness to one piece of collateral per loan. In short, it restricts multiple indebtedness. Multiple indebtedness is the basis of fractional reserve banking: one piece of collateral (currency in a vault or gold coins in a vault) that sustains loans greater than the value of the collateral. The banking system cannot pyramid loans on the basis of minimal collateral.

Without government authorization of fractional reserves, a bank could not safely create fiat money out of nothing. Even if there were no law prohibiting fractional reserves, meaning 100% reserve banking, financially conservative bankers could police the entire banking system. They could present IOU's to currency issued by any bank suspected of having made too many bad loans. The threat of withdrawals by other banks would reduce the

amount of counterfeiting by banks. Also, without a government-created central bank to protect favored big banks, there would be far less counterfeiting. This system is called *free banking*. Here is its legal premise. First, anyone may start a bank. This means no banking cartel could develop that is based on legal barriers to entry. Second, there is no protection by the government of bankrupt banks, either directly (government-subsidized banking insurance) or indirectly by a central bank.

A. Buyer

In the field of banking, the buyer is a potential depositor in a specific bank. But the money he will deposit is already in a bank account. He has the decision as to what bank should issue a receipt for his deposit, but for the vast majority of depositors, they cannot withdraw currency. They do not have enough money in the bank. The huge depositors are investment organizations: mutual funds, hedge funds, etc. They cannot go to a bank and withdraw tens of millions of whatever the national currency is. So, the buyer of banking services is trapped in the banking system as a whole.

In some nations, there is deposit insurance issued by the government. The depositor is protected if his bank fails. So, he pays no attention to his bank's solvency. Rich people and managers of investment funds must pay close attention. The insurance is not extended to large depositors. So, they monitor bank solvency. But they have few choices. A handful of banks contain most deposits. In the United States in 2018, five banks out of 7,000 had about 40% of the deposits and half of all banking assets. The top 15 banks held over 50% of deposits. This means that large buyers of banking services have a limited number of choices for their money.

The buyer shops for a bank. He wants safety for his deposit. If the government guarantees his deposit, other issues besides safety become his concern. The government's guarantee of the return of his money is a major advantage of the national banking system. People who worry about the return of their money will deposit it in banks, sometimes at little or zero interest. They are in effect paying for deposit insurance, which is a valuable service. In such circumstances, price inflation erodes their net worth.

The most important service for most people is a bank credit card or debit card. People in developed societies buy most of what they buy with credit cards or smartphone digits. The other major service is free checking. Whatever people do not buy with digital credit they buy with a paper check.

This ease of payments has extended the division of labor, thereby increasing specialization and output. This benefits buyers and sellers.

By increasing the security of banking, the government has reduced individual responsibility. It has also transferred responsibility to the central bank. The problem here is that the central bank is an agent of the largest commercial banks. The central bank will always defend the interests of the largest commercial banks. This has led to what is called "moral hazard." The bankers at the largest banks take enormous risks with depositors' money, confident that the central bank will intervene to save them if they get into financial difficulty. This produces above-market rates of return, but then, in a crisis, the central bank and the government intervene.

This reduction of responsibility by depositors has led to a banking system that is vulnerable to failure if the assets they invest in fall in price. This leads to bigger booms and bigger busts. The banking system seems secure, but it rests on the taxpayers as insurers. So, a banking system whose government-guaranteed safety features were cobbled together piecemeal by politicians and bureaucrats for over a century has produced a banking system that places millions of taxpayers at risk.

B. Seller

Banks sell banking services. In a free banking system, bankers would earn income by providing lending services and paying interest to depositors. They would look into the risk and uncertainty posed by lending to specific borrowers, probably local borrowers. They would pool depositors' assets so as to reduce the risk of loss to any single depositor. The risk of default would be shared with multiple borrowers. The law of large numbers would protect depositors from the risks of borrowers' default. This is an important service. It enables lenders who seek a positive return on their money to find a way to be paid interest. It enables borrowers who think they have ways to live better by taking on debt to do so.

Basically, the banker puts future-oriented people together with present-oriented people in order to reap a rate of return for this service. People who are willing to lend money at low rates of interest achieve their goal. Consumers who are willing to borrow money at higher rates of interest achieve their goals. So do businessmen who think they have a way to earn more than the rate of interest. The banking system is the primary means of allocating risk to those who are willing to accept risk for a specific rate of re-

turn. This is a valuable service. It has to do with transferring risk to those who are willing to accept responsibility at some price. People pay for the degree of responsibility that they are willing to accept at some price.

When bankers gain special favors from the government, such as barriers to entry, they create a cartel. They seek their financial goals at the expense of depositors, who earn a lower rate of return because of reduced competition: fewer bankers bidding to gain depositors' money. They seek other favors, such as government-funded insurance for depositors' accounts. A government-created central bank reinforces the cartel for the largest banks. The banking system becomes immune to most depositors' demand to redeem their accounts for paper money.

Investment funds cannot do this. Risk is steadily transferred from commercial banks to the central bank and the government, meaning taxpayers. Profits go mostly to the largest banks. The financial sector of the economy grows at the expense of other sectors.

C. Pencil

Banking helped develop the pencil industry. Companies could borrow money for expansion. This led to more efficient ways to produce pencils. Quality improved. Prices fell. This is the effect of banking wherever it operates. It has to do with the extension of the division of labor. Banking makes capital available to manufacturers.

Conclusion

Banking is biblically legitimate when it is confined to serving as an intermediary between lenders/depositors and borrowers. It enables people with complementary goals to cooperate with each other. *Banking therefore favors the coordination of plans.* The means of coordination is the interest rate. Another service is the screening that bankers provide to identify and recruit reliable borrowers. These services must be paid for. Bankers earn this on the spread between what borrowers pay to banks and banks pay to depositors. This is called free banking.

The problem with banking has to do with government regulation. First, local governments create barriers to entry against new banks. This creates a bank cartel: reducing competition. Second, rules and regulations favor large banks that can afford to hire lawyers to interpret the rules. Third, fractional reserve banking replaces free banking because of the government's creation

of a central bank. This leads to legalized counterfeiting, price inflation, and the boom-bust cycle.

37

BAILOUTS

It is as I told Pharaoh; God has shown to Pharaoh what he is about to do. There will come seven years of great plenty throughout all the land of Egypt, but after them there will arise seven years of famine, and all the plenty will be forgotten in the land of Egypt. The famine will consume the land, and the plenty will be unknown in the land by reason of the famine that will follow, for it will be very severe. And the doubling of Pharaoh's dream means that the thing is fixed by God, and God will shortly bring it about. Now therefore let Pharaoh select a discerning and wise man, and set him over the land of Egypt. Let Pharaoh proceed to appoint overseers over the land and take one-fifth of the produce of the land of Egypt during the seven plentiful years. And let them gather all the food of these good years that are coming and store up grain under the authority of Pharaoh for food in the cities, and let them keep it. That food shall be a reserve for the land against the seven years of famine that are to occur in the land of Egypt, so that the land may not perish through the famine (Genesis 41:28–36).

Analysis

A bailout is a government program that transfers wealth from the government to an organization that has suffered a major setback. This text describes a bailout. But it was like no other bailout in history. It was a bailout of the entire nation. It was paid for by taxing the nation's farmers. But since most Egyptians were farmers, this was not a bailout of a special-interest group at the expense of the taxpayers. It was a bailout of the whole nation.

There was a warning about the need for this bailout. First, there was a prediction of a series of events over a 14-year period. Then there was a plan to implement it. From the point of view of the masses, this was a bailout in advance. Joseph did not recommend that Pharaoh announce this prophecy to government officials. He did not tell them to tell the masses: "You're on

your own." He possessed unique information. He believed it. He was given a plan by Joseph. This was central planning by the state.

The bailout was not a free lunch. The masses had to pay for food with money. Pharaoh kept the money. In year two, the people's money was gone.

So Joseph bought all the land of Egypt for Pharaoh, for all the Egyptians sold their fields, because the famine was severe on them. The land became Pharaoh's. As for the people, he made servants of them from one end of Egypt to the other. Only the land of the priests he did not buy, for the priests had a fixed allowance from Pharaoh and lived on the allowance that Pharaoh gave them; therefore they did not sell their land.

Then Joseph said to the people, "Behold, I have this day bought you and your land for Pharaoh. Now here is seed for you, and you shall sow the land. And at the harvests you shall give a fifth to Pharaoh, and four fifths shall be your own, as seed for the field and as food for yourselves and your households, and as food for your little ones." And they said, "You have saved our lives; may it please my lord, we will be servants to Pharaoh." So Joseph made it a statute concerning the land of Egypt, and it stands to this day, that Pharaoh should have the fifth; the land of the priests alone did not become Pharaoh's (Genesis 47:20–26).

This was the means by which God brought the entire nation, excepting only the priests, under bondage to Pharaoh. Egypt was polytheistic. The nation had a doctrine of the Pharaoh as the connection between heaven and earth, gods and man. God gave them a practical lesson in applied theology: servitude to false divinities. The bailout was a means of common grace: preserving life. It was also a means of common curse: subordination to false gods.

A modern government bailout is different in application, though not in terms of its primary result: the partial enslavement of the nation to a false god, i.e., the state. First, a bailout is not the product of a divine forecast. It is the product of some company or group's inaccurate predictions. Events catch the group by surprise. It faces an economic disaster that its leaders did not foresee.

Second, it is paid for in one of three ways, as are all government expenditures: taxation, borrowing, or central bank inflation. Usually, it is a combination of all three.

Third, every bailout is a violation of the rule of law: “You shall do no injustice in court. You shall not be partial to the poor or defer to the great, but in righteousness shall you judge your neighbor” (Leviticus 19:15). A modern bailout almost always involves the transfer of wealth extracted from taxpayers to benefit poorly managed corporations. Large corporations are run by rich men who have close personal connections with national politicians. They are influential in powerful circles.

Fourth, bailouts establish political and legal precedents. Others follow. Bailouts structure politics. They become acceptable. They become part of the political landscape. They become more difficult to resist.

Fifth, bailouts corrupt politics. Politicians and rich special-interest groups become intertwined. The ability of politicians to raise campaign money from rich people makes them ever-more dependent on these people. The rich are aware of this. When it comes time for the rich to collect on these political investments, politicians do not resist.

Sixth, bailouts encourage what is called moral hazard. Large corporations, especially banks, invest in highly risky projects in search of high returns. Senior managers know that the government is likely to intervene with huge amounts of money. These firms will be regarded as “too big to fail.” So, any profits from risky investments go to senior managers and owners of the corporations. Any losses are transferred to the taxpayers.

Seventh, an important aspect of every bailout is the thwarting of the market’s negative sanctions. The financially distressed companies are being sanctioned by the market. Ultimately, this means consumers. Consumers are saying that they will not pay these firms. Bailouts substitute the positive sanctions of politicians for the negative sanctions of consumers. This wealth transfer comes at the expense of taxpayers.

Eighth, a bailout falls into the classification of the things that are seen and the things that are unseen. This distinction was first written about by the French economist and politician, Frédéric Bastiat, in 1850. The things seen are the bailed-out organizations. The politicians remind voters of all the jobs that were saved. But there are always costs: the things unseen. What about the jobs that were not created because the tax money that provided the bailout was not spent by taxpayers on the things they wanted to

buy? No one can see these jobs. They have no political influence.

Ninth, a bailout reminds taxpayers that they are beasts of burden. Their productivity in jobs that consumers approved of is transferred to unproductive organizations whose leaders did not accurately forecast the things that consumers wanted to buy. These leaders will now get more opportunities to demonstrate that they do not know what consumers want and how to sell this to them. Capital will continue to flow from the productive to the unproductive.

Tenth, every bailout substitutes political coercion for free market voluntarism. It announces to the public that the government is in a position to overcome the market's sanctions of profit and loss for the sake of politically well-connected people. The political profit-and-loss system is different from the market's profit-and-loss system. It transfers authority from people in their capacity as successful producers and therefore consumers to people in their capacity as successful persuaders of politicians.

A. Buyer

A buyer is a consumer. He wants to benefit from the money he earns. He prefers to spend his money on things he chooses rather than have the government take his money and spend it on things politicians choose.

A buyer worries about any economic crisis that may disrupt the flow of income from other buyers. As a seller of his own labor, he is concerned with economic crises. His fear of a cessation of his income as a seller is focused. His sense of loss at the loss of his income because of taxes is diffused. He does not know what percentage of his money has gone to bail out some organization. It is probably tiny. But his fear of losing his job is great. So, as a voter, he does not oppose most bailouts. He does not know about them. He wants to know that the government will be there if he ever needs a bailout. *He regards politics as a kind of emergency insurance program.* While he may write to his political representatives to oppose a particular bailout, he does not oppose them in general. A politician thinks that few voters in his district will try to get even with him by voting against him in the next election merely because the politician supported a particular bailout. He thinks such voters will be few. He is probably correct.

A buyer does not perceive the negative effects that bailouts have on the economy. He does not understand the effects of moral hazard on investment decisions by large banks. He may sense the existence of the long-run

corrupting effects of corporate money, but he does not associate this with bailouts.

Few buyers understand that bailouts undermine the buyer's authority in the marketplace. He has money. Money is the most marketable commodity. Sellers want his money. *Bailouts substitute politicians' retroactive judgments for buyers' retroactive judgments.* Buyers voted no by refusing to buy. Politicians voted yes by voting for a bailout. The politicians' votes drown out the consumers' votes. This transfers economic authority from consumers to politicians, meaning from the free market to the state.

B. Seller

There are two groups of sellers: the consumer-pleasers and the politician-pleasers. The consumer-pleasers competed successfully with the politician-pleasers. They provided goods and services that consumers purchased. This validated the forecasts and plans of the consumer-pleasers. It provided them with money, which is capital. Consumers implicitly said this: "Keep doing what you have been doing."

In contrast are the sellers who ask politicians for bailouts. They have been unsuccessful in persuading consumers to hand money to them in voluntary exchanges. They have therefore sustained losses. In order to get taxpayers to provide money to overcome the effects of these losses, they approach politicians. They ask for money. They devise arguments justifying this bailout, such as this one: the jobs it will save or the falling dominoes it will avoid. The politicians hand over money to these people's companies. This money offsets the decisions of consumers not to buy from the bailed-out firms.

Sellers in general do not get upset by any particular bailout. The bailout probably did not affect a company in the seller's industry. It does not affect his company's profits. In contrast, the seller whose company is in need of a bailout is highly focused. He wants that government money. He will do whatever is necessary to get that money. The levels of intensity are nowhere near the same.

A businessman in the same industry as a bailed-out firm may resent the fact that his competitor was bailed out. That means the competitor will remain a competitor. He senses that the bailout was not fair. But in the back of his mind is this thought: "My company may need a bailout sometime. I had better not oppose this one in public."

C. Pencil

There is no likelihood of a government bailout of a pencil company. It would be best if every other industry were as immune to this prospect as the pencil industry is.

The industry is small. Its products are not considered vital. There are substitutes if one company goes bankrupt. Pencils are familiar to everyone, but there is little brand loyalty. If one company went bankrupt, there would not be pressure from employees through their union for a government bailout. There is no union for pencil industry workers. The industry has no political clout. No one pays any attention to it. So, the industry is governed mostly by the law of supply and demand.

Conclusion

Christian economics teaches the principle of private ownership. An owner is responsible for his property. He is responsible for the success or failure of his business. *There is no biblical case for a government bailout of any company or industry.* The taxpayers are not responsible for the failure of any company. They were not going to be participants in the company's profits. They should not be participants in the company's losses.

Bailouts are the result of political decisions. Politicians possess the coercive power of civil government. They can tax and spend. In a non-Christian system of political economy, voters do not automatically vote against politicians who have voted for bailouts of faltering companies. They do not impose the negative sanction of not re-electing candidates who use taxpayer funds to bail out companies that have not satisfied customers. A bailout uses money that was forcefully extracted from taxpayers in order to enrich owners who were unable to persuade a sufficient number of customers to pay money for their products. This is coercive wealth redistribution to further career goals of incumbent politicians at the expense of taxpayers. Because voters do not recognize such coercive wealth redistribution as theft, they do not impose negative sanctions at the next election. The bailouts continue.

In 1887, President Grover Cleveland vetoed a bill that would have provided free seeds to farmers in the state of Texas who were suffering from a drought. Cleveland resolutely vetoed all such bills. He vetoed more bills in his two terms as President than any other two-term President: 584. This is from the text of his veto.

I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and duty of the General Government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit. A prevalent tendency to disregard the limited mission of this power and duty should, I think, be steadfastly resisted, to the end that the lesson should be constantly enforced that though the people support the Government the Government should not support the people.

The friendliness and charity of our countrymen can always be relied upon to relieve their fellow-citizens in misfortune. This has been repeatedly and quite lately demonstrated. Federal aid in such cases encourages the expectation of paternal care on the part of the Government and weakens the sturdiness of our national character, while it prevents the indulgence among our people of that kindly sentiment and conduct which strengthens the bonds of a common brotherhood.

This outlook has not been shared by most politicians ever since 1900. They have voted for bailouts of large companies. They have not recognized that these bailouts violate the principle of equality before the law (Exodus 12:49) and the principle of not favoring one income group at the expense of any other group (Leviticus 19:15).

38

SUBSIDIES

So Joseph bought all the land of Egypt for Pharaoh, for all the Egyptians sold their fields, because the famine was severe on them. The land became Pharaoh's. As for the people, he made servants of them from one end of Egypt to the other. Only the land of the priests he did not buy, for the priests had a fixed allowance from Pharaoh and lived on the allowance that Pharaoh gave them; therefore they did not sell their land (Genesis 47:20–22).

Analysis

The case of this subsidy to the priests provides insight into the nature of government subsidies in general. Subsidies buy the cooperation of the recipients. Pharaoh had begun subsidizing the priests in year one of the famine. He was no fool. He wanted the priesthood on his side. We know from secular Egyptian history that the priests taught that the Pharaoh was a semi-divine figure: the link between heaven and earth. He therefore possessed sovereignty. This theology was advantageous to Pharaoh, especially during a famine, when Egyptians might have been receptive to a revision of priestly theology. But with the priests on the dole, he could be confident that there would be no revision of priestly theology. As the saying goes, “don’t bite the hand that feeds you.”

This example is from the history of Egypt, not the history of Mosaic Israel. Those theologians who seek to derive a theory of state subsidies from the Bible cannot find examples in the Mosaic law or the history of the mosaic Israel. Whenever they cite the example of Joseph’s central planning in Egypt, they neglect to mention that Joseph was bringing the people of Egypt under the rule of a state that taxed them at 20%, which is twice the rate that is identified by God as tyrannical (I Samuel 8:10–14). Joseph brought the Egyptians under the bondage that was implicit in Egypt’s theology of the divine Pharaoh. This was God’s judgment on the nation.

The economic principle here is simple: “He who pays the piper calls the

tune.” If the state pays any group on a permanent basis, it calls the tune. The recipients become dependent on the flow of funds from the state. This subsidy buys political cooperation.

There is no case in Mosaic Israel’s history in which the state subsidized the Levitical priests directly. Levites did receive a tithe from farmers. These tithes went to the tribe of Levi because the tribe had no inheritance in the land (Numbers 18). The tithing laws were not enforced by the state. They were enforced by the church, which was run by the Levites. *There is no example in Mosaic Israel’s history in which the state directly subsidized any group.* This is why those theologians who try to make a case for the welfare state in the name of the Bible do not cite Mosaic case laws or the history of Mosaic Israel.

Such payments are a violation of the rule of law. The welfare state treats at least one group differently from others. It extracts wealth from taxpayers, and then it transfers this wealth to political special-interest groups. This is a violation of biblical justice: “You shall do no injustice in court. You shall not be partial to the poor or defer to the great, but in righteousness shall you judge your neighbor” (Leviticus 19:15).

Any coercive transfer of money transfers economic authority from one group of consumers to another. These recipient consumers now gain influence in whatever markets they spend this money. Producers shift production away from pre-transfer consumers to post-transfer consumers. The state funds one group’s tastes, and these tastes will henceforth be satisfied by producers. The state establishes a new structure of production through the spending habits of the recipients of state funding.

The state’s subsidy is different from a bailout. *A subsidy is permanent. A bailout is temporary.* A bailout allows some company or industry to evade the negative effects of unexpected conditions. It thwarts customers only until conditions change. The state justifies a bailout by claiming that loss-producing economic conditions were inherently unforeseen and unforeseeable. Why should jobs be lost because of unexpected conditions that will soon change? The public accepts this justification. A subsidy needs a different justification. The economic conditions are permanent, yet politicians grant immunity from market competition to some beneficiary. Customers refuse to pay for services rendered by the company. Nevertheless, the politicians continue to keep it in business. How can this be justified? Politicians never discuss the economic logic of the subsidy, namely, that *it is a deliber-*

ate intervention that overrules the decisions of customers. They argue that there is some national interest in maintaining income for the investors, managers, and employees of a firm whose output is not in demand by customers at prices that customers are willing to pay.

One argument that is common is this one: the subsidy is necessary in order to sustain an industry that would be vital for national defense in a time of war. This argument is easily tested. Politicians should instruct the military department that is supposedly dependent on this industry to subsidize this industry out of the department's budget. If a department's senior officers are so completely convinced that a company will be vital in a future war that they are willing to reduce their present budget's expenditures on troops, new weapons, and replacement parts, that is their decision. This test is never conducted, of course. The reason why is clear: senior officers would skip the opportunity to subsidize the company. They would decide that the company is not so vital in a future war that subsidizing it out of the present budget is necessary. But, of course, senior officers are quite willing for politicians to subsidize some defense company out of the general fund. After they retire, some of them may be able to get high paying jobs at this company. Defense companies like to have several senior managers who are retired senior officers. These retired officers have former colleagues who still have senior positions in the military. These colleagues recommend purchases.

What is true of the military is true of senior decision-makers in most government positions. They find high-level jobs in the industries associated with these government agencies. This is especially true industries regulated by the government. This is one of the ways that regulatory agencies are captured by the largest firms regulated by the government. It is a widespread phenomenon.

Subsidies can come in the form of protection, such as tariffs or import quotas. They can come in the form of regulations that apply to an entire industry, but which have the economic effect of increasing the cost of entry into the industry. Established firms can more readily meet the regulations because they have teams of lawyers who are skilled in dealing with regulators. Newer, undercapitalized firms do not. *The economic effect is the same as a direct subsidy to established firms, but it is less visible to the public.* The voters do not understand the nature of regulation. They support the regulatory system because they believe it protects them from unscrupulous businessmen. In fact, it protects them from innovation.

Because subsidies are permanent, recipients become dependent on them. Their production costs go up. Why? Because firms maximize their income by expanding production to meet demand. They do not want any sale to get away. But when they do this, they have no economic reserves. If the subsidy is cut off by the government, they must reduce production. They will have to fire people. They will have to cut costs across the board. They will lobby the government to restore the spending. They will mobilize whatever support they have in the community to pressure politicians to restore the spending. The classic example is the closing of a factory involved in the defense industry. Voters in communities where threatened factories are located send their political representatives letters asking for a restoration of spending. This is why defense contractors set up factories all over the nation. They get political support in many political districts.

A. Buyer

A buyer needs money to buy anything. The state taxes him in order to get the money necessary to subsidize a business. This leaves him with less money to spend on whatever he thinks is important. It transfers money to politicians, who will spend it on what they think is most important: getting re-elected.

Market competition is based on the auction structure: buyers vs. buyers, sellers vs. sellers. After the state extracts money from taxpayers, it becomes a buyer. It now competes against buyers who have less money than before taxes were collected. Or maybe the government borrows money, either from private investors or the central bank. The point is this: the government is able to make its bids felt in the marketplace. It bids scarce resources away from the companies favored by private buyers to those favored by the government. This weakens the buyers' influence in the structure of production. It favors politics.

Subsidies from the state strengthen those companies that cannot compete efficiently in a free market. This is why they seek permanent subsidies from the government. Their use of scarce resources did not satisfy customers, who refused to buy at the prices asked by the sellers. So, the sellers go to politicians and ask for help. When they get help, this shifts income away from efficient companies that did persuade customers to buy. These companies were the most efficient consumers of capital, raw materials, and labor, as determined by customers. The shift of resources to state-subsidized firms therefore reduces efficiency as determined by customers.

Put differently, it increases waste.

Any subsidy sets a precedent. If one firm or industry is legally entitled to a subsidy, why not some other firm or industry? Is there some philosophical objection against allowing one subsidy but not another? If so, it is not intuitively obvious. So, the difference must have something to do with perceived need. At this point, corporate managers see an opportunity. They can hire an economist to make a plausible case for a subsidy to the company. Economists are always available for hire at some price. Spending corporate money to hire an economist to argue in favor of a specific subsidy to a specific company may gain the company a great deal of money.

A typical buyer does not perceive that innumerable state subsidies to businesses reduce the customer's economic authority. He will have less money to make purchases. The state will have his money and the money of a vast army of taxpayers. The system of subsidies favors those firms that can make plausible cases for specific subsidies. This works against isolated taxpayers who are not well-organized politically. Businesses are highly motivated to concentrate their political efforts to get their specific subsidies. They are well organized. The political system moves in the direction of ever-greater subsidies.

B. Seller

There are two sellers here: the seller who was successful before the subsidy and the seller who was not.

The seller who was successful before the subsidy to a rival firm in his industry now faces new conditions. Customers who had bought his output before now switch to his competitor, who has a new source of funding: the government. Maybe his competitor will lower prices. He can afford to do this now; before, he could not. His competitor remains in the market as a buyer of production goods: raw materials, capital, and the labor. He bids up the prices of production goods. This cuts profit margins for others in the industry. Yet the efficiency of the successful seller has not declined. He is as competitive as before. The price signals are not what they were before the subsidy.

The seller who receives the subsidy also faces new conditions. Before, he could not persuade enough customers to buy his output at prices that provided a profit. Now he does not have to persuade all of them. He has a source of income that is independent of those marginal customers who refused to buy. He has not become more efficient. He is no more productive than he

was before, but he is more profitable. He may be even less consumer-driven than he was before. He must now keep politicians happy. He must pay attention to what they expect from his firm, not what marginal customers want.

The non-subsidized producer may find it more difficult to obtain low-interest loans. After all, he is not receiving a subsidy. His rival is. If he cannot obtain loans, he will not be able to buy as much capital. He will find it more difficult to compete with his subsidized rival.

This new situation may tempt him to go to the government for a business loan or some other form of subsidy. To restore his competitive position, he may think he now needs a subsidy. So, the subsidy process spreads within the industry. Instead of pressuring politicians to revoke a rival subsidy, a firm that has no subsidy may seek to obtain subsidies for itself. Sellers compete against sellers for the customer's money. But the subsidy to one competitor has changed the nature of the competition. What had been a competitive struggle to obtain customers' money now has a new element: competition to obtain the government's money.

C. Pencil

It is highly unlikely that any pencil manufacturer would be successful in gaining a government subsidy. The industry is not considered vital. No community is dependent on income generated from the manufacture of pencils. The companies are old, well-established firms. The products are price competitive. The market is narrow: children, artists, and people who take notes on pads of paper. More and more, this latter group is switching to digital note-taking. Nobody will write to his political representative to save a pencil manufacturer that has fallen on hard times. There is not sufficient customer brand loyalty in the industry. If a company goes bankrupt, its facility will be bought by a rival firm at a steep discount. The new owner may choose to sell the old brand, or it may switch the imprint to its own brand. Buyers will not notice a meaningful difference in the quality or marketing of the pencils.

In terms of effects on consumers, it matters little whether a pencil firm goes bankrupt. Why is this fundamentally different from any other firm? The difference hinges on politics, not economics. Some large firm may have considerable political influence. It can mobilize politicians to enter the market and supply funds for a faltering company. But customers do not care, one way or the other. If they cared, they would have bought the output

of the faltering firm. The fact that they did not indicates a lack of commitment to the firm by customers. A few hard-core customers may care, but most will not. The brand will be forgotten in a year or two except by a few customers who were loyal to the brand.

Conclusion

Subsidies thwart customers. Customers have economic authority in the free market because they own money, the most marketable commodity. Sellers must satisfy customers in order to stay profitable. Customers who vote against a product by refusing to buy send a message to faltering firms: "Change what you are doing." Customers of profitable firm also send a message: "Keep doing what you're doing, unless you think you can do better."

Subsidies from civil government upset this hierarchical relationship between customers and sellers. Subsidies substitute a new source of funds: the state. They insert a new agency in this hierarchical system: the state. The new agency owns money. It can therefore gain the attention of sellers. Sellers must pay attention to the recipient of the subsidies. The recipient now has the ability to compete for production goods as well as for customers. The free market's level playing field is no longer level. It is now tilted toward government. Money talks. Government money talks as loudly as consumers' money does.

The ability of faltering companies to hire economists to justify state subsidies is very great. The economists provide justifications that politicians can use to persuade voters in their districts. Voters are not equally skilled in recognizing the weak points in these arguments. So, voters should rely on this basic approach to analyzing such arguments: "He who pays the piper calls the tune." Voters should identify who will be calling the tune: customers or government bureaucrats. If the state takes money away from taxpayers in general in order to subsidize favored businesses, this transfers economic authority from customers to bureaucrats. Why is this a benefit to the general public? It isn't. It is an unnecessary burden.

39

TARIFFS AND QUOTAS

Then the Lord said to me, 'You have been traveling around this mountain country long enough. Turn northward and command the people, "You are about to pass through the territory of your brothers, the people of Esau, who live in Seir; and they will be afraid of you. So be very careful. Do not contend with them, for I will not give you any of their land, no, not so much as for the sole of the foot to tread on, because I have given Mount Seir to Esau as a possession. You shall purchase food from them with money, that you may eat, and you shall also buy water from them with money, that you may drink" (Deuteronomy 2:2–6).

Analysis

Here, Moses recounted the story of Israel's 40 years in the wilderness. He told this to the generation that was about to conquer the land of Canaan. He was the last of the adults of the exodus generation. Moses said that God told the Israelites to buy meat and drink with money.

They had been given money by the Egyptians. Israel had gained the inheritance of many of Egypt's firstborn sons, who had all perished on Pass-over night. Israel had been capitalized by the Egyptians, who had illegally held them in bondage (Exodus 12:35–36). Even after the capital losses imposed by Moses after the golden calf incident (Exodus 32:20), Israelites still had money. Money is the most marketable commodity. It has the widest market of all commodities.

Wherever men go, there are other men who want to exchange more specialized goods and services for money, the less specialized good. Money is the most marketable asset. This means that it can be exchanged for other valuable assets rapidly without advertising costs and with no discount.

Money is an ideal form of wealth for men on the move. It is readily transportable, easily divisible, and has a high value in relation to its volume and weight. Money was what Israel needed for a 40-year march through the

wilderness. Had there been no other nations to trade with, money would have done them far less good, since men cannot eat money. But men can surely eat the food that money can buy, and there were many cultures along Israel's journey with one thing in common: a desire for more money.

Israel began its post-Egyptian existence as a trading nation on the move. Moses told them to trade with neighboring nations. He wanted free trade. That was best for the nation. It was also best for individual Israelites. This is why he did not impose tariffs or quotas. *Tariffs are sales taxes on imported goods.* Quotas are restrictions against imported goods. They raise no revenue. Tariffs and quotas are laws in restraint of trade. They are laws limiting the use of private property. A tariff is a way to collect taxes without investigating people's income. If tariffs are low, then they produce some revenue. Quotas are outright restrictions.

Tariffs and quotas are state subsidies to a few domestic producers. They reduce foreign competition. Some domestic companies can then raise their prices. But an important but rarely understood effect of tariffs and quotas is to reduce exports. If foreigners cannot gain ownership of a nation's money by exporting goods to that nation, then they cannot import goods from that nation. They do not have the foreign nation's money. Why not? No trade. Trade is a two-way street. Both sides benefit.

There is something else. If foreigners cannot gain access to a foreign nation's money, they cannot invest in that nation. There are businessmen who would like more capital. They don't care who provides it if the cost is low. They would like foreign investors, but there aren't any. By the way, this also applies to national governments that want to sell bonds to foreigners. How can foreigners get the money to buy the bonds? By exporting more goods than they import.

Because the Israelites had money, they could trade with those foreigners along the way who had meat and drink for sale. In the wilderness, meat and drink were in short supply. The Israelites possessed money, but they could not eat their money. On the other hand, the nations they passed by had meat and drink. Pre-exodus Egypt had been the richest kingdom in the region around Sinai. Now the Israelites possessed much of the transportable wealth of Egypt. A series of mutually profitable exchanges became possible. The nations had what Israelites wanted, and vice versa.

The Israelites possessed an advantage: the nations were afraid of them (Deuteronomy 2:4). Israel had just defeated Egypt. They had crossed the Red

Sea miraculously. This was a demonstration of supernatural power that threw fear into the hearts of the Edomites. But God warned Israel not to use force to extract wealth from Edom. He told them to be peaceable people, for other nations lawfully possessed their own inheritances. There were legal boundaries around their possessions.

This made foreign trade a major source of increased wealth for the Israelites. Israelites would give up money, which was of low value to them, in exchange for meat and drink. Giving up money for consumer goods meant the de-capitalization of Israel's distant future. But men live in the present; they must eat and drink in the present. God allowed them to make the decision: money as part of the inheritance for the next generation vs. meat and drink in the present.

Money was less valuable to the exodus generation than meat and wine. Meat and wine were less valuable to some Edomites than money. *Because each participant in an exchange values what the other has more than what he has, both of them can increase their satisfaction by a voluntary exchange.* God told Moses to instruct the nation that from now until the military conquest of Canaan, voluntary exchange would be the only lawful avenue of their wealth-generating activities with other societies. They had to learn to prosper through peaceful exchange. Violence should not become a means of increasing the nation's wealth.

This command established a pattern for post-conquest relations with the nations around Israel. Israel restrained itself when it possessed what appeared to be a military advantage. Israel would not have retained an advantage, had they violated the boundaries that God had placed around the nations, but the nations did not know this. Israelites had to rely on trade to get what they wanted. This must have made an impression on the nations in the region. If anyone wanted access to the wealth of Israel, he could gain it by offering an Israelite an advantage. The Israelites were ready to trade. They were not in the empire-building business. They were in the "let's make a deal" business.

This forced wealth-seeking Israelites to become skilled bargainers. They could not rely on military force to gain what they wanted. They had to learn self-restraint. Weak nations must do this of necessity. Strong nations are wise to do this.

After the conquest of Canaan, Israel allowed foreigners to live inside its borders. The rule of law did not discriminate against foreigners who lived

inside non-Levitical walled cities. They could buy and sell homes and leave an inheritance to their children (Leviticus 25:29–30).

Furthermore, one law governed all traders (Exodus 12:49). This was unheard of in the ancient Near East. In all other societies, the cities' gods were local. If you did not have legal access to the religious rites of these local gods, you had no legal standing. These rites excluded foreigners and women. But Israel's God was a cosmic God. His transcendent authority was not dependent on geography. So, Israel became a place where all people could seek freedom from arbitrary civil government and gain legal protection for their property.

This was supposed to set the pattern for Israel's future economic dealings with foreign nations. Without a threat of violence facing them, foreigners would come to regard Israel as a place to do business. If they wanted to benefit from Israel's productivity, they could bargain with Israelites. Without fear of confiscation, they could bring something valuable into Israel in search of a trading partner. Their property would be protected by Israelite law and custom. This safe haven for private property irrespective of national origin would make Israel a cross-roads for profit-seeking foreign traders. Egyptians could seek out Israelites or Babylonians or Hittites to do business. Israel could become one of the neutral, independent, coastal nations that served the great empires as common centers of trade.

God would soon give Israel the geographical location that could make the nation a foreign trade center. But first, He imposed a law that favored foreign nations: the protection of their property. By honoring this law prior to the conquest of Canaan, Israel would mark itself as a nation where private property was safe. *Israel would become known as a trading nation rather than an aggressor nation.* This reputation would position Israel as a regional trade center, bringing income from foreign traders seeking opportunities. This was part of God's program of foreign missions through law: "Keep therefore and do them; for this is your wisdom and your understanding in the sight of the nations, which shall hear all these statutes, and say, Surely this great nation is a wise and understanding people. For what nation is there so great, who hath God so nigh unto them, as the LORD our God is in all things that we call upon him for? And what nation is there so great, that hath statutes and judgments so righteous as all this law, which I set before you this day?" (Deuteronomy 4:6–8).

A. Buyer

A buyer in a free trade nation has a wide variety of goods and services. Anyone from around the world can export goods to that nation. Digital services are also possible to sell across borders. The more choices he has, the freer he is. The more choices he has, the richer he is. This is a crucial link between liberty and wealth. The link is judicial: free trade.

A buyer may choose to buy a good manufactured locally in the same town. He is more likely to purchase services produced locally. The local community probably does not produce the brand of car that a buyer wants, or the brands of appliances. The wider the range of choices he has, the more likely that he will be able to purchase a manufactured good that was produced far away. (Note: 3-D printing may change this some day.)

A tariff or a quota reduces his range of choice. A tariff may buy him some protection from violence if the government spends this tax money on law-enforcement. But it will spend most of it on other government services: politically popular programs. The buyer's loss of choice is probably more valuable to him than the tiny portion of government benefits attributed to his tariff payment.

Then there is the buyer on the other side of the border. He would like to have sellers in the nation make offers to him. If he could get his hands on the currency of the high-tariff nation, he might buy something. But because sellers in his nation cannot find buyers across the border, they earn no foreign currency to sell. So, buyers on both sides of the border are poorer: fewer choices.

B. Seller

Sellers of goods that can be produced less expensively abroad do not face as much competition as a direct result of a tariff or quota. They are subsidized by these restrictions on trade. So are their employees, who are not paid much. The investors/owners are the main beneficiaries.

But there are other sellers who are harmed: exporters. Exporters need to have buyers on the other side of the border. These buyers have to own the currency of the exporters' nation. Where will these buyers get access to this currency? Simple: by purchasing excess currency owned by exporters in their nation. But when tariffs and quotas block foreign exporters from making mutually agreeable trades with buyers in the exporters' nation, the exporters face a restricted foreign market. This is rarely discussed in media

accounts of trade restrictions. The domestic sellers talk about all the jobs that are being saved by tariffs and quotas. They never mention the jobs that are being lost in the export sector of their nation's economy.

Domestic sellers of goods and services other than the tariff-protected goods also are harmed. If buyers could purchase what they want less expensively from importers, they would have more money to spend on other items for sale. But because they had to pay high prices for the protected goods, they cannot spend this money. Employees of the protected firms have extra money, but investors/owners got the lion's share. They buy luxury goods and services. The companies that would have sold to middle-class buyers do not make these sales.

My point is this: *there are winners and losers in a tariff-protected nation*. The protected producers are visible to the public. The victims of the trade restrictions are unknown to the public. The public cannot follow detailed chains of logic, such as what you have just read.

C. Pencil

One of the oldest companies in the United States is Dixon Ticonderoga, which sells pencils. It was founded in 1795. In the 1980s, Chinese companies began exporting pencils to the United States. They gained 16% of the market. Dixon protested. It asked for higher tariffs. The government raised tariffs by 53%. But this failed. The Chinese kept selling cheaper pencils. By 1999, foreign producers controlled over half the U.S. market. So, Dixon set up a plant in Mexico, where labor costs were lower. In 2000, it also created a subsidiary in China, and began importing its own pencils.

The consumers are in charge. They determine what they are willing to pay for. They do not care much about who produces pencils or where the plants are located. They care about price and quality. Imports were by far the better deal after 1990, so consumers bought imports. Dixon did not blame the consumers. It blamed Chinese exporters. This is typical of all companies seeking protection from imports. They never blame consumers for pressuring sellers to improve their products and keep prices low. Instead, they blame foreign exporters who are somehow unfair. They never blame consumers for being unfair.

Tariffs have not been effective in putting a halt to pencils imported from China. It is more efficient for Chinese factories to produce pencils, despite the cost of shipping them across the Pacific Ocean. American con-

sumers have validated the decisions of Chinese pencil manufacturers. They have bought pencils made in China.

Conclusion

Tariffs and quotas are restraints on trade. They limit liberty. They reduce per capita wealth by restricting buyers' choices. Yet millions of voters who are buyers also favor tariffs. This includes voters who claim to believe in the free market. They refuse to call tariffs what they are: sales taxes on imported goods. The voters claim to believe in lower taxes. But in fact they are in favor of high taxes in this one area: sales taxes on imports. They believe that higher taxes on imports will strengthen the economy. They say they repudiate Keynesian economics, with its call for higher deficits to stimulate the economy. Yet they hold to the same view. So did Keynes. When he became a Keynesian in the Great Depression, he switched from being a free trader to being a protectionist. This was what we call today managed trade. He abandoned his earlier belief that a free market could allocate trade across borders. But he was consistent. He also argued that the free market could not allocate trade domestically. The government had to step in and manage capital.

Tariffs are unfair taxes. They violate the rule of law. If there were a fixed tax rate on all goods and services, then it would be fair. It would harm all sellers equally. But no nation imposes such a tax system. The politicians seek to get different rates on different goods. They respond to pressures from big business donors. If every importer paid the same percentage, there would be greater political resistance to high tariffs. But because there are different rates for different goods, political resistance is dispersed, while lobbying is intense. The result is an economically incoherent tax system. It is a concealed tax system. Voters are never told by pro-tariff lobbyists that a tariff is a sales tax. The voters cannot follow the logic of economics. They respond to slogans: "Tariffs protect American workers." They never ask: "Which American workers? How many are protected? For how long? At whose expense?" *At the customers' expense.* That is the famous bottom line.

40

PRICE CONTROLS

*“Bad, bad,” says the buyer, but when he goes away, then he boasts
(Proverbs 20:14).*

Analysis

Everyone wants to buy cheaper. Everyone is looking for a better deal. If I can buy it for less, I retain more of my money. More money is better than less money. Furthermore, there is my adaption of Ben Franklin’s aphorism: “A penny saved is up to 1.4 cents earned, depending on your tax bracket.”

In modern economies, most sales are by computerized bar codes. It is not possible to save money by negotiating with the person at the check-out register. Prices and quantities are computerized. The person at the check-out register cannot modify prices. Everything is set up to let buyers go through the line rapidly.

There are still products that are still sold by negotiation. Automobiles are sold this way. So is most real estate. But where items are all the same, unlike real estate, they are usually sold without any negotiating.

This is a modern development. Throughout most of history and in most societies, buyers and sellers negotiated prices and the terms of sale if credit was involved. They negotiated face to face. There was no court to enforce a law that said negotiations could not involve deception. There was no such law. Everyone assumed that there would be verbal deception. It is a mark of capitalism’s mass market sales that deception has become a matter for court cases.

The proverb provides an example of verbal deception: “Bad, bad.” The buyer is trying to negotiate a lower price. He is offering a reason why he is unwilling to pay the seller’s initial asking price. There is an advertising strategy called “reasons why” selling. This verse tells us that there is a comparable strategy for buying. This proverb tells us what we already know: a person may say “bad, bad” when he is thinking: “Good, good . . . and even better if I can get it at a lower price.” Even when he can’t, and he pays the

asking price, he brags to others that he got a terrific deal. What he said in one setting is the opposite of what he said in another setting.

Now I am going to give you a practical tip. Here is how a wise person buys a house. He meets the sellers. Real estate agents in the United States do not like sellers and buyers to meet, but a wise buyer will ask for a meeting. Here is what a buyer should say after a tour of the house. "This is a great house. I can't imagine why anyone would sell a house like this." The wife wants to hear that her house is great. Her husband likes to hear this, too. It disarms him. He is likely to blurt out the reason why they are selling the house. If he does, the buyer now has useful information about their motivation. He may be able to negotiate a better price or, equally desirable, offer something inexpensive to expedite the sale at a lower price. Warning: do not begin with "bad, bad."

Prospective buyers were complaining about intolerably high prices in Solomon's day. This negotiating technique would be as widely used today as it was in Solomon's day if it were not for bar codes and one-click ordering online. Digital buying is now a matter of "take it or leave it." There is no negotiating.

In politics, it is all negotiating. In the voting booth, it is take it or leave it, but as soon as the elected candidate is in office, the negotiating begins. If he is an incumbent, the negotiations are merely extensions of where the politician left off on the day of the election. He made whatever promises he thought would persuade a majority of voters during the campaign, but now it is back to business as usual.

Politicians know that there are plenty of buyers in their electoral districts who want to pay lower prices. But if prices were lower, these people would still begin negotiations with "bad, bad." These people see an opportunity. What if they could secure low prices on a permanent basis? What if they could escape the pricing decisions of sellers? What if they could prevent sellers from starting out with high prices, hoping that buyers will buy? What if negotiations began with this? An officer of the law accompanies every seller to the marketplace. The officer presents the buyer's offer. "I have a badge, and I have a gun. Your price is too high. Lower it, so that my friend here can afford to buy." What if the seller says he will not sell at this lower price? The officer then says this. "Bad, bad. You are either going to pay a fine or else pay a lawyer."

There are two kinds of price controls: price ceilings and price floors.

This example is a price ceiling. It sets a legal maximum on prices of specific goods and services.

When the banking system does not expand the monetary base, prices tend to fall slowly. Increased production leads to price competition. You may have heard the phrase: "Inflation happens when too much money is chasing too few goods." Price deflation happens when too many goods are chasing a fixed quantity of money. The tendency of free market capitalism is to increase wealth: goods and services. When there is a gold coin standard, this stabilizes the money supply. The result is price deflation: sellers vs. sellers. Under these conditions, there is no political demand for price ceilings, but there is rising political demand for price floors. Sellers tell buyers regarding their money: "Bad, bad. You should pay more money." Buyers then shop for bargains, which they find. This upsets sellers who cannot compete with other sellers. They pressure politicians to enact price floors.

The most widespread price floor legislation is minimum wage legislation. I deal with this in Chapter 41. The other widespread price floor legislation is related to minimum wage laws: any law that compels employers to negotiate with trade unions rather than individual workers. I cover this in Chapter 42.

Here is a summary of price controls. *Price ceilings create shortages. Price floors create gluts.* All price controls convey inaccurate information regarding the underlying conditions of supply and demand. We might go so far as to call price controls "lying about conditions of supply and demand."

The phrase "price controls" is misleading. Prices are not arrested. Prices are not fined. Remember this phrase: "Price controls are people controls." If you remember it, you will be less likely to be deceived by the arguments favoring price controls.

Two people are interested in making an exchange. Each of them is an owner of property. The buyer owns money. The seller owns something that he wants to sell for money. The biblical judicial principle governing this exchange is this: "Am I not allowed to do what I choose with what belongs to me?" (Matthew 20:15a). Each of them is God's steward, both legally and economically. Each of them is responsible to God for the profitable administration of his property. *Ownership establishes legal responsibility.* Because each of them owns property, each of them is legally entitled to disown this property. Neither of them can escape the responsibilities of ownership except by transferring ownership.

At this point, an officer of the civil government intervenes. He asserts a higher degree of ownership. He asserts the legal authority to enforce the economic terms of any exchange. The government has granted him this authority. He is not acting as a tax collector. The state will not add to its ownership of monetary assets. This declaration of state ownership is either on behalf of the buyer (price ceiling) or the seller (price floor). In the case of a price ceiling, the buyer will receive a state subsidy if the exchange takes place at the legal price. In the case of a price floor, the seller will receive a state subsidy if the exchange takes place at the legal price. The person receiving the subsidy benefits at the expense of the other participant. In economic terminology, this is called a *zero-sum transaction*. The gain of the winner is offset by the loss of the loser. But this terminology is conceptually incorrect. The loser has lost more than the winner has gained.

Behavioral economics has discovered in thousands of psychological experiments that an equal monetary loss and gain is asymmetric. The loser experiences greater discontent than the contentment the buyer has gained. This assessment assumes that we can make interpersonal comparisons of subjective utility. In terms of the logic of methodological individualism, such a comparison is impossible. There is no common measure of subjective utility. Economists have known this ever since 1932: Chapter VI of Lionel Robbins' book, *An Essay on the Nature and Significance of Economic Science*. Nevertheless, based on both introspection and psychological experiments, we can safely say that the asymmetry exists. Conclusion: because of the price control, the degree of mutual benefit is reduced in any exchange. There has to be some expected mutual benefit if they decide to trade. If there weren't, they would not trade. But one of the traders has received a benefit that he did not pay for. This is a coercive wealth transfer.

This assumes that an exchange takes place. But it is possible that exchange will not take place. The seller refuses to sell. Or, if he had planned to sell at a higher price, and he built inventory on this plan, he will refuse to continue to supply the item in the future. The supply of the item will decline. Hence, there is a shortage. The below-market price imposed by the law sends false information, namely, that there are sellers willing to sell at this price. This is incorrect. Marginal sellers who would have sold at a higher price leave the market. There are more buyers willing to buy at this price than sellers willing to sell.

A. Buyer

A buyer wishes to exchange money for a scarce economic resource. In his quest for the best possible deal that he can get, limited of course by search time, he wants accurate information about availability. He does not want to waste his time running down rabbit trails in search of items at prices that are not available.

In modern sales, there is a sales tactic called *bait and switch*. A seller advertises an item at an abnormally low price. He wants to get shoppers into his place of business. They come in response to the public offer to sell. But the offer is not real. The seller has no intention of selling the item at the advertised price. He then uses high-pressure sales techniques to persuade shoppers to buy a more expensive item. He is a skilled salesman. He succeeds in converting a profitable percentage of these shoppers into buyers of a more expensive item. But he has made these sales only by stealing time from those shoppers who came to his place of business ready to buy at the listed price. *This is an act of theft*. Bait-and-switch selling is therefore illegal in many jurisdictions, and it should be.

Price ceilings are bait-and-switch policies imposed by the state. Buyers are told that they may purchase items at a price lower than the price that the free market's auction process would have established. Buyers are told by the politicians that sellers may not charge higher prices for some item. Bureaucrats enforce this law. *This is an act of theft*.

Some buyers discover that they can add incentives to sellers that are not officially recorded. But sellers fear getting caught and prosecuted.

Other buyers become desperate. They cannot buy what they want. Then they organize politically to get the state to set up a rationing program. This is common during major wars. The ration coupons are distributed on some basis other than high bid wins. They become the real money. The greater the discrepancy between the free market price and the price ceiling, the more that ration coupons become the functional monetary system.

B. Seller

While a seller is not legally permitted to sell an item above the state-imposed price, he is permitted to refuse to sell at this price. No one enforces a law that he must sell. He can decide to give away the items and possibly receive an income tax deduction. He is allowed to burn the item, as long as he does not violate safety standards or air pollution laws. He is al-

lowed to barter the items with other sellers whose inventories have also been priced below market. If he is willing to break the law, he can sell the items at a market price in what are called black markets, meaning markets that exist in the dead of night, where there are no government searchlights.

Prices on these markets are higher than they would have been, had there been no price ceilings. There is greater risk of being arrested and convicted of a crime. Buyers must pay a premium price for such high-risk behavior.

A seller can reduce the quality of the items in question. The items appear to be the same, but they are not.

A seller can export items to markets where there are no price ceilings. He need not bring the money back into his jurisdiction. He can keep the money abroad, whether across a state line or a national border. He can spend it in that jurisdiction when he goes on vacation.

A seller of used goods is rarely under the price control law. He can sell the used items on Internet auction sites. Buyers who want the item and cannot locate new ones to buy begin to bid against each other. A businessman who is in the used goods market is subsidized by the state by means of price ceilings. Antique stores, flea markets, and junkyards experience rising demand and rising profits.

C. Pencil

Pencils are unlikely to be the targets of politicians. They are considered to be of marginal importance in society. The idea that the public is being gouged by ruthless pencil manufacturers is unlikely to gain a wide constituency among the electorate. Pencil manufacturing is not placed under price controls. A company's profit margin is not restricted by price ceilings.

On the other hand, some of the raw materials that manufacturers use to produce pencils may come under the price ceiling law. In this case, pencil manufacturers' pre-controls plans would be disrupted by shortages of key components. In this case, they may be forced to buy more expensive imports and have them shipped into the country. Or they may be forced to set up factories abroad, where there are no price controls, and then import their own brands.

Conclusion

Price controls are controls on individual owners. Politicians and then bureaucrats inform property owners that they are no longer free to exchange

goods and services on terms satisfactory to them. Some of the property owners own money. Others own goods. Others possess skills that are in demand in a specialized labor market. This means that ownership has been re-defined. Ownership no longer means the legal right to disown property on terms agreed between two sellers/buyers. This is a loss of liberty.

Price control laws mandate the transmission of inaccurate information. Price controls tell buyers and sellers that assets are available at prices that are different from what the free market would have produced through competition: buyers vs. buyers, sellers vs. sellers. Price ceilings misinform buyers regarding the availability of goods and services at the legal money price. Price floors misinform sellers of goods or services regarding the availability of money at the legal money price. Price ceilings encourage buyers to seek for goods and services that will not be made available by sellers. They will encounter shortages. Price floors encourage sellers of goods and services to seek for money that will not be made available by buyers. They will encounter gluts.

Whenever you hear the word “shortage,” think this: “At what price?” Whenever you hear the word “glut,” think this: “At what price?”

Whenever you hear arguments in favor of price ceilings, think this: “Bad, bad,” says the buyer, but when he goes away, then he boasts.

Every buyer wants a good deal for his money. The best way for him to discover a great deal is to research the market. But, in order to conduct this research profitably, a buyer relies on accurate information, beginning with information on prices. Under all systems of price controls, this information will be inaccurate. It will be misleading. Official prices will not be real-world prices. They will produce rabbit trails and dead ends. They will waste buyers' time in searching for fruitless deals. The greater the discrepancy between the market price and the legal price, the more that these searches will resemble searches for a pot of gold at the end of a rainbow.

41

MINIMUM WAGE LAW

“For the kingdom of heaven is like a master of a house who went out early in the morning to hire laborers for his vineyard. After agreeing with the laborers for a denarius a day, he sent them into his vineyard. And going out about the third hour he saw others standing idle in the marketplace, and to them he said, ‘You go into the vineyard too, and whatever is right I will give you.’ So they went. Going out again about the sixth hour and the ninth hour, he did the same. And about the eleventh hour he went out and found others standing. And he said to them, ‘Why do you stand here idle all day?’ They said to him, ‘Because no one has hired us.’ He said to them, ‘You go into the vineyard too.’ And when evening came, the owner of the vineyard said to his foreman, ‘Call the laborers and pay them their wages, beginning with the last, up to the first.’ And when those hired about the eleventh hour came, each of them received a denarius. Now when those hired first came, they thought they would receive more, but each of them also received a denarius. And on receiving it they grumbled at the master of the house, saying, ‘These last worked only one hour, and you have made them equal to us who have borne the burden of the day and the scorching heat.’ But he replied to one of them, ‘Friend, I am doing you no wrong. Did you not agree with me for a denarius? Take what belongs to you and go. I choose to give to this last worker as I give to you. Am I not allowed to do what I choose with what belongs to me? Or do you begrudge my generosity?’” (Matthew 20:1–15).

Analysis

“Am I not allowed to do what I choose with what belongs to me?” *This verse is the most powerful affirmation of property rights in the New Testament.* The context of the statement is Jesus’ parable of the employer who hires men at various times throughout the day. At the end of the day, he pays all of them the same. He broke no contract. They had all agreed to work for

him for a full day. They had agreed at various times during the day. But those who had worked all day complained. Clearly, those laborers who were hired late in the day received a much higher payment per hour of work.

In response, the employer affirmed the right of contract and also the right of ownership. But this affirmation applied to laborers, too. They had possessed the both the ability and opportunity to work for a wage. No one compelled them to accept his offer. As owners of their labor, they had the right to decline the offer. They did not decline. But, after a day's work, they compared their hourly wages with late-comers' hourly wages. They grew discontented. They wanted more.

They made it clear to the employer that they no longer regarded their payment as fair. This is typical of people who value their assets, not in terms of what they have done with them in a competitive market, but rather by what others have done with their assets—in this case, far better. They look back in time, and they conclude that they had agreed to accept too low a payment. They want compensation. They think they deserve compensation. "If we had only known what you were willing to pay, we would not have agreed to your offer." No doubt this is true, but they had not known, and they had agreed. They had not possessed perfect information about the future. Neither had the employer. He did not know that there would be unemployed workers later in the day. The complainers ignored all this. Because others at the end of the day had received more for their hourly wage than they had received, they now resent the source of the payment: the employer. What had looked good at the beginning of the day, when opportunities for wages looked sparse, did not look equally good at the end of the day.

The other laborers did not complain. They had accepted the offer later in the day. They had received a higher wage per hour than the early workers. They were paid what they had agreed to. They had owned their labor. The employer had owned money. They had all done what they wanted with what they had owned. They had all respected each other's rights of private property, which must always involve the right to make voluntary exchanges, i.e. the right to disown property.

I now extend the economic logic of the parable to the issue of minimum wage laws. At this point, the disgruntled workers join together. "Let us threaten never to work for him again. He will not be able to harvest his crop." They do this. They tell him that he cannot hire them cheaply ever

again. But then they discover two things. First, he can hire others who are willing to work for a wage that he is willing to pay, a wage lower than the one they demand. Second, he does not want to hire complainers. What employer does? They must now find someone else to hire them. But there is no one else. If there were, they would not have worked for him in the first place. He is in no way harmed. They cannot find work.

They get another idea. "Let us go to the town council. Let us persuade the members to pass a law mandating higher hourly wages for all workers. Let us recommend one denarius per hour. We will tell the council that this is a living wage. A lower wage is not. Let us call it a minimum wage. Then he will have to pay us. He will not be able to hire people who will work for less. We will get high-paying jobs."

The council does this. It violates the property rights of the employer and the other workers. It says, in effect, "you do not have the right to do what you want with what you own." It violates the judicial and moral principle of Jesus' parable. The employer may now face bankruptcy. Maybe he cannot afford these higher wages. So, since he is living today and not in Jesus' day, he buys labor-saving machinery on credit that would not have paid for itself at the old wage rates. Day laborers were cheap. Next, he hires a few skilled men to use the new equipment, and he hires no one else. Dozens of former workers are now unemployed. So are members of the first group that went to the politicians for relief.

Other employers in the region now face artificially high wage rates. Some of them do what the first man did. They buy labor-saving equipment, hire specialists, and refuse to hire anyone else. The unemployment rate soars. The employers know why. "We cannot afford to hire these workers at the minimum wage."

Some employers who cannot afford to buy labor-saving equipment sell their property to those employers who can afford to pay. Because they are all selling at the same time, the prices of their land and businesses decline below what they were worth before the minimum wage law. They sustain losses. They must now find new businesses to run, possibly in another region where there are no minimum wage laws.

The original workers see this as a threat: a regional exodus of business owners. This will reduce the number of local jobs. Instead of asking the town council to repeal the minimum wage law, they organize nationally to persuade the national legislature to pass a minimum wage law. This way,

employers everywhere must pay the same wage per hour. This, they believe, will stop the local exodus of employers. It will take away their opportunities elsewhere.

The national legislature does this. But the local exodus continues. Why? Regions where the cost of living is lower still have a comparative advantage. Their local businesses' profit margins are higher than in the other regions. Why? Because they pay less for production goods, especially real estate. Businesses in high cost-of-living regions begin to fail. Businesses in low cost-of-living areas survive. Unemployment is higher in high cost-of-living regions than in low cost-of-living regions.

If the national legislature passes the minimum wage low enough for most businesses in low cost-of-living regions to survive, businesses in the high cost-of-living regions will face wage competition from these cheaper regions. Some will go bankrupt.

Then there are workers. High-output workers get jobs. The employers can afford to hire them. Low-output workers do not get jobs. Members of racial minorities also find it more difficult to get jobs. They cannot legally compete in the old fashioned way: by offering to work for less. They remain unemployed. Or maybe they go to work in the black market for cash payments. But because there are now so many of them as a result of the national minimum wage law, they bid against each other. They work for less. This is a subsidy to employers who hire workers illegally at wages below minimum wage.

The free market is a vast auction. So is the labor market. Those workers who are willing to accept lower wages can find employment. They underbid their competitors. Of course, this means a higher bid in terms of hours worked for money paid. There are two currencies here. Workers are bidding in hours. Employers are bidding in money. Wages are set the way all other prices are set in the market: buyers of labor bid against sellers of labor. Sellers of labor bid against buyers of labor. *Out of this system of competitive bidding come wages that clear the market.* Employers and employees come to agreements in each labor market. All of those workers who are willing to work at this wage can find an employer. All of those employers who are willing to pay this wage can find workers. This is how jobs are created: by competitive bidding.

Minimum wage laws make this system of job creation illegal below the legal wage. So, for these jobs, wages are artificially high. But some employers

refuse to pay this wage. At the same time, workers who want jobs at this above-market wage try to find jobs. There is a glut of workers and a scarcity of employers at the artificially high wage rate. The market does not clear. *Gluts are the results of price floors. A minimum wage law establishes a price floor.*

A. Buyer

A buyer of labor services is called an employer. He wants to hire workers at low wages. He wants to buy all factors of production at low prices. He wants to sell the output of these factors of production at a profit. He wants to buy low and sell high, meaning high enough to sell all of his business's output. This price may be lower than his competitors' prices.

He has to pay a market wage. The market wage is established by competitive bidding: buyers vs. buyers, sellers vs. sellers. He can offer a wage higher than the market wage, but then more workers will offer their services than before. The most famous example of this in modern business history was when Henry Ford offered \$5 a day to workers in 1914. This was double the typical wage for auto workers. But it was actually more than double. He required an eight-hour day, so that he could get three shifts per 24-hour day. This was two hours less than was common. Thousands of men showed up to apply for these jobs, which was far more than he could hire.

Ford Motor Company had been suffering from a high job turnover rate. That rate dropped close to zero on the day after he made his announcement. Output rose. He kept cutting the price of the Model T. Sales rose. Profits doubled by 1916. Some of his competitors went bankrupt. Those who survived imitated him. *Buyers of labor compete against buyers of labor.*

A minimum wage law undermines the bidding process. It is a price floor. So, some buyers of labor cease bidding. These are marginal businesses. They cannot afford to pay the above-market wage. They must find ways to stay profitable under the new conditions. Some may go out of business.

Some non-marginal businesses abide by the law, but they find ways to stay in business. Profits fall, but they remain in business. They buy labor-saving equipment. They fire less productive workers. They cut back on the hours they are open for business. Some may try to raise prices. Customers suffer. They may rebel by no longer spending money in town. Instead, they buy more goods on the Web.

B. Seller

A seller of labor is called a worker. Most workers do not understand the economics of price floors. They do not understand the minimum wage law. They believe that they will be better off under the new law. But then they go shopping for jobs that pay this new wage. They find that such jobs are scarce. Also, they find that more workers are trying to get one of these jobs. There is a glut of such workers. A glut is the result of a price floor. The new wage sends a false signal: "Now hiring." But "Now Hiring" signs have been removed from store windows.

Workers with remarkable skills can get jobs. But they would have gotten jobs before the minimum wage. Workers without remarkable skills find that the jobs they wanted have already been filled by other people. There are no more job openings. Their hopes had been raised by the false signal: a higher minimum wage. Their hopes are dashed when they find that there are no jobs available. They do not understand this because they do not understand economics. They do not understand that price floors produce gluts.

Some sellers of labor may choose to move away from the city in which a minimum wage law has been enacted. This is expensive financially and emotionally disruptive. Others may choose to seek employment illegally in a black market. These are low-paid jobs without benefits such as health care insurance or a pension. There are no paid vacations. The advantage is that workers are paid in currency. They do not report all or even most of this income to the tax authorities. But they worry about getting caught. The most creative and courageous of them will start small businesses. They will no longer be salaried. Most businesses fail, as do most projects. This is a choice that can make a few people rich, but most who attempt it will not have the skills to be successful.

Most workers are initially unaffected by the minimum wage law because they earn wages above minimum wage. They do not lose their jobs. But they may work for a company that sells to low-income workers. Some of these workers will lose their jobs. They will cut back on spending. They will reallocate their budgets. There will be some businesses that win, but most will lose.

Some entry-level workers who would have gained valuable work habits in a low-paying job will not gain these skills because they will not get jobs. This will hamper their careers.

C. Pencil

The pencil industry is highly mechanized. Workers possess the skills required to use the equipment. These workers are paid well above the minimum wage in the United States. There are only a few thousand workers. So, minimum wage laws have no direct effect on the industry. There is no glut of workers. The labor market clears in this industry. Because production in the early 21st century moved to China and other low-wage areas, the national minimum wage law has had no effect on the higher-productivity, higher-paid workers who remain in the United States.

Conclusion

Here is an economic rule: *some income is better than no income*. A low-paying job is better than no job if you have no other source of income. Of course, most people have other sources of income: government welfare, relatives, friends, charities, begging, and criminal activity. This is why there are job offers that no one accepts in most advanced economies. This is why there are signs that say “Now Hiring” in store windows except during recessions. The employers are unwilling to pay a market wage, which is high.

Low-paying jobs are criticized for not paying a living wage. But if this were true, no one would accept such a job offer. It is easier to die sitting at home than going to work. *There is no such thing as a voluntary job that does not pay a living wage*. Someone is living who has such a job. The rhetoric of “not a living wage” is silly. It is amazing that anyone believes it or uses it to promote minimum wage laws.

Minimum wage laws substitute the knowledge of politicians for the bidding process of the market. Bureaucrats enforce a law that makes voluntary exchanges illegal between employers and job-seekers. The result is reduced liberty. It is therefore also reduced wealth. Wherever men have fewer legal choices than at the same price than before, both their liberty and their wealth have been reduced.

42

LABOR UNIONS

“For the kingdom of heaven is like a master of a house who went out early in the morning to hire laborers for his vineyard. After agreeing with the laborers for a denarius a day, he sent them into his vineyard. And going out about the third hour he saw others standing idle in the marketplace, and to them he said, ‘You go into the vineyard too, and whatever is right I will give you.’ So they went. Going out again about the sixth hour and the ninth hour, he did the same. And about the eleventh hour he went out and found others standing. And he said to them, ‘Why do you stand here idle all day?’ They said to him, ‘Because no one has hired us.’ He said to them, ‘You go into the vineyard too.’ And when evening came, the owner of the vineyard said to his foreman, ‘Call the laborers and pay them their wages, beginning with the last, up to the first.’ And when those hired about the eleventh hour came, each of them received a denarius. Now when those hired first came, they thought they would receive more, but each of them also received a denarius. And on receiving it they grumbled at the master of the house, saying, ‘These last worked only one hour, and you have made them equal to us who have borne the burden of the day and the scorching heat.’ But he replied to one of them, ‘Friend, I am doing you no wrong. Did you not agree with me for a denarius? Take what belongs to you and go. I choose to give to this last worker as I give to you. Am I not allowed to do what I choose with what belongs to me? Or do you begrudge my generosity?’” (Matthew 20:1–15).

Analysis

In Chapter 41, I analyzed this passage in terms of the disgruntled workers who resented being paid only one denarius for a full day’s work, when others were paid a denarius for less than a day’s work.

At this point, the disgruntled workers join together. "Let us threaten never to work for him again. He will not be able to harvest his crop." They do this. They tell him that he cannot hire them cheaply ever again. But then they discover two things. First, he can hire others who are willing to work for a wage that he is willing to pay, a wage lower than the one they demand. Second, he does not want to hire complainers. What employer does? They must now find someone else to hire them. But there is no one else. If there were, they would not have worked for him in the first place. He is in no way harmed. They cannot find work.

They get another idea. "Let us go to the town council. Let us persuade the members to pass a law mandating higher hourly wages for all workers. Let us recommend one denarius per hour. We will tell the council that this is a living wage. A lower wage is not. Let us call it a minimum wage. Then he will have to pay us. He will not be able to hire people who will work for less. We will get high-paying jobs."

The council does this. It violates the property rights of the employer and the other workers. It says, in effect, "you do not have the right to do what you want with what you own." It violates the judicial and moral principle of Jesus' parable.

In this chapter, I assume that the disgruntled workers adopt a different strategy. They still adopt this tactic:

At this point, the disgruntled workers join together. "Let us threaten never to work for him again. He will not be able to harvest his crop." They do this. They tell him that he cannot hire them cheaply ever again. But then they discover two things. First, he can hire others who are willing to work for a wage that he is willing to pay, a wage lower than the one they demand. Second, he does not want to hire complainers. What employer does? They must now find someone else to hire them. But there is no one else. If there were, they would not have worked for him in the first place. He is in no way harmed. They cannot find work.

But instead of calling for a minimum wage law, they call for a law mandating employers to bargain with the workers who all quit their jobs at one time. If they do not persuade politicians to pass such a law, there will be no way other than violence to keep other workers from accepting offers from employers to work at lower wages than the disgruntled workers want.

These disgruntled workers set up an organization they call a labor union. Then they begin to meet one-on-one with workers. They tell the story of the union. It fights for fair dealing from employer. They encourage workers to join. But members of the union face a problem. The employer can announce the following: "I want to offer jobs to lots of people. I cannot afford to do this at high wages. But I know that there are unemployed people who want to work at the wage I am ready to pay. If you men quit, I will offer jobs to different workers." The union members know there are replacement workers available at this wage. Their threat to quit is not much of a threat. They know this. The employer knows this. Unemployed local workers know this.

It is worse than this. Other local employers get together and make an agreement not to hire members of the union. They also agree to fire any worker who recruits others to join a union. Anyone identifying himself as a member of a union will be immediately fired. This employers' agreement is entirely voluntary. It is based on this principle: "Am I not allowed to do what I choose with what belongs to me?"

The union members know that they can easily be replaced. They know how wages are set: workers vs. workers, and employers vs. employers. They understand the power of the auction to set wages.

So, they go to politicians and call for a law mandating the following:

1. Any worker has the right to apply to join a union.
2. It is illegal for any employer to fire union members only for their membership.
3. It is illegal for employers to collude regarding wages and employment rules.
4. When 50% plus one employee employed by a business vote by secret ballot to be represented by a union, the employer must bargain with this union.
5. If he refuses to meet the union's demands, the union may go on strike.

6. It is illegal for an employer to hire non-union members to replace strikers.
7. The employer must bargain in good faith with union leaders.

The politicians pass this law. They set up an agency to enforce these rules. At this point, union members confront the employer and demand higher wages, better working conditions, several weeks of paid vacations a year, health insurance (tax-free), a pension program, and a shorter work week. If he refuses, the union votes to go on strike. If the proposal receives 50 percent plus one vote, union members go on strike. Any members who refuse are expelled from the union. By law, they become unemployable in this company.

The employer can no longer sell his company's services. It has no workers. It may go bankrupt. It is a war of attrition between the union and the employer. Who will run out of money first: union members or the company's owners and managers?

The union will establish minimum wages for workers in a firm. If the employer capitulates, workers will receive above-market wages, plus benefits. The union's level of wages will be far above any minimum wage passed by the state.

Wages are no longer set this way: employers vs. employers, workers vs. workers. Non-union workers are now legally excluded from competition for jobs offered by unionized companies. Employers are not allowed to collude on the topic of how high wages should be.

A. Buyer

He is a buyer of labor. There are two types of buyers: unionized and nonunionized. One is discussed in articles and textbooks. The other is not.

A unionized employer of labor must decide how to pay for the more expensive employees. He can announce increases in prices for his business' output. But customers need not pay. They can buy from non-unionized companies. They can buy cheaper imported goods. They can buy a substitute product. Finally, they can do without the product.

If he is in manufacturing, he can set up a company in a foreign nation with no labor unions in his sector of the market. He can manufacture them there and import them. Alternatively, he can move the company to another state or province that does not have laws protecting unions. He can close the facility in the pro-union region.

He can shut down the company and retire.

Then there is the other buyer. I call him the unseen buyer. His workers are not yet unionized. Maybe he is in a region where there are no pro-union laws. He is now in a position to compete against unionized companies. He has lower costs of production. He can price his products below the competition's. The pro-union laws serve as state subsidies to his company.

In the United States, no more than a third of the work force was ever unionized, and that was in 1953. The percentage has continued to decline. Total membership is in the 11% range. In the private sector, union membership is below 7%. In the United Kingdom, union membership is about one-quarter. In the private sector, it is 14%. In France, membership is around 8%. The private sector is 5%. But unions represent all employees in firms with more than 50 employees. Germany is 18%. Only the Scandinavian countries and Belgium have union membership above 50%. Outside of Japan, there are almost no unions in Asia.

B. Seller

Sellers of labor services come in two kinds, paralleling buyers of labor services: union and nonunion. Consider the union member. He benefits from being protected from direct competition for his job. He is not threatened by non-union workers who are willing to bid less. They will accept a lower wage. The employer is not allowed legally to accept such offers. He must deal with the union. The union member enjoys above-market wages, fringe benefits, and better working conditions.

The nonunion member would like to be paid above-market wages, fringe benefits, and better working conditions. He finds that when he applies for jobs in nonunion companies, he is asked to join the union. But he may also find that he is not allowed into the union. The union has a limited number of jobs available to its members. It does not let everyone in who applies after the companies in this sector of the economy have hired all the union members they can afford. *Unions keep wages for their members above market by limiting membership.* Wages are high because nonunionized workers are not legally allowed to compete against unionized workers in any company protected by laws establishing a union monopoly. Such companies have declined in number.

Sellers of labor who are not union members face a job market filled with workers who lost their jobs in unionized companies. Had their companies

not been unionized, they would not have lost their jobs. But when the price of unionized labor services went above the market price, those companies took defensive steps to cut costs by relocating their operations to nonunionized regions. They fired some of their workers.

There is a glut of nonunion workers. A glut occurs whenever prices are set by law above the market price. The market price is the factor-clearing price: no buyers still wanting to buy, and no sellers willing to sell. So, marginal nonunion workers who seek jobs are forced to accept job offers that would not have accepted before the government passed the pro-union legislation.

C. Pencil

A pencil manufacturer relies on workers to perform basic tasks. Some of his employees may decide that they want higher wages. They face competition from workers outside the company who are ready to offer their services if wages rise. How can the presently employed workers get raises? Only if their productivity rises. But nothing has changed in their output.

The pencil industry is mature. The any increase in the output of pencil workers is limited by the lack of capital investment. There is little investment because there seem to be no opportunities for profit due to technological innovation. The main savings in production costs must therefore come from lower wages. This is why the number of American pencil manufactures fell from 11 in 1993 to four in 2016. Most pencils are imported. China is the major source of imported pencils.

There are no labor unions in China. Workers understand that they are competing against foreign employees who work for far lower wages. This is why there are no labor unions in the American pencil industry. American workers know that their employers are just barely profitable. If workers did organize a strike, their employers would probably go out of business. The workers would lose their jobs. Their jobs are at risk even without a strike. They are unwilling to risk the loss of their jobs by striking.

What if all American pencil manufactures went out of business next year? No one in the general public would notice. There would still be a plentiful supply of low-price pencils imported from China.

What is true of the pencil industry applies to other industries. What has happened to the pencil industry in the United States has happened to all industries in which innovation lags and old production methods are dominant. Foreign nations with lower labor costs are replacing domestic work-

ers. Workers compete against all other workers, no matter where they are employed. Employers compete against employers, no matter where the rivals are located. Employers whose workers are members of unions who have succeeded in securing above-market wages and benefits steadily go out of business or else they move manufacturing to foreign nations with lower labor costs. Workers in these industries know this. They cannot do anything about it. They cling to their high-income jobs. They stop threatening to strike. The fact that the government allows them to strike is economically irrelevant.

The pencil industry is a good model for traditional manufacturing. What employers and employees face in this industry is what employers and employees face in most manufacturing industries that are not technology-driven: foreign competition from low-wage nations. This is good for consumers.

Conclusion

Unions claim that they are agencies that favor workers. They say they represent labor. This is one of the most successful propaganda efforts in Western history. Unions represent a fraction of the workers in any nation. Unions can extract above-market wages for a minority of workers. It is economically impossible for unions to gain above-market wages for all workers. The only way for some workers to receive above-market wages is for other workers to receive below-market wages. The market wage is the labor-clearing wage: no employer is willing to pay more, and no worker is willing to accept less. Whenever the state raises wages for union members by granting union members immunity from market competition, it inescapably also raises profits for nonunionized enterprises that can now pay less than before to workers but not suffer a shortage of labor. When it comes to the politics of labor unions, the left hand giveth, and the right hand taketh away. The politicians position themselves as pro-labor when in fact they are anti-labor. They produce conditions that will increase unemployment by raising the price of labor, which is the largest component of the cost of production in most industries.

The labor union movement is legitimate as long as its members do not call for government coercion to support their threats to strike against employers. But as soon as unions call on the state to require employers to deal with a union rather than hiring and firing workers individually, unions become immoral. They call for the state to coerce employers. They ask the

state to threaten employers with badges and guns for firing union members and hiring nonunion members at lower wages.

What most voters do not understand is that this coercion by the state damages nonunion workers. Nonunion workers pay for the benefits gained by members of unions that have successful in forcing employers to hire only union members. These nonunion workers cannot gain the benefits that are gained by unionized workers, who are a minority of the labor force. They must seek less desirable jobs.

Their necessity of working in second-choice jobs is an indirect government subsidy to employers of nonunion employers. They now have a larger pool of talent to recruit from. They can now afford to employ better workers than they would have been able to afford in a world without labor unions that are backed up by state compulsion. They steadily replace less efficient workers with more efficient workers at the same wages. Politicians and union officials never admit that what they have done by interfering with the free market in labor has hurt far more workers than they have benefitted: nonunion workers.

Decade by decade, union movement shrinks in the private sector. International competition has undermined the ability of unions to strike against employers who are paying market wages. This is because consumers can buy high-quality, low-price products from manufacturers in foreign nations. Transportation costs keep falling due to technological progress.

With the advent of small 3-D printing devices in manufacturing, the last remnants of the labor union movement will fade away in the non-government sectors of the economy. Manufacturing will become smaller, more decentralized, and local. It will be impossible for unions to organize workers in tens of thousands of small, specialized, and efficient companies.

The free market in labor has steadily overcome the coercion-based labor union movement. The movement did not last long as an economic force: from about 1930 to 1950. It was always a minority movement. Most workers never joined a labor union. At the movement's peak, its rhetoric always had wider acceptance among intellectuals and urban politicians than it did among workers. This was good for liberty. It was therefore also good for consumers.

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EDUCATION

In the third year of the reign of Jehoiakim king of Judah, Nebuchadnezzar king of Babylon came to Jerusalem and besieged it. And the Lord gave Jehoiakim king of Judah into his hand, with some of the vessels of the house of God. And he brought them to the land of Shinar, to the house of his god, and placed the vessels in the treasury of his god. Then the king commanded Ashpenaz, his chief eunuch, to bring some of the people of Israel, both of the royal family and of the nobility, youths without blemish, of good appearance and skillful in all wisdom, endowed with knowledge, understanding learning, and competent to stand in the king's palace, and to teach them the literature and language of the Chaldeans (Daniel 1:1–4).

Analysis

This was public education in action. It was funded by the king of an empire. The king brought in young men from the conquered nationalities. He wanted them educated in the literature of the Chaldeans. After their education was completed, they would then be placed in positions of authority in the empire, serving as intermediaries between the Chaldean state and the subject nationalities. The king understood the centrality of state-run education in the hierarchy of control over the conquered nations.

The young men had no choice but to attend. Their names were changed as a mark of their new subordination (v. 7). But we learn that Daniel established a practice that revealed the sovereignty of God over the gods of the empire. He suggested a test.

But Daniel resolved that he would not defile himself with the king's food, or with the wine that he drank. Therefore he asked the chief of the eunuchs to allow him not to defile himself. And God gave Daniel favor and compassion in the sight of the chief of the eunuchs, and the chief of the eunuchs said to Daniel, "I fear my lord

the king, who assigned your food and your drink; for why should he see that you were in worse condition than the youths who are of your own age? So you would endanger my head with the king.” Then Daniel said to the steward whom the chief of the eunuchs had assigned over Daniel, Hananiah, Mishael, and Azariah, “Test your servants for ten days; let us be given vegetables to eat and water to drink. Then let our appearance and the appearance of the youths who eat the king’s food be observed by you, and deal with your servants according to what you see.” So he listened to them in this matter, and tested them for ten days. At the end of ten days it was seen that they were better in appearance and fatter in flesh than all the youths who ate the king’s food. So the steward took away their food and the wine they were to drink, and gave them vegetables (vv. 8–16).

What was this all about? The Mosaic food laws had been imposed by God as a way to separate the people of Israel covenantally from the surrounding nations and their gods. Now the king was forcing the young men to eat his food. This was an act of inclusion, both theological and cultural. Daniel had no power to escape this, but he had a suggestion: run a test. The young men passed the test. They flourished on a diet of vegetables. There were no Mosaic law restrictions on vegetables, so the young men could lawfully eat the king’s vegetables. This was a practical way that Daniel could demonstrate the power of God over the power of the king’s gods. The chief of the school was pragmatic. He admitted that the youths looked better. He let them off the hook, covenantally speaking. He allowed them to maintain their dietary separation from Babylon. This incident brings us to the covenantal structure of the issue of education.

Sovereignty. Who is sovereign over education? This is the issue of final sovereignty. Is it the God of the Bible or some other god? Who establishes the covenantal structure of society?

The biblical covenantal structure is this: God, man, law, sanctions, and the future. Which God is God? This is the central question of existence. The Chaldeans had their gods. Daniel and the three young men had theirs. Which were sovereign? Answer: the one who brought sanctions. That was answered in Daniel 3: the story of the king’s idol (point 1), mandatory worship (point 2), the young men’s transgression of the king’s law (point 3), their

survival in the fiery furnace, which killed the king's agents (point 4), and their inheritance (point 5). "Therefore I make a decree: Any people, nation, or language that speaks anything against the God of Shadrach, Meshach, and Abednego shall be torn limb from limb, and their houses laid in ruins, for there is no other god who is able to rescue in this way. Then the king promoted Shadrach, Meshach, and Abednego in the province of Babylon" (Daniel 3:29–30). The modern world is replaying this confrontation. It is a battle between the god of man, grounded in Darwinism vs. the God of the Bible.

Authority. This is the issue of the covenantal content of education. It is manifested in the funding of education. Is primary funding provided by the state or the parents? He who pays the piper calls the tune. He who funds education establishes the content of education as well as its pedagogy: theory of learning.

Law. This is the issue of ethics. What is the source of law, both physical and ethical? *The source of the law is the god of a society.* The state says that collective man is the source of ethics. The state's salaried educators say that impersonal evolution is the source of physical laws. The educators say that scientists can discover the laws of nature and society and thereby guide evolution, both natural and social. Christians say that God is the source of all law. Covenantal law is revealed in the Bible.

Sanctions. Who possesses lawful sanctions over education: parents or the state? The state asserts this authority. It makes education compulsory. In most nations, the state has a legal monopoly of education. In the United States, parents are required to pay taxes to support state-run education, but then are allowed to pay for private education for their children. About 15% of parents do this. The state's bureaucrats (point 2) determine the criteria of academic success (point 3), and then impose the testing systems (point 4) that determine which people get access to the offices that guide society's evolution (point 5).

Future. This is the issue of inheritance. Who inherits the world in history: covenant-breakers or covenant-keepers? The Bible teaches that covenant-keepers will inherit. "The righteous shall inherit the land and dwell upon it forever" (Psalm 37:29). They represent the Christ. "I will tell of the decree: The Lord said to me, 'You are my Son; today I have begotten you. Ask of me, and I will make the nations your heritage, and the ends of the earth your possession'" (Psalm 2:7–8) "Blessed are the meek, for they shall inherit the earth" (Matthew 5:5). State-funded education teaches the op-

posite. In the name of religious neutrality, the state makes it illegal for teachers to teach Christianity. It is illegal to teach biblical creationism (point 1), parents' authority over education (point 2), biblical law (point 3) and its civil sanctions (point 4), or biblical eschatology (point 5). Christians are required to fund the mass education of children by a school system that teaches the opposite covenantal viewpoint: the kingdom of man as reflected in the kingdom of the state.

This battle is judicial and economic. The judicial battle is over the primary authority over education: state vs. family. The economic battle is over the primary source of the funding: state vs. family.

The Bible is clear. This injunction is given to families: "Train up a child in the way he should go; even when he is old he will not depart from it" (Proverbs 22:6). This advice was given by Solomon to his son. It was not a command given to his son to set up a system of public education for the nation.

Paul said this: "But God chose what is foolish in the world to shame the wise; God chose what is weak in the world to shame the strong; God chose what is low and despised in the world, even things that are not, to bring to nothing things that are" (I Corinthians 1:27–28). Christians should recognize that the state, which is intensely anti-Christian, will not allow foolishness to be taught in its schools. It makes war on this foolishness.

R. J. Rushdoony once said that Christians who oppose higher taxes but allow their children to be educated in state schools have their priorities wrong. "They tithe their children to the state, but then criticize taxes."

A. Buyer

Children do not fund their own educations. Parents do this. In the modern world, as in Babylon, the state claims to be the lawful source of the funding of formal education, meaning certified education, meaning education that grants certificates of educational performance. So, there are two buyers of education: families and the state.

The parents have covenantal concepts of sovereignty, authority, law, sanctions, and the future. These views may be consistent with the views of state-funded educators. Parents whose outlook is consistent with Darwinism are supporters of state funding, state control over schools, and restrictions on Christian theology in schools. Their justification of compulsion in education is this: without compulsion, some parents would not educate their children. In the name of the good of all children, Darwinists support

compulsory state education. The anti-Christian content of state education is justified in the name of religious neutrality. Nevertheless, the vast majority of Christians support state education and its justification: neutral education. Yet Jesus said this: "Whoever is not with me is against me, and whoever does not gather with me scatters" (Matthew 12:30). The foundation of public education is a myth. *There is no such thing as neutral education.* It is an impossibility. It is the camel's nose into the tent. Once inside the tent, it reveals its intense hostility to Christianity. But still the vast majority of Christians send their children into state-run schools. In most nations, it is illegal not to send them into state-run schools. These schools are the primary agencies of propaganda in the world. The propaganda is pro-Darwin and pro-state. *The schools are run by the state for the benefit of the state.*

There is a bidding war for educational services. The state is the primary bidder. It uses funds extracted coercively. There is no legal way for taxpayers to refuse to pay. So, most educational resources shift to state-run institutions. The state's standards prevail.

A handful of parents can afford to send their children to classroom-based private schools. The elite do this, but the educations are as secular as state schools. A small minority of Christians also do this. But the great growth of Christian education through high school is homeschooling. Mothers invest time, but not much money. They are long on time, but short of money.

A few free market economists, beginning with Milton Friedman, propose that parents be given educational vouchers by local governments. The parents can use these to pay partial tuition to schools, public or private. These vouchers can be exchanged by schools for money. This will provide greater school choice. But the argument is silly. The state will not allow schools to participate that do not meet state standards. The states may not give away money autonomously. The recipients must meet educational goals said to be legitimate by the courts. In the United States, the courts have said that civil government may not fund sectarian ideas. This means that Christian schools, in order to be eligible to receive these funds, must adopt secular curricula. This was my argument in a debate I had with Friedman in 1993 in *The Freeman*. I had argued against vouchers in the May 1976 issue of *The Freeman*.

He who pays the piper calls the tune. If the state pays parents to pay pipers, the pipers must play the state's tunes when these vouchers are returned to local governments in order to receive money. Wrong tune → no payment.

B. Seller

A seller of educational services must find buyers. There was a time when rich people hired tutors. They were imitated by middle-class people who bought a tutor for several families. They paid for school buildings that could accommodate several dozen students. Teaching a room full of students is different from teaching one or two students. Methods are different.

A seller must judge what targeted buyers really want for their children. He must structure the content and the teaching method accordingly. But he rarely has to make major changes.

Parents are rarely confident about exactly what they want their children taught. They want them to be qualified to get jobs that require degrees. This has been true for the recorded history of formal education. This is why they enroll their children in schools. An educator can usually persuade parents that he is qualified to teach. The details are vague.

If a seller can gain licensing, he has a much better opportunity to find willing buyers. But if he can get a job at an institution subsidized by the state, which also offers tenure, he need not achieve much of anything beyond this. He is paid in terms of years spent in the school district and degrees earned at night school or summer school programs. There are no classroom teaching standards that are widely used as marks of merit for pay raises. There are no online videos of what they teach.

Were it not for tenure, schools could hire the best teachers to produce a year's worth of videos, post these online, and fire most of the other older teachers. They would keep the best teachers to update their videos and answer students' questions on student forums. Students would wear headphones and sit at individual carrels. They would watch video lessons on screens. They would do assignments at their desks. If they get stuck, they would ask questions online. There would be few disciplinary problems. Trouble-making students would be permanently expelled.

Their parents would then have them take the courses at home online. These children would get educations. They would not disrupt others. Exams could be graded online. The schools would hire low-paid adults to monitor classroom behavior. At least 80% of the administrators could be fired. The cost of education could be cut by 60% or more. The teachers' unions do not allow any of this. Neither do the administrators. Costs rise. Students' test scores fall. Courses are dumbed down. Tests are dumbed-down.

Private charter schools are replacing conventional public schools in the United States. They are funded by public money, but they hire and fire on their own authority. They keep any profits. Most parents want their children enrolled in charter schools. There is more demand than supply. Access is rationed. The teachers' union opposes charter schools. The news magazine *U.S. News and World Report* in 2017 rated three charter schools in Arizona as the three best American high schools academically out of 22,000. A fourth school owned by this company was #5. Public schools do not attempt to imitate this company's program.

C. Pencil

Pencils are used in schools. There will always be a market for them. This demand will decline as YouTube video-based instruction replaces classroom education. Students will take exams online. They will write essays online. Pencils are not the focus of state-financed education.

Conclusion

The primary function of tax-funded, state-run education is to indoctrinate children in the Darwinian worldview of the educators. Another goal is to create a population that is subservient to the state. Parents who allow their children to be educated by bureaucrats who cannot be fired after a few years, and who will not allow any interference with their programs by parents or politicians, are compliant people. They will do what they are told. *Tax-funded education is the most important single tool in the state's control over the public.* The teachers are not public servants. The voters are public servants. The teachers kidnap the children of the voters and train them in subservience. This program of government control was developed in Prussia in the late eighteenth century and has progressively achieved its goal ever since. The story of how strategy was implemented successfully in American schools is described in two books: John Taylor Gatto's *Underground History of American Education* (2000) and R. J. Rushdoony's *Messianic Character of American Education* (1963).

The issue of education is deeply theological. I have explained why in this chapter. Yet the vast majority of Protestants accept both the theological legitimacy and educational necessity of tax-funded schools. This reflects the non-covenantal outlook of most Protestants. They do not think covenantally. They do not analyze every institution in terms of the covenant's five

points: sovereignty, authority (representation), law, sanctions, and time. Neither do their ecclesiastical and intellectual leaders.

Roman Catholics in Protestant nations have been more theologically and institutionally aware on this issue than Protestants have been. Initially, Catholic leaders saw America's public schools as mainly Protestant, not mainly secular. For that matter, so did most Protestants. This was an analytical mistake from their beginning in the mid-1840s, when the state of Massachusetts began setting up a public school system. These schools were Unitarian/secular. Over the next half century, the educational leaders became self-consciously secular, as Rushdoony's book shows. By 1900, America's public schools were overwhelmingly secular. At about that time, Catholic parishes began to set up Church-funded parochial schools. They flourished until shortly after Vatican II, which ended in 1965. Then the bishops began to close the schools.

Ever since homeschooling became more popular among conservative Protestants in the United States in the 1980s, there has been a growing interest in the theological foundations of Christian education. This represents a self-conscious break with mainstream American Protestant opinion. Before this, only Dutch-American Calvinists and the Amish had been theological critics of America's secular public education.

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MEDICINE

And the Lord will take away from you all sickness, and none of the evil diseases of Egypt, which you knew, will he inflict on you, but he will lay them on all who hate you (Deuteronomy 7:15).

Analysis

Healing is an aspect of covenantal ethics, according to the Bible. Health is a blessing of God; sickness is a curse. This is why the early church in the New Testament used healing as a way to demonstrate God's new work of redemption, which was evidence of the church as God's ecclesiastical representative in history, the replacement of Israel.

Now Peter and John were going up to the temple at the hour of prayer, the ninth hour. And a man lame from birth was being carried, whom they laid daily at the gate of the temple that is called the Beautiful Gate to ask alms of those entering the temple. Seeing Peter and John about to go into the temple, he asked to receive alms. And Peter directed his gaze at him, as did John, and said, "Look at us." And he fixed his attention on them, expecting to receive something from them. But Peter said, "I have no silver and gold, but what I do have I give to you. In the name of Jesus Christ of Nazareth, rise up and walk!" And he took him by the right hand and raised him up, and immediately his feet and ankles were made strong. And leaping up, he stood and began to walk, and entered the temple with them, walking and leaping and praising God (Acts 3:1–8).

The ability to heal miraculously has always been regarded by the masses as evidence of a person's special relation to God. This same attitude prevails today in an era of scientific medicine. Medical missionaries are granted access into nations that are otherwise closed to missionaries. Political leaders regard the benefits of healing as outweighing the negatives of evangelism.

Jews understood this principle in the Middle Ages. They became physicians to gain acceptance in the gentile world. Moses Maimonides, the Rambam, was the most famous Jewish theologian and philosopher of the Middle Ages. He was also the senior physician of the sultan of Cairo in the late twelfth century. Christian hospitals in the later Middle Ages were ministries of churches and ecclesiastical orders. Then there is the remarkable account written by Álgvar Núñez Cabeza de Vaca of his eight-year trek from Florida through Texas into Mexico, 1528–1536. He describes the strange fact that he and his companions gained the power of healing halfway through their journey. They were welcomed by Indian tribes from Texas country to Mexico because of this. Word spread in advance that they were coming, tribe by tribe. They would probably have been killed had they not possessed this power. Instead, they were supported with food and water.

The power to heal is a mark of authority. This is why the state in modern times establishes healing programs of all kinds. It insists on collecting taxes to fund these programs. *The concept of healing is associated with salvation.* The root word for salvation and salve is the same. The modern state rests on secular foundations, so it does not preach eternal salvation, but the state claims the ability to heal society through legislation and regulation. It sets up hospitals, medical schools, and health insurance programs as aspects of this messianic impulse. Its claim to be able to heal society's institutions also requires its ability to heal individuals of sicknesses, including mental disturbances that are defined as mental sickness.

The costs of state-funded healing are among the largest expenses in most national government budgets in the West. In the United States, one-quarter of the national government's budget goes to funding old-age medical care: Medicare. Residents become eligible at age 65. Companies that sell health care insurance refuse to cover expenses that would otherwise have been covered by the Medicare program. This forces all people age 65 and older into the Medicare program. They cannot buy private health care insurance for major medical problems. The percentage of the budget devoted to Medicare is expected to increase.

The United States government is now trapped by a wave of retirees: 10,000 per day. The average cost of Medicare is over \$12,000 a year until the person dies—on average 19 years after entering the program. (Life expectancy is shorter for blacks and Hispanics.) No funds have been set aside to pay for these services. These future obligations will have to be funded out of

future government revenues. They will overwhelm the government. The *present value* of these liabilities exceeds \$150 trillion. At some point, benefits will be reduced. There will be no other choice. The money coming into the government from taxation and borrowing will not be sufficient to pay the medical expenses of the aged and Social Security pensions. But no politician ever speaks of this in public. Similar increases in costs threaten other Western nations.

Then there are the costs of funding medical care for people under age 65. This is a major threat to the West's stability. The public has been promised affordable health care. But costs exceed revenues. If the government cuts back, this will cause political confrontations. Cutbacks will be seen, correctly, as threats to the government's healing function. They will inflict a loss on the government's legitimacy.

These budget cuts will overturn personal budgets. People have taken seriously these political promises. Few retirees own sufficient resources to cover major medical expenses, other than the value of their homes. They will have to sell their homes or mortgage them to pay the bills. This will eliminate expected inheritances of their children. In some cases, the parents will move into the homes of their children. Their children have not set aside money for this. They have not saved for their own medical expenses in old age. They have assumed that the government will cover most of these costs.

This inverted pyramid of expenses has come as a result of politicians' promises, beginning in the United States in 1965. The estimates of these costs were underestimated by everyone. They are still underestimated by the vast majority of Americans. As a result, the government has accepted its role as a healer. Wherever governments have done this, they will inevitably face this rhetorical challenge: "Physician, heal thyself" (Luke 4:23). The resources will have to come out of other programs. Then the government's budget will be unable to cope with the costs.

The assertion of the state as healer is inherently a claim of divinity. In a world of atheism, which is the confessional and cultural world of the West's humanist elite, this is *divinity by default*. The state is seen as the only institution with sufficient power to structure the social order. This faith reached its high point in the early decades of the Soviet Union, and again in the 1960s in Communist China. But with the collapse of the Soviet Union in December 1991, and with the replacement of Communism by state capitalism in China in 1979, this faith has declined worldwide. The state is seen as

the economic stabilizer. In the area of health care, the state still retains its reputation as healer of last resort for the masses, and healer of primary resort for the aged. The state is the primary care physician for the elderly. In fact, it is a witch doctor, fiscally speaking. It will be exposed as such before the twenty-first century reaches the halfway point.

The result of the intervention of the state into the health care delivery system has been escalating prices. Those who are not recipients of state subsidies must pay these prices. This has taken place in the West since 1980, but the increase has been greatest in the United States by far: from under 9% to over 17% of GDP.

There is always greater demand for health care than there is supply at a below-market price. So, there is a never-ending demand for health care services that are funded by the government. Politically, politicians can gain support for promised increases in health care services at the same prices or even lower prices. Voters always want to hear that the state will pay for even more of their health care needs. They do not enquire as to how the government will pay for these services. Similarly, no politician dares call for the voters to pay more for their health care, either through a reduction of payments by the government, or an increase in taxation, or both. Voters are not interested in the reality of government budgets. They have been led to believe that deficits don't matter, that the government can always find the money to pay for medical care for the aged. At the same time, they are deeply interested in the reality of their own budgets. They know how vulnerable they are to unexpected or even expected medical costs. They are interested in obtaining healing at below-market prices.

In matters of life and death, the issue of price is not a major inhibiting factor. The stakes are too high. There is no fallback position from death. People will pay whatever is charged. Whenever the state steps in and promises to pay, that offer will be accepted. The offer becomes permanent in mandated programs. Nothing can reverse this politically other than bankruptcy.

A. Buyer

A private buyer of medical services is in competition with other buyers. If other buyers have access to funds from the government, the buyer without such access must find ways to pay. As the competition increases because millions of American buyers gain access to medical care because they have reached age 65, the buyers who have not reached 65 will face increased pric-

es. Prices rise in response to increased demand that is greater than new supplies of physicians and hospitals.

These increased costs of health care services create a political market for promises of extended aid from the government to groups that do not yet have access to subsidized medical services. Politicians find enthusiastic responses to such offers. If a particular voting bloc does not have the funds to buy health care insurance, politicians can promise this. Once any group receives such support, it becomes politically impossible to repeal the legislation. There is an organized constituency to continue the subsidy. People have adjusted their budgets in response to the subsidy. They do not want to return to the older political world that did not offer the subsidy. They will organize to fight any reversal. So, the subsidies continue. Those voters who were not granted subsidized health insurance now pressure the government to extend the subsidies to them.

This is why we do not see successful political movements that achieve a rollback of previous expansions of health care subsidies. Financially hard-pressed buyers turn away from political calls to repeal the earlier laws to calls to extend comparable subsidies. *The political pressures to extend subsidies are stronger than the calls to repeal previous legislation.* The two positions are politically asymmetric.

A buyer who is concerned with his health or his family's health cannot afford to purchase all of the health care services that he would prefer. In the aggregate in any society, this is true of all scarce resources. At zero price, there is greater demand than supply. This is why resources command prices. Yet individuals facing medical threats are willing to curtail other spending in order to purchase medical care. This is why the demand for medical services does not fall sufficiently to offset rising prices. People will not pay for an operation just because it is 20% cheaper. So, it does not pay a hospital to run monthly specials. "This month only – 20% off on a gallbladder operation. Act now!" But if people need an operation to live, demand will not fall by 20% in response to a 20% increase in the price of the required operation. This is why there is upward pressure on the prices of medical services greater than increased demand for most other market-based services.

B. Seller

A seller of medical services is in favor of more buyers competing against each other. He is also in favor of existing buyers obtaining more money

with which to place bids. He is also in favor of greater demand for the services he sells.

The health care industry favors the government's entry into health care delivery, as long as the government does not try to set prices and standards. The industry favors free money for itself. But the government always wants to set prices and standards of anything it subsidizes. It may not enforce these standards. It does not enforce standards in military expenditures. The only sure way to run real-world tests is in a war. But in the area of health care, some voters and some journalists complain that care is substandard in this or that hospital. This pressures politicians to extend quality controls, which raises delivery costs. Then, when prices rise, politicians start campaigning on a platform of cutting costs. The government giveth, and the government taketh away.

In the case of medical care, the industry is heavily regulated. It is also heavily licensed. This restricts new entry. This reduces competition. This keeps prices high and rising. The sellers of health care services profit greatly early in the process: rising demand because of government subsidies, and reduced competition because of barriers to entry. This drives up prices. Then the politics of cost-cutting takes over. Eventually, price ceilings and rising regulation-based costs create shortages. This leads to rationing by the government.

The seller of health care services is in a profession that is fenced in by government controls. The government regulates the supply. It regulates the terms of sale. It regulates standards. By regulating the insurance industry, it regulates payments. It regulates payments when it subsidizes buyers. Therefore, the medical profession and the health care industry are more heavily regulated than most.

Sellers find that their lives are filled with paperwork. Government demands official reports when it hands out money, either directly or indirectly. As the costs of filing paper increases, the industry turns to computerized files. Privacy disappears for most patients, and along with it, the older physician-patient relationship suffers.

C. Pencil

The pencil is not a matter of great concern. No one buys a pencil because it is life or death. No one worries that he will not have enough money to buy if he ever needs one. He does not seek for a policy to guarantee him

a sufficient quantity of pencils in a crisis. He does not pressure his political representatives to intervene into the pencil market to guarantee that there will be enough pencils in his old age. He does not call for pencil quality standards enforced by an agency of the government. So, the market for pencils is not heavily regulated or heavily subsidized. This is why pencils are cheap, available everywhere, and never in short supply. Because pencils are not regarded as crucial to society, they are widely available in society. They are not in any way comparable to medical services.

Conclusion

The supply of medical services is restricted by government intervention. The demand for services is increased by government intervention.

Buyers and sellers work together more closely than in most fields. But because of the steady intrusion of the state into the physician-patient relationship, medical care is becoming more managerial than personal. The state demands reports from those receiving its support. It tracks the money. The state has a supposed fiduciary relationship over the public's money. It is supposed to take care with this money. In practice, this is ludicrous. The modern state spends more money than anyone can trace. But the authority and responsibility of bureaucrats to trace the money then becomes the justification of the spread of paperwork. The bureaucrats use paperwork to protect themselves from political charges of reckless spending and waste. They spend vast amounts of money, most of which is wasted. But they never get fired. They can always point to a trail of paper. "We did it by the book!" So, they force those on the receiving end of the money to do it by the book. The state's bureaucrats replicate themselves in the private sector. This has become true in health care services.

The modern world has seen the state as an agency of social redemption and salvation: the healing state. This false religion has led to the creation of the state in the model of the caretaker at an insane asylum. The state cares for the patients, who are seen as incapable of caring for themselves. They are seen as lifelong inmates. The medical profession is an intermediary between the healing state and the masses, who are seen as in need of healing. The savior state and the technicians of healing are linked together by the state's money.

There is an ideological war between defenders of market-based health care and state-regulated, state-funded health care. The outcome of this war

will be decided by ideas. But it will also be decided by the price of medical care and the availability of medical care to the masses, who have the votes.

There is little likelihood of politically rolling back government-funded and government-licensed medical care until such time as rising costs of tax-funded health care delivery programs threaten to bankrupt national governments. That day is coming. It is statistically inevitable. At that time, nation by nation, government-funded health care programs will become political battlefields. It is my prayer that Christian leaders will take a Bible-informed, ethically principled stand in favor of de-funding state medicine and also de-regulating the practice of medicine. De-regulation would be good for most consumers of medical services. It would free up human creativity to focus on healing. It is always good for consumers when a cartel that is based on state-enforced licensing loses political support. It leads to greater supplies, falling prices, and more freedom of choice.

In the meantime, digital technologies are making health care more affordable. Digital information on symptoms can be analyzed by computer programs: artificial intelligence (AI). Reduced air fares to less developed countries that have qualified surgeons at low prices will make off-shore medical services more common. Price competition is going to increase. This is positive for human welfare.

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PENSIONS

Honor your father and your mother, that your days may be long in the land that the Lord your God is giving you (Exodus 20:2).

Analysis

A positive sanction is attached to this verse: long life in the promised land. This is a clear indicator that this verse is associated with inheritance: point five of the biblical covenant.

The nation was chronologically ready for the inheritance immediately after the exodus, but the generation of the exodus did not inherit the land. They rebelled against the report of Joshua and Caleb, who said it was time to invade the land of Canaan. God brought Israel under negative sanctions. He told them that they would not inherit the land (Numbers 14:35). Their children would inherit.

Paul wrote that this was the first commandment with a promise. “Honor your father and mother (this is the first commandment with a promise), that it may go well with you and that you may live long in the land” (Ephesians 6:2–3). This statement appears in a presentation on family authority. He immediately added this: “Fathers, do not provoke your children to anger, but bring them up in the discipline and instruction of the Lord” (v. 4). He understood that the commandment was about family authority.

There are economic implications of family authority. Throughout history, in every society until the modern West, children have supported their parents when the parents became infirm.

This is part of the process of inheritance. Parents bring up children, but they know that they may become dependent on these children when the parents are aged. Parents have always had an economic incentive to provide training sufficient to enable their children to support them in their old age. This calculation has been basic to civilization from the beginning. It was built into the curse (Genesis 3:19). We return to dust. But in the interim between productivity and death, there are threats. We age. We sometimes be-

come infirm. We may become a financial burden to our children. They are supposed to sacrifice on our behalf when they are in their most productive years. They must bear the burden of parents who are no longer productive, while training their children to be productive. It is a double responsibility. It is inherent in the process of death.

The modern world, beginning around 1800, has steadily reduced this economic burden. First, per capita wealth began to increase sometime between 1780 and 1820. The compounding process was not reversed for the first time in recorded history. Second, life expectancy began to increase. So, as parents aged, they did not become infirm in the days when their children had young children. They may have become infirm at age 70 or 80, but by then their children were close to finished with rearing their families. Everywhere else on earth, parents normally died much younger. They became a burden much younger. As life expectancy has increased, worldwide, men and women have remained productive longer. They have had more years to accumulate capital to support themselves in their old age. They became more likely to leave an inheritance to their children. By the 1880s, families in the West had reduced the burden of supporting aged parents to a level never seen before.

In the 1880s, Otto von Bismarck was Minister-President of Prussia and Chancellor of the German Empire. He led the conservative political movement. The socialists were beginning to make inroads politically. They called for state-funded pensions. In order to undercut them, Bismarck also proposed this. In 1889, he succeeded in establishing the first state pension system. Payments began at age 70. This was when few people lived beyond 70, which was Moses' famous limit (Psalm 90:10). This state welfare program did undermine the socialists. He called his program "practical Christianity."

The principle here was clear: the state, not the family, is legally responsible for the care of the aged, if they have worked for salaries. Even if sons fail to honor their God-given obligations to their parents, the state will be faithful. Every retired worker can henceforth trust the state to support him.

This transfer of responsibility to the state substituted impersonalism for personalism. No longer would familial bonds guarantee an aged parent's care. Henceforth, state bureaucrats would enforce the pension law, just so long as the paperwork was in order. The pension system became grounded in civil law, not in love or sentiment or custom or guilt. There was now a

judicial agreement, and this agreement was public. It was enforceable in civil courts.

This program has been imitated in the West. It is almost universal. Workers pay taxes. They collect pensions from the government. But there is a huge problem. *The payments are legally separate from the pensions.* These are not legally enforceable annuity contracts. The revenues generated by retirement taxes are spent immediately by the government on general expenses. These taxes are a matter of politics. The payments are also a matter of politics. Politicians promise low taxes. They promise high payments. But the politicians do not invest the money generated by the retirement program's taxes. They spend it. Every national government has built up enormous obligations to retirees. *These are unfunded liabilities.* There is no possibility that governments can meet these obligations. While these obligations are a fraction of the old age health care obligations, they are nevertheless enormous. They will be bankrupt before the twenty-first century is over. Most of them will be bankrupt before the halfway point.

The state is a false heir. We see that it has assumed the legal responsibility associated with inheritance. Throughout history, sons and their wives have been ready to bear the responsibility of supporting aged parents. The parents have known that their support was coming out of the budgets of their children. They have also known that the sons would inherit any family land. There was a quid pro quo involved. But as the state has steadily replaced the economic function of the biological heirs, parents have used politics to extract greater retirement support out of the common wallet of the nation. They have not exercised self-restraint. They conclude that they owe nothing to the impersonal budget of the government. The masses of workers owe the retirees. This is clear to the retirees. As for the taxpayers, they put up with this because they hope to be on the receiving end soon enough. Perhaps at age 62 they will begin to receive monthly checks. They may live two decades with this stream of income. They hope not to move in with their sons and the sons' wives. The sons and their wives also hope that the parents will not move in.

The commandment to honor parents has been broken by the compulsory pension programs around the West. *The personal bond of the family covenant has been broken.* The oldsters have traded the security of the family covenant for a mess of pottage: the promises of politicians. Most of these politicians will not be in office when the fiscal crisis hits. The children of

retirees still hope to inherit more from their parents because their parents are receiving subsidies from the government. But the taxes required to support the retired parents are consuming the capital of the nation. This will reduce economic growth. It will reduce the flow of future funds. This is a form of disinheritance.

Politically, the people who are receiving payments will resist any reduction of payments. They will strongly resist the annulment of the program. "We paid into the program. The retirement money is ours by law." This self-interested political pressure guarantees the expansion of the program. These people vote as a bloc. Politicians fear their wrath at the next election.

Simultaneously, the workers who pay the taxes also resist any change. They want to be recipients of money at some point. Also, they do not want to become responsible for funding their parents if the government's checks should cease. No one looks at the fiscal reality: future state bankruptcy.

The unfunded liabilities will not be met. Why do voters ignore this? Because people are present-oriented. They discount bad news about the long-term future. They are also optimists regarding the state. They value good news about the short-term future. They want the state's pension program to continue.

The state assumes the role of false parent when it funds the education of children. This moves education from the personalism of parental authority to the impersonalism of political and bureaucratic authority. Then, when workers retire, the same shift takes place again: from personalism to impersonalism. In the interim, from about age 20 to age 60, there is adulthood.

The workers pay taxes to fund the pseudo-parent that funds education and the pseudo-heir that funds parents in their old age. This is the meaning of the English phrase, "from womb to tomb." The state substitutes impersonal power for personal authority grounded in the family covenant. The civil covenant is an impersonal imitation of the family covenant whenever the political order becomes welfare-based. Bismarck called this system practical Christianity. It is in fact impractical anti-Christianity. Fiscally, it is leading Western nations into bankruptcy. This is highly impractical.

When national governments can no longer fund the health care delivery programs and the pension programs, there will be political battles over exactly how to default on the oldsters. Christian leaders must prepare now to argue biblically for restored family responsibility.

A. Buyer

What is a buyer buying? An annuity. He pays now, and he is guaranteed a stream of automatic income after he reaches a certain age until he dies. He can pay in the form of time and money invested in his children. Or he can pay taxes to the state. There is no contract with his children. He can invest whatever he and his wife decide is best, child by child. He is not guaranteed a specific return. There is also no contract with the state. Retirement taxes can rise, but will not fall. The economic return is subject to future politics. Returns will rise until there is a fiscal crisis. Then they will be a matter of special-interest group vs. special-interest group.

With respect to the state, a buyer wants to buy low and sell high. He wants to pay in a minimum amount and withdraw a lot. He participates politically in an age-related voting bloc to achieve these goals. The older he and his cohorts get, the more political power they possess because they vote as a bloc. The state is not his heir. He wants to minimize whatever he leaves behind to the state.

With respect to his family, there is little trace of the “buy low/sell high” motivation. He wants to leave an inheritance to his children. The less money that he receives from his children when he is alive, the greater their inheritance. The element of inheritance separates this annuity from the annuity from the state. His children presume that this is his goal, although in some societies, such as the United States, only the very rich discuss these matters with their children. There is a cultural taboo about discussing parental finances with children, including the size of any inheritances.

With respect to the state, the relationship is strictly impersonal. The money is promised by politicians as a way to buy votes. It is administered by bureaucrats. The formulas for payments are arcane. Only the bureaucrats understand them. In fact, it is likely that in individual cases, different bureaucrats will decide on different payments to individuals due to the complexity of the formulas. The recipients are generally passive. They take whatever they are offered. So, there is a mixture of impersonal formulas and personal interpretation that is based on confusion.

The formulas are impersonally fixed. They have nothing to do with the recipients' needs, wants, or cost of living. In this sense, retirement programs are analogous to annuities sold by profit-seeking insurance companies. But they are different judicially. They are not legally enforceable contracts. Poli-

ticians can raise benefits. They can also cut them in a fiscal crisis. *There is nothing legally secure with government retirement programs.* The program in the United States is called Social Security. The program is not social; it is political. The program is not secure. It is dependent on politics, including the purchasing power of the nation's currency, which is administered by the central bank.

B. Seller

A seller is a politician who is buying votes. He promises that the retirement program "will always be there, no matter what." In short, he lies. First, he knows that future politicians can reform the program by changing the formula. This may involve spending cuts. Second, he knows that there is no money in any trust fund. The fund is filled, if at all, only with government IOU's. Third, he knows that the program is not secured by contract law. Fourth, he knows that the purchasing power of the currency is not sure. Fifth, he may know, and certainly should know, that the unfunded liabilities of the program are so large that the government will default on all or some of today's obligations. These are not legal obligations. They are political obligations. They are based on today's politicians' promises regarding future politicians' performance in office.

The sellers may mentally count on price inflation to reduce the government's economic burden. But there are problems with this assumption. First, there may be a cost-of-living clause in the law. If prices go up, payments must go up. One way around this is for the government to declare price controls, meaning price ceilings. The index used to calculate price changes will make it appear that there was no price inflation in the previous time period. The problem here is the controls' creation of shortages in the economy. The price signals are no longer reliable. The production system will be disrupted. Price ceilings cannot be left on for more than a few years. Second, the government's central bank cannot continue with this policy of monetary inflation for long. The currency will fall to zero value. It will no longer allocate goods. There will be a substitute currency in the markets. There will then be a currency reform. At that point, the obligations of the retirement program return. They are inter-generational. Hyperinflation only delays the politicians' decision to default on the program.

The children are not sellers of their parents' old age security program. They do not promise anything in order to secure their inheritances. The

parents assume that they will not be thrown into the streets if their wealth has been consumed. This is a safe assumption for the vast majority of families. Children will intervene. They may argue as to which child assumes what burden. That is when parents should intervene and arrange the inheritance in terms of which children pay what. But this is rarely done in societies in which discussing money with children is taboo.

C. Pencil

A pencil company must pay money to the government for its share of the workers' retirement program. In the United States, this is 50% of the tax. The politicians tell voters that companies pay half. This is incorrect. The companies pay workers in terms of the value of the workers' output to the companies. Wages are set by the auction process: employers vs. employees, employees vs. employees. Employers will not pay more than the output of workers' labor is worth to them. Businesses are not charities. Businesses are willing to pay the government a portion of this wage, but only on this assumption: they will pay the employees this much less.

The workers could have negotiated for the money paid to the government. The politicians never mention this in their campaign speeches and form letters sent to constituents.

Think of this in terms of a pencil. The employer writes down a wage that goes to a worker. He also writes down the payment to the government retirement program. If the government disbanded the program, the employer would then erase the payment to the government. He would like the competition to end there. But a worker may come to him. "Write down the money you just erased, and put it into my wage." If the company wants to keep him, that is what it will do. This is a matter of negotiation.

Conclusion

The creation of government pension programs has undermined the family structure of the West. Parents expect less from their children. The children expect to pay less. This has not been accompanied by an increase of guilt of the part of the children. The widespread acceptance of the morality of government pensions reduced guilt. The children are happy to vote for more welfare programs for the aged. They do not count the cost to the future operations of their national governments. They do not understand that the programs' unfunded liabilities guarantee a great default.

Bismark's 1889 program of compulsory state pensions set a precedent in the West. Other nations imitated this. This has led to a fiscally unsustainable series of state pension programs in the West. The promises of politicians at some point will be exposed for all to see as unconnected to fiscal reality. There will be universal defaults, along with defaults on government programs funding medical care for the aged. This will undermine confidence in national governments. It will also undermine their legitimacy in the eyes of voters. "But you promised!" Answer: "Sorry about that." Children will have to make up the difference in their parents' income. They have not budgeted to do this.

The overwhelming majority of all welfare payments by national governments goes to support old age pension programs and old age health care programs. These programs have not been funded by investments. Politicians will vote to default on these national welfare programs in order to prevent the bankruptcy of their national governments. Politics will decide which members of which voting blocs will get paid.

Because the modern welfare state has almost universal support today, its fiscal demise will create a political crisis. This will cause a re-thinking of the premises of the welfare state. This re-thinking and mandatory fiscal re-structuring will be the supreme political question in the West. Rival political factions will offer rival theories of what should be done. There will be irreconcilable explanations about who and what was to blame for the great default.

I would like to think that Christian leaders will offer a consistent, Bible-based explanation for what went wrong: *political humanism's attempted divinization of the state*. But I am not optimistic about this. This is not a question that concerns Christian leaders today. I hope it concerns you.

CONCLUSION TO PART 4

Then this Daniel became distinguished above all the other high officials and satraps, because an excellent spirit was in him. And the king planned to set him over the whole kingdom. Then the high officials and the satraps sought to find a ground for complaint against Daniel with regard to the kingdom, but they could find no ground for complaint or any fault, because he was faithful, and no error or fault was found in him. Then these men said, "We shall not find any ground for complaint against this Daniel unless we find it in connection with the law of his God" (Daniel 7:3–5).

Bureaucrats know how to advance their interests. They are experts at deceiving the government that supplies them with money and authority. They know the written rules. They know how to interpret these rules to their advantage. They place their careers before the interest of the politicians, let alone the interests of the people whose lives they administer. They offer free advice to rulers.

Then these high officials and satraps came by agreement to the king and said to him, "O King Darius, live forever! All the high officials of the kingdom, the prefects and the satraps, the counselors and the governors are agreed that the king should establish an ordinance and enforce an injunction, that whoever makes petition to any god or man for thirty days, except to you, O king, shall be cast into the den of lions. Now, O king, establish the injunction and sign the document, so that it cannot be changed, according to the law of the Medes and the Persians, which cannot be revoked." Therefore King Darius signed the document and injunction (vv. 6–9).

Whenever autonomous bureaucrats are in charge of interpreting and administering the law, the righteous should expect trouble.

When the government they administer sees itself as messianic, the right-

teous should expect big trouble.

In Part 4, I have surveyed 14 examples of state intervention into the free market. In each case, the liberty of individuals to make voluntary exchanges is reduced. In each case, the free market's supreme operational rule is violated: high bid wins. This is done in the name of economic justice, meaning greater fairness. The auction's principle of high bid wins is rejected as inapplicable. A buyer is not allowed to make a purchase by offering the most money. A seller is not permitted to make a sale by offering the best deal for the buyer's money. In each case, politicians veto in advance economic decisions that would otherwise be made by buyers and sellers. These transactions are classified as illegal. The state threatens to impose penalties on either the buyer or the seller.

These vetoes of market transactions transfer economic authority from buyers and sellers to state bureaucrats who enforce laws. Because of the rise of administrative law, these agencies have the power to try and convict accused people in a separate system of courts. The agencies have their own lawyers on the payroll: administrative law judges. These executive courts impose enormous costs on small business, which must hire expensive defense lawyers. If the administrative law judge decides that the defense lawyers are wrong, the judge imposes sanctions. Only then are guilty parties allowed to appeal to the independent court system. The legal expenses mount.

Bureaucrats possess their jobs for life unless they commit major legal or moral infractions. They are not affected by market forces relating to supply and demand. The victims of their decisions do face the economic pressures of supply and demand. They also face the threat of economic penalties imposed on them by tenured bureaucrats. The greater their fear of being prosecuted, the greater the economic authority of bureaucrats and the less the economic authority of customers and suppliers. *Economic intervention shifts authority from buyers with money to spend to bureaucrats with penalties to impose.*

Put differently, government economic intervention shifts power initially from money to votes. But the power of votes does not last long. As soon as a law is enacted, the power of enforcement is transferred to bureaucrats who define and then enforce selectively the law in question. Politicians lose interest after a legislative bill becomes law. They are too busy getting re-elected than to investigate exactly how specific bureaucrats in specific government offices enforce specific sections of laws that are 1,000 to 2,000 pages long.

The economic feedback of profit or loss from accounting systems loses authority when bureaucrats can impose major sanctions on sellers. Sanctions are more closely related to bureaucrats' interpretations of laws than customers' decisions to buy or not to buy. The auction process favors buyers because they own the most marketable commodity: money. The state's system of economic regulation favors tenured bureaucrats.

There is only one way to restore liberty: *de-fund the state*. A violent revolution never accomplishes this. A violent revolution requires centralized power. This power is not relinquished by revolutionaries when they take over. They occupy the seats of state power. The laws may change. New special-interest groups will soon replace previous special-interest groups. Money extracted from taxpayers will flow to new recipients. But unless this flow of funds is radically reduced, liberty is not restored to the broad masses of the population. If this has happened after any armed revolution, I have not heard about it.

I believe that the required political reforms favoring liberty will come as a result of two long-term processes. First, a growing percentage of citizens will begin to re-think the covenantal premises of the existing social order: sovereignty, authority/representation, ethics/law, sanctions, and the future. These people will substitute Bible-based content for the existing covenantal worldview. Second, the nation-state will suffer a major crisis: a lost war, a monumental fiscal crisis, or both. That this crisis is probable is discussed in the conclusions of two books: Martin Van Creveld's *The Rise and Decline of the State* (1999) and Jacques Barzun's *From Dawn to Decadence: 1500 to the Present* (2000).

This book, in multiple volumes, is my attempt to lay new foundations in the form of a new view of economics. I believe that education is required to persuade people to change their minds, which must also include changing their behavior. James warned us not to be hearers of the word, but not doers (James 1:22).

Part 5

THE NON-PROFIT SECTOR

INTRODUCTION TO PART 5

For the wife does not have authority over her own body, but the husband does. Likewise the husband does not have authority over his own body, but the wife does (1 Corinthians 7:4).

As soon as we move from the profit sector to the non-profit sector, attitudes change, institutions change, and the laws change. The non-profit sector is fundamentally different from the auction sector. This is because some things are not for sale at any price, and should not be. A husband may not sell his wife or his children to the highest bidder.

The logic of economic theory ceases to be applicable in any consistent way in the non-profit sector. Economic theory applies only to those areas of life that are governed in terms of the auction's fundamental principle of exchange: *high bid wins*. In any area of life in which this principle of exchange is not dominant or even legal, the logic of economics ceases to function. It produces silly results. It no longer provides analysis with any pattern based on this system of causation: "if . . . then."

I have never read an economic treatise, let alone an economic textbook, that devotes a paragraph, let alone an entire chapter, to this distinction. Economists write as if they were setting forth universal principles of human action. They are not. They are setting forth analytic principles that apply only to market exchange. Throughout history, the market has been peripheral in the lives of most people. Most people have been farmers in tightly knit local economies. There was some barter, but not much. There were occasional regional fairs in the later middle ages, but only in a few regions. There was no developed monetary economy in the West for half a millennium. Gold coins only reappeared in the twelfth century. Towns had trade, but most people in the West lived on farms until the twentieth century.

The logic of economics applies only to trade. The economic sanctions of monetary profit and loss are endogenous, i.e., internally consistent. This is why economics is the most logical and most scientific of the social sciences. But this system of accounting applies only to marketable products. If

something cannot be exchanged because of custom or law, then there is no endogenous system of causation. This would not apply: "When the price falls, more is demanded." This does not explain why men get married rather than consort with whores, despite the high cost of supporting a wife for a lifetime, and despite the threat of being nagged for a lifetime. Solomon did not write this about whores. "It is better to live in a corner of the housetop than in a house shared with a quarrelsome wife" (Proverbs 21:9; 25:24). He wrote it twice to make his point. But he did not recommend consorting with whores. "For a prostitute is a deep pit; an adulteress is a narrow well" (Proverbs 23:27).

A church cannot sell salvation to the highest bidders. When the Catholic Church tried to do this in 1517 (indulgences), it produced the Protestant Reformation. A state cannot lawfully sell the decisions of judges to the highest bidder in a court case. If it does, it loses legitimacy, and is therefore more easily overthrown. This is why the logic of economics does not apply to families, churches, and states. These institutions are governed by principles other than the right to bid for services rendered.

For most of life, the realms of family, church, and state absorb more of our time and our wealth than market transactions do. Beginning around 1800 in the United States and Great Britain, the percentage of people's money and lives that is devoted to market affairs has risen. So has per capita wealth. As the division of labor outside of the family has increased, the range of market transactions has increased. The principle of high bid wins has extended its reign. This has given economists opportunities to apply the logic of economics in new realms. But economists have hesitated to write detailed treatises on the family, the church, and the state. The economic school of analysis known as public choice has applied some of the insights of economics to some aspects of civil government, with varying results. But economists generally ignore the non-profit sector. Nobel Prize-winning economist Gary Becker was an exception. He wrote a book, *A Treatise on the Family*. It is one of the truly silly books in the history of economics. The many formulas are giggle-producing whenever they do not produce narcolepsy.

In this section, I discuss a few aspects of family, church, and state that are not subject to the logic of economics. I explain why they aren't.

Then I examine charity and education. The same conclusion applies: without a market for exchange, people must impute economic value without guidance from internally generated prices within the organization.

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FAMILY

Wives, submit to your own husbands, as to the Lord. For the husband is the head of the wife even as Christ is the head of the church, his body, and is himself its Savior. Now as the church submits to Christ, so also wives should submit in everything to their husbands (Ephesians 5:22–23).

Analysis

Paul's analogy of marriage as a reflection of Christ's love for His church places marriage on a high plane. Marriage is more than an economic arrangement, just as Christ's relationship with His church is more than an economic relationship. Both relationships are overwhelmingly judicial, for both are covenants. Yet to define them as exclusively judicial would be both a conceptual error and a theological error. It would place marriage as well as Christ's love for His church on a plane with civil government, which is exclusively judicial. That would require a reduction in the authority of both the family and the church. It would also reduce the commitment of men and women to each other. It would make marriage a matter of convenience that can lawfully be terminated at the pleasure of one of the parties, just as political bonds may lawfully be changed by the people under civil jurisdiction. This right of termination was possible for husbands under the Mosaic law (Deuteronomy 24:1–4). Jesus annulled this option, which bothered the disciples (Matthew 19:3–12).

It would be theologically monstrous to argue that Jesus would ever auction off the church to the highest bidder. This was Satan's temptation in Matthew 4 and Luke 4. The devil offered Jesus the kingdoms of this world, as if he owned them to sell. Jesus rejected the offer emphatically: "You shall worship the Lord your God and him only shall you serve" (Matthew 4:10b). For Jesus to abandon the church, He would have to break His oath to the church. If this were a possibility, the author of the epistle to the Hebrews

would not have written this: "Let us hold fast the confession of our hope without wavering, for he who promised is faithful" (Hebrews 10:23).

Thus, the parties to a marriage covenant do not have the right to transfer their rights to anyone else at any price. *There is no ownership, which always involves the right to disown.* These are legal claims. "The husband should give to his wife her conjugal rights, and likewise the wife to her husband. For the wife does not have authority over her own body, but the husband does. Likewise the husband does not have authority over his own body, but the wife does" (I Corinthians 7:3–4). *The mutuality of these legal claims precludes the right of disownership.* This places the marriage bond outside of the auction process.

From the late seventeenth century through the mid-nineteenth century in Great Britain, there was an astonishing social practice among the lower classes. Husbands auctioned off their wives in the public square. This was illegal, yet some magistrates allowed it. The wives had to agree for the auction to be held. Divorce was legally available only by an act of Parliament. Only the rich could pay for this. The sales of wives was one way around the law.

The academic discipline we call economics applies to the market's auction process. It does not apply well either predictably or conceptually to those areas of life that are outside the social practices and legislation governing the auction. There is no lawful exchange of ownership.

There is neither a buyer offering money nor a seller allowed to accept the offer. *This means that the free market's endogenous sanctions associated with exchange, i.e., monetary profit and loss, do not apply.* This in turn means that the logic of economic theory is not applicable in a predictable fashion. This logic may explain some peripheral issue, but our understanding of the institution's core functions is not gained through an extension of economic science. This conclusion is obvious with respect to the family, but it also applies to church and state.

In order to make these issues clear, I have adopted the five-point biblical covenant model to explain the economics of the family. This is because the family is a covenantal institution. Its operations are not contractual-legal. It is not governed by the auction rule: high bid wins.

A. Purpose

God has established the family as the primary agency of dominion (Genesis 1:26–28). God's sovereignty is at the heart of existence. Man is

made in God's image. Here, I mean mankind both in terms of individuals and collective humanity. He created a male-female team to act as His stewards. God's creation of all things out of nothing is at the heart of economic theory, as is the case with all areas of thought. The family did not evolve out of purposeless, meaningless random change. It was not the product of Darwinian evolution. God had purposes for the family.

Men have purposes. In this sense, they reflect God. They have goals, from short term to long term. They wish to achieve certain things in history. The more future-oriented they are, the more they conform to God's model. These general goals can be elucidated in words. In the context of corporate business, these goals are called a mission statement. They do not spell out the details of a plan to implement them. They make clear only the general goals that will guide people in putting together a plan in order to count the costs.

Biblically speaking, the judicial head of the household is the husband. He is held accountable by God. But in the family's division of labor, he is supposed to listen to his wife's opinions. She must bear some of the costs. Her cooperation is likely to be greater when he considers her opinions. She has specialized knowledge. The biblical model is the wife described in Proverbs 31: an entrepreneur who buys property and runs the household, which frees up her husband to serve as a civic leader in the gates of the city (v. 23).

B. Planning

There are economic considerations involved in all areas of family life. These involve the cost of time and its allocation within the family, the cost of food and shelter, and lifestyle in general. There are short-term, mid-term, and long-term plans in every family. These are governed by the general pattern of birth, child-rearing, old age, and death. These are biologically imposed limits. There are also limits imposed by the personal skills of family members. There are limits of geography. Within these limits, families must work out their plans.

One of the goals specified in the dominion covenant is biological reproduction. Mankind is to fill the earth. This is clearly a joint goal. God has imposed it. Husband and wife jointly reproduce. Because of contraception techniques, modern families can decide whether to reproduce, or when, and under what circumstances. This is called family planning. Because of the nature of some contraceptives, wives are in control of the decision. This is unique in history. This has made the overall goal of reproduction a joint decision.

Husbands have the primary responsibility for supporting their families. They are the institutional shields against the negative sanctions of the outside world. There is nothing in humanistic economic theory that imposes this responsibility. This is imposed from the outside by societies. Societies impose negative sanctions on husbands who refuse to abide by these standards. These sanctions can be social and legal. They can be economic.

The family serves as a trustee for God, both judicially and economically. The husband is the trustee for God (vertically) and also for his wife and his children, both judicially and economically. He has horizontal responsibilities: economic responsibilities outward to customers to the extent that the family is involved in the division of labor. In order to become richer, families must participate in the division of labor.

Part of preparation for the future involves training the children to become responsible adults. This is an economic burden. It requires large investments of time. In an advanced society, it demands formal education. Parents must pay for this if they cannot either persuade or compel others to do this.

Parents must prepare for the time in which they are forced by old age to work fewer hours or work less intensely physically. Old age forces these restrictions. The husband must factor in the likely limits of productivity that he will face when he is old. These limits can be seen only in general terms. Responsible planning must deal with them.

Within the family hierarchy, there is no system of prices. In this sense, it is comparable to any other corporation. Prices are set outside the family. There is a competitive market that is governed by the auction's principle of high bid wins. There are capital markets that set the prices of capital equipment. There is nothing comparable to this inside any organization that has no ability to buy or sell, i.e., to own or disown.

A company can hire and fire. A family cannot. This makes planning a matter of subjective valuation by the head of the household. He must design a system of sanctions that will enable him to achieve his goals for the family. He must motivate family members to cooperate with each other in fulfilling his goals for the family. He must persuade them to work in a team effort. But the sanctions must not involve dismissing and replacing them.

How can the head of the household establish objective performance criteria in order to maximize the subjective valuation of his assessment of the family's goals? In terms of humanism's theory of methodological individualism, it is impossible to make scientific comparisons of subjective utility.

He must think representatively on their behalf. But how? How can he design the required system of rewards and punishments to gain the cooperation he needs to attain the goals?

Then there is the issue of priorities. These are hierarchical: first, second, third. They are ordinal. They are not cardinal. They cannot be measured. There is no objective hierarchy of values. A goal is not objectively this much more valuable than some other goal. According to subjective value theory, people use each additional unit of income to attain the most important as-yet unfulfilled goal. This is the concept of marginal economic value. It underlies all modern economics, especially Austrian School economics. It was first articulated by Carl Menger in 1871. The priorities are individual. There has never been a functional theory of collective economic values. Any theory of collective economic planning necessarily rests on the existence of *an objective collective hierarchy of priorities*. It must also rely on a theory of knowledge that is collective. But no such theory exists. All theories of individual decision-making are inherently based on *nominalism*: individually imputed value. There is no way to derive a concept of collective and objective value from nominalism.

This was the basis of Ludwig von Mises' path-breaking essay in 1920, "Economic Calculation in the Socialism Commonwealth." He concluded that all socialist economic planning is irrational. There is no way for the planners to obtain objective prices that accurately reveal the priorities of consumers. There is no private ownership. There is no way for asset owners to bid for other assets.

This criticism extends beyond civil government. It applies to every non-profit institution. Most institutions in society are non-profit. Surely, the family and the church are. So, how is the plan of the head of a household said to be rational? How can the subjective economic evaluations of the head of the household reconcile the subjective economic evaluations of all family members? He can announce his plans, but these plans are representative. They should lead to objective decisions. But there is no scientific way for the decision-maker to know whether his decisions are conformable to God's, his wife's, and his children's assessments.

This is the problem of the imputation of value: point four of the biblical covenant. This is the issue of sanctions. Point four is always related to point two: hierarchical authority. The imposition of sanctions (point four) is always hierarchical (point two). The biblical solution of this dilemma is the

doctrine of man as the image of God. Man has the analogous ability of God's to impute value. God has the ability to assess and apply perfectly His permanent standards to historical situations. But humanist economic theory relegates God to Kant's noumenal realm, where scientific cause and effect do not apply. He is not seen as the Creator and Final Judge.

C. Standards

This is the issue of ethics. It is the issue of law. *Christian economics rests squarely on this confession of faith: there are God-ordained and Bible-revealed standards in history.* God is the cosmic law-giver. He rules in terms of law. There is nothing outside His sovereignty. Cause and effect in history is always ethical. Men are legally responsible to God. This is the basis of priorities in history. These priorities are theocentric.

This is the basis of property rights, which are inescapably the right to exclude. Property rights are grounded in the Bible's story of the forbidden tree in the garden. But, institutionally speaking, the family is archetype of the right to exclude. Each spouse possesses the God-given legal right to exclude the partner's sexual access to an outsider. This right of exclusion is not subject to negotiation. This means that each partner possesses a legal monopoly. Each partner surrenders the right to choose another at the time of the marriage. This surrender is based on public oath in most societies.

Humanist economics has no doctrine of the permanent surrender of the right to negotiate a sale or lease. On the contrary, it is grounded in the right of such negotiation. This phrase governs economic theory: "Every man has his price." For the humanistic economist, every decision is a trade-off. There are no absolutes. There is no absolute objective value. All value is relative. But wherever there is a doctrine of final judgment and then eternal torture by God (hell and the lake of fire), there are absolutes. There is no rational trade-off. There is only eternal suicide. "For what will it profit a man if he gains the whole world and forfeits his soul? Or what shall a man give in return for his soul" (Matthew 16:26)? This is why Solomon said, speaking of God, "He who fails to find me injures himself; all who hate me love death" (Proverbs 8:36).

D. Imputation

There is an inescapable conflict between humanism's view of the economics of the family and the Christian view. These views cannot be recon-

ciled. The humanist view is grounded in the autonomy of the individual man or woman, methodological individualism, evolutionary ethics, evolutionary economic law, economic theory as value-free, and the heat death of the universe.

For the humanist, there is no sovereign God who imputes final value and meaning to individuals and collectives. Here is the confession of faith for humanistic economics: "Men are not made in the image of a God who sovereignly imputes both meaning and value to human actions in terms of fixed laws—ethical, judicial, and economic."

For any collective, there must be a decision-maker. Someone must give the orders. Someone must be held responsible. There can be no social order without this. This is why point two of the covenant (hierarchy) is connected to point four (sanctions). In the family, this is the head of the household. While it is easy enough to understand this, it is inherently impossible for the humanistic economist to analyze the role of the head of the household without invoking sociology: institutions, shifting alliances, and a fundamental unpredictability. Humanistic economists dismiss sociology as the social science in which there is only one law: "Some do. Some don't." But when they face the problem of the scientific impossibility of making interpersonal comparisons of subjective utility, they begin to sound like either sociologists or physicists. In other words, they sound either imprecise or silly.

The economic sanctions of the free market are these: monetary profit and loss. These arise in the context of forecasting and planning. They arise in the context of "high bid wins." This is not the context of the family. There is no bidding for resources. There is no open entry. There are subjective imputations. There are objective arguments. "But, dad, everybody's going." "It's just not fair." "You let Mary do it when she was my age." There must be objective decisions. They will not be based on high bid wins.

E. Inheritance

The concept of inheritance is basic to family economics. It is analogous to the concept of succession in political theory. But, in the family, inheritance is either by name or confession. The question is this: Will it be by the family's name or by Christ's name? There are two families of man, each structured in terms of a confession and a name: Adam's and Christ's. One family is disinherited in eternity. The other is adopted. This has implications for history.

This is the covenantal issue of issue: multiplication. It is basic to the dominion covenant. How are one's heirs to exercise dominion? This requires capital. "A good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous" (Proverbs 13:22). The number of heirs must expand. Their capital must expand. These are covenantal commands. They are basic to the extension of the kingdom of God.

Economists almost universally favor economic growth. They regard this as the way to solve all economic problems. They do not distinguish between the rival families. They do not see economic growth as an aspect of covenantal sanctions. "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18). Wealth is the confirmation of God's covenant. Here is the pattern: wealth => obedience => wealth.

How does anyone know that wealth is a blessing? There is a standard involved: "More is better than less, other things being equal." This is an assessment: "better than." This is a value judgment. But economic theory is supposed to be value-free, according to humanists.

Capital is not a free good. The accumulation of capital requires four things: abstention from consumption in the present, accurate forecasting of future demand, accurate forecasting of costs, and the courage to act. Entrepreneurs must buy low and sell high. The steward who buried his coin failed as an entrepreneur (Matthew 25:24–30).

Future-orientation is basic to leaving an inheritance. Capital accumulation must be multi-generational. A single generation can end the process through bad investing and capital consumption. The limited-liability corporation is the market's answer to the failure of the next generation to build capital. But a corporation is not confessional. It is also not a family. It is not bound by an oath.

Conclusion

The family is not a market phenomenon. It is the primary source of the economy. It is not the product of the market. Throughout history, the division of labor within the family was the most important source of entrepreneurship and specialization. It was the most important source of capital.

Only since about 1800 in the West did the free market supersede the family as the primary source of capital, entrepreneurship, and economic growth.

The family has no system of open entry. There is no open bidding for resources within the family. There is therefore no pricing. Without pricing, there is no way to establish a predictable connection between subjective value and resource allocation. This is not fatal to the family unit. The family unit is small. It is governed by the integrating factors of love, hierarchical responsibility, and charity. It is not governed by the auction's principle of high bid wins. It is not governed by the extension of high bid wins: "Buy low. Sell high." So, the logic of economic theory does not apply effectively to the family. There is no system of endogenous sanctions imposed by objective accounting: monetary profit and loss. This reveals the institutional limits of economic logic in analyzing the five economic points of the biblical covenant.

1. Methodological individualism (nominalism) vs. corporate responsibility (trusteeship)
2. Subjective value theory vs. God's subjective imputation of objective economic value
3. The absence of any legal right to sell (disown) family members as property
4. The illegality of "high bid wins"
5. The absence of any internal corporate means of pricing
6. The absence of objective profitability (accounting)

This is why economists generally avoid discussing the economics of the family. This is a great irony. The English word "economics" derives from the classical Greek word, *oikonomia*. This in turn derives from two words in classical Greek for household (*oikos*) and law (*nomos*). In fact, economics has almost nothing to do with the laws of the family.

Post-1800 market-based economics has offered a fundamental challenge to family economics: the lure of the market's principle of high bid wins. Beginning in the late eighteenth century, industrialism began to become more productive than small, family-owned businesses. Non-farming jobs in factories steadily lured men out of their households and away from their farms in search of money. This began to weaken the authority of fa-

thers as household teachers. This has had a profound influence on family authority: hierarchy.

New mass-produced tools made farming steadily more productive, most notably the grain reaper, beginning in the 1840s on the Midwestern plains of the United States and Canada. This paralleled the spread of railroads into the Midwest. Mono-crop agriculture became profitable. Farms sold their crops for money. This steadily integrated farms into the money economy. Farm families could now afford to buy mass-produced goods that few would have been able to afford in 1800. This was another invasion of the family by market prices. The Sears catalogue used the Post Office and the railroad system to extend this commercial invasion of farms in the United States in the late nineteenth century.

The automobile became the must-own consumer good after Henry Ford's economic revolution of assembly-line production in 1908 lowered car prices. The car had produced a social transformation of American life by 1920. World War I pulled women out of European homes and into munitions factories, 1915–1918. Millions of women worked for salaries. Wage competition ended the upper-class British practice of live-in maids and cooks. Next, the invasion of American households by commercial radio, 1920–1945, transformed family entertainment and therefore families' allocation of time. Television completed this social transformation from 1947 to 1955. Families were subjected to advertising as never before. Then came the World Wide Web in 1995, followed by the smartphone in 2007. All of this was driven by the market's principle of high bid wins.

Families are not governed internally by high bid wins, but they are shaped by it to a degree that was not true in 1800. This has produced a new economic world order that is spreading rapidly into the underdeveloped world, which will not remain underdeveloped for much longer.

47

CHURCH

Now when Simon saw that the Spirit was given through the laying on of the apostles' hands, he offered them money, saying, "Give me this power also, so that anyone on whom I lay my hands may receive the Holy Spirit." But Peter said to him, "May your silver perish with you, because you thought you could obtain the gift of God with money! You have neither part nor lot in this matter, for your heart is not right before God. Repent, therefore, of this wickedness of yours, and pray to the Lord that, if possible, the intent of your heart may be forgiven you. For I see that you are in the gall of bitterness and in the bond of iniquity." And Simon answered, "Pray for me to the Lord, that nothing of what you have said may come upon me" (Acts 8:18–24).

Analysis

Simon was a magician. He was famous as a result of his supernatural abilities. He liked this fame (vv. 9–12). He saw that the apostles possessed the power of imparting the Holy Spirit. He wanted to possess this power. So, he made them an offer of money if they would transfer this power to him. Peter condemned him verbally for having made this offer. He threatened God's curse on him. Simon repented. He did not know that he would become infamous in history for having made this offer. The word simony derives from his name. This is the practice of purchasing a high church office.

He made an error of theological judgment. He believed that power granted by God to the apostles was for sale to the highest bidder. It was not. The authority of the church is not for sale. Nothing associated with God's judicial imputation of sin or righteousness is for sale. God grants redemption without any payment or promise of payment by the recipients. This is the doctrine of God's sovereign grace. Covenant-breakers cannot pay God in advance, nor can they repay Him after the fact. They do not possess anything of value in God's eyes that could compensate Him for the value of the gift of salvation. Paul wrote: "For by grace you have been saved through faith. And

this is not your own doing; it is the gift of God, not a result of works, so that no one may boast" (Ephesians 2:8–9). He also wrote this: "For you were bought with a price. So glorify God in your body" (I Corinthians 6:20).

The Catholic Church in 1517 sold indulgences to those seeking release from God's posthumous negative sanctions in purgatory. Martin Luther publicly called the legitimacy of these sales into question on October 31. He posted 95 theses against the sale of indulgences on the door of the church at Wittenberg (maybe). He offered to debate anyone on each of them. He naively thought the Pope would join him in his opposition. Thesis #5 said: "The pope neither desires nor is able to remit any penalties except those imposed by his own authority or that of the canons." Thesis #21 continued: "Therefore the pope, when he uses the words 'plenary remission of all penalties,' does not actually mean 'all penalties,' but only those imposed by himself." Thesis #91 insisted: "If, therefore, indulgences were preached according to the spirit and intention of the pope, all these doubts would be readily resolved. Indeed, they would not exist." Luther misjudged Leo X, who went along with the sale of indulgences. The money was being used to build St. Peter's cathedral.

Simony was indirectly involved. The sale of indulgences in the German states under John Tetzel was organized by Archbishop Albrecht von Brandenburg, who needed money to repay the German bank that had lent him the fortune he had used to purchase two archdioceses from Pope Leo X in 1515, when Albrecht was 23 years old. As part of his repayment plan to the bank, Albrecht transferred to the bank the ownership of his right as archbishop to sell indulgences.

Any money that Tetzel collected in those dioceses was going to the bank. The Pope supported this arrangement. The Pope then threatened to excommunicate Luther unless he recanted. That was when Luther launched his open resistance to the Pope's authority. The Protestant Reformation was born on the issue of the Pope's offer to sell salvation.

The free market's principle of high bid wins has no judicial validity in the church. This is why it is misleading to apply the categories of economic theory to every operation of the church. Yet it is true that prices for pastoral salaries are governed in part by high bid wins. Large congregations can afford to offer high salaries to men with exceptional preaching ability or skills in church growth. Pastors with these gifts must then make a career decision based on money as well as opportunities for service. When the offer is substantial, pastors are likely to conclude that their opportunities for service

will be greater in a large, successful congregation. The only way to avoid this bidding is in denominations governed by bishops. This wage restraint can be enforced only if bishops are prohibited from making offers to pastors in another bishop's jurisdiction.

Church members donate money to the church. This money pays for services rendered to the church as a whole, but not for services rendered to the donors individually. In a free market, a customer purchases a specific good or service at a specific price. There is an exchange. There is no system of exchanges within churches.

There was a time when families purchased access to specific pews on an annual basis. This was a way for congregations to raise funds. This practice was common in the nineteenth century. The Roman Catholic Church abolished the practice at Vatican II (1962–65). The practice had faded by 1900 in most Protestant denominations.

Churches do not sell access to the sacraments. They do not charge membership fees. They are open to the public. They are not by invitation only. The assets of the churches, mainly real estate, are controlled by a local non-profit board or by a distant church hierarchy. Real estate developers may make bids on the real estate owned by churches, but the board members are not allowed by God to profit personally from the sale of the property. This means that the costs of ownership are not borne by the owners. The economic definition of cost is this: the cost of the forfeited gain associated with a decision. In the case of rejecting an offer to purchase a church's property, any costs are experienced only indirectly, as members of a committee. The church will not be able to pursue some course of action due to the rejection of the offer. This cost is real. But it is borne only representatively: in the name of the congregation and the name of God.

Members of a congregation may not approve of some expenditure of church funds. They may complain formally or informally to the officers of the church. But they act only as advisors. They possess no legal authority. They have no ownership rights regarding church expenditures. They do have legal control over their donations.

Members of Protestant congregations have the right to transfer their membership to another church. This is a way for them to belong to a church that meets their needs and wants. So, there is constant "shopping." Members come and go. If many members depart, the church will lose income. The officers will have to make changes in order to keep the church alive. But

the departures are rarely based on explicit threats: "If the church does not do something, I will quit." That would be rejected automatically by most church boards. There is widespread agreement that church members with money are supposed to avoid such displays of money-based influence. This goes back to the epistle of James.

My brothers, show no partiality as you hold the faith in our Lord Jesus Christ, the Lord of glory. For if a man wearing a gold ring and fine clothing comes into your assembly, and a poor man in shabby clothing also comes in, and if you pay attention to the one who wears the fine clothing and say, "You sit here in a good place," while you say to the poor man, "You stand over there," or, "Sit down at my feet," have you not then made distinctions among yourselves and become judges with evil thoughts? Listen, my beloved brothers, has not God chosen those who are poor in the world to be rich in faith and heirs of the kingdom, which he has promised to those who love him? But you have dishonored the poor man. Are not the rich the ones who oppress you, and the ones who drag you into court? Are they not the ones who blaspheme the honorable name by which you were called (James 2:1–7)?

This means that the allocation of scarce resources within a church must be based on what is good for God's kingdom, not what is preferred by members with a lot of money. Ownership of resources is judicially representative: trusteeship for God. Gains and losses are not borne personally, only representatively. Resource allocation is not governed by the free market's auction principle of high bid wins.

In analyzing the five economic points of the biblical covenant, we find the same insolvable philosophical issues that arose in the analysis of the family.

1. Methodological individualism (nominalism) vs. corporate responsibility (trusteeship)
2. Subjective value theory vs. God's subjective imputation of objective economic value
3. The absence of any legal right to sell (disown) church membership

4. The illegality of “high bid wins”
5. The absence of any internal corporate means of pricing
6. The absence of objective profitability (accounting)

A. Purpose

God has established the church as the primary agency of redemption (Romans 12; I Corinthians 12). “And the angel said to me, ‘Write this: Blessed are those who are invited to the marriage supper of the Lamb.’ And he said to me, ‘These are the true words of God’” (Revelation 19:9). Only the church lawfully offers the sacraments that confirm the ecclesiastical covenant. God’s sovereignty is at the heart of the church’s existence.

The church extends into eternity. The family does not. The state does not. In the final section of the Book of Revelation, we read of the kingdom of God beyond the final judgment: the new heaven and new earth. The church is said to be the bride of Christ.

Then came one of the seven angels who had the seven bowls full of the seven last plagues and spoke to me, saying, “Come, I will show you the Bride, the wife of the Lamb.” And he carried me away in the Spirit to a great, high mountain, and showed me the holy city Jerusalem coming down out of heaven from God, having the glory of God, its radiance like a most rare jewel, like a jasper, clear as crystal (Revelation 20:9–11).

Biblically speaking, the judicial heads of the church are the church’s officers. They are held accountable by God. But in the church’s division of labor, they are supposed to listen to the church’s members. Members bear the financial costs. Their cooperation is likely to be greater when the officers consider their opinions. Members have specialized knowledge and specific tasks.

For just as the body is one and has many members, and all the members of the body, though many, are one body, so it is with Christ. For in one Spirit we were all baptized into one body—Jews or Greeks, slaves or free—and all were made to drink of one Spirit. For the body does not consist of one member but of many. If the foot should say, “Because I am not a hand, I do not belong

to the body,” that would not make it any less a part of the body. And if the ear should say, “Because I am not an eye, I do not belong to the body,” that would not make it any less a part of the body. If the whole body were an eye, where would be the sense of hearing? If the whole body were an ear, where would be the sense of smell? But as it is, God arranged the members in the body, each one of them, as he chose. If all were a single member, where would the body be? As it is, there are many parts, yet one body (I Corinthians 12:12–20).

So, the church’s goals are basic to the goals of its members. They in turn participate in God’s work of redemption through evangelism.

B. Planning

There are economic considerations involved in all areas of church life. These involve the cost of time and its allocation within the church, the cost of charitable giving (Acts 6), the payment of pastors (I Timothy 5:17–18), and the purchase of real estate. There are short-term, mid-term, and long-term plans in every church. There are also limits imposed by the personal skills of church members. There are limits of geography. Within these limits, churches must work out their plans.

In Protestant churches that are not run by bishops, local church leaders have the primary responsibility for allocating church resources. They represent God judicially to the members.

They also represent the members judicially to God. Representation is hierarchical: point two of the biblical covenant. Members donate money to support ministers and pay church bills. They have the primary economic authority. They may also have the right to hire and fire elders. As always, point two of the covenant, which is hierarchical authority, is associated with point four: sanctions. In Protestant churches, members can “vote with their feet.” They can leave a local church and join another. There is competition for members’ support.

Part of preparation for the future involves training the children of members to become responsible adults. This is an economic burden. It requires investments of time. Church leaders must instruct parents on the spiritual instruction of their children.

Within the church’s hierarchy, as in the family, there is no internally

generated system of prices. In this sense, it is comparable to any other corporation. Prices are set outside of the church, especially real estate prices. Outside, there is a competitive market that is governed by the auction's principle of high bid wins. There are capital markets that set the prices of capital equipment. There is nothing comparable to this inside any organization that has no ability to buy or sell, i.e., to own or disown. This is why economic theory is of marginal value in analyzing non-profit organizations. Their incentive structure is only loosely tied to objective prices.

Church planning is a matter of subjective valuation by the elders. They must adhere to a system of sanctions that God has mandated to enable them to achieve God's goals for the church, both collectively and locally. They must motivate church members to cooperate with each other in fulfilling their goals for the church. They must persuade members to work in a team effort. But the church's available sanctions do not involve dismissing and replacing members except for major moral infractions: excommunication.

How can the rulers of the church establish objective performance criteria in order to maximize the church's goals? In terms of humanism's theory of methodological individualism, it is impossible to make scientific comparisons of interpersonal subjective utility. Church leaders must think representatively on the members' behalf. But how? How can they design a system of non-monetary rewards and punishments to gain the cooperation the church needs to attain its goals? The Bible does not explicitly say.

Then there is the issue of priorities. The same theoretical issues that confront the head of a family also confront church leaders. Here, I review what I wrote of the family. Priorities are hierarchical: first, second, third. They are ordinal. They are not cardinal. They cannot be measured. There is no objective hierarchy of values. A goal is not objective: exactly this much more valuable than some other goal. According to subjective value theory, people use each additional unit of income to attain the most important as-yet unfulfilled goal. This is the concept of marginal economic value. It underlies all modern economics, especially Austrian School economics. It was first articulated by Carl Menger in 1871. The priorities are individual. There has never been a functional theory of collective economic values. All theories of collective economic planning necessarily rest on the existence of such an objective collective hierarchy of priorities. It must also rely on a theory of knowledge that is collective. But no such theory exists. All theories of individual decision-making are inherently based on nominalism: in-

dividually imputed value. But there is no way to derive a concept of collective and objective value from nominalism.

The church's officers do not own the assets of the church. They lawfully possess the authority to allocate resources, but there is no individual ownership. This is why economic theory is even less applicable to the church than to the family. The head of a family does possess ownership of the family's assets. He can buy and sell on his own authority in some societies. Prior to the early 1900s, men in the West had total authority to buy and sell the family's assets. Parents today may or may not act as economic agents of their children. They cannot be fired by their children for malfeasance.

Voting members of a Protestant church can hire and fire pastors. They retain ultimate judicial authority. The officers really do serve the laymen in non-episcopal Protestant churches. There is competition in holding office. But the voting is by ballot, not by purchase. It is political, not economic. It is not governed by the principle of high bid wins.

Members can quit and move their membership to another church. There is competition. This competition is governed by the principle of high bid wins. But the bidding is not in money. It is in service: preaching, youth programs, geography, social positioning, and other non-monetary criteria.

There is no system of numerical accounting that determines the success or failure of church officers. The church is not governed by numerical standards of monetary profit and loss. Church officers must deal with economic uncertainty, but there is no feedback system comparable to a profit-seeking company's double-entry bookkeeping.

C. Standards

For a survey of this issue, read my presentation in Section C of my chapter on the family, Chapter 46.

A profit-seeking business has one supreme criterion: "make a profit." All else is subordinated to this. This is not true of the church. Jesus told Peter, "Feed my sheep" (John 21:17) A business is evaluated continually by the capital market if its shares are bought and sold.

A church has no shares to sell. No non-profit organization does. There are criteria for church office. These are found mainly in Paul's first letter to Timothy. They are as follows:

The saying is trustworthy: If anyone aspires to the office of over-

seer, he desires a noble task. Therefore an overseer must be above reproach, the husband of one wife, sober-minded, self-controlled, respectable, hospitable, able to teach, not a drunkard, not violent but gentle, not quarrelsome, not a lover of money. He must manage his own household well, with all dignity keeping his children submissive, for if someone does not know how to manage his own household, how will he care for God's church? He must not be a recent convert, or he may become puffed up with conceit and fall into the condemnation of the devil. Moreover, he must be well thought of by outsiders, so that he may not fall into disgrace, into a snare of the devil (I Timothy 3:1–7).

Deacons likewise must be dignified, not double-tongued, not addicted to much wine, not greedy for dishonest gain. They must hold the mystery of the faith with a clear conscience. And let them also be tested first; then let them serve as deacons if they prove themselves blameless. Their wives likewise must be dignified, not slanderers, but sober-minded, faithful in all things. Let deacons each be the husband of one wife, managing their children and their own households well. For those who serve well as deacons gain a good standing for themselves and also great confidence in the faith that is in Christ Jesus (I Timothy 3:8–13).

These are primarily ethical criteria. Money is relevant insofar as a leader should be charitable. Giving money away, not accumulating it, is the standard. This distinguishes a church leader from a business leader. Elders are entitled to salaries, but they must first qualify ethically for this double honor, as Paul calls it (I Timothy 5:17–18).

These standards do not govern businesses. Therefore, economic theory has little to contribute to a proper understanding of the church.

D. Imputation

There is an inescapable conflict between humanism's view of the economics of the church and the Christian view. These views cannot be reconciled. What the humanist says of the family, he also says of the church. It is not governed by a sovereign God in terms of authoritative laws. Read Section D in Chapter 46, on the family.

Christians understand that God is the source of justice. They also recognize that He is the source of all accurate knowledge. He is omniscient. His interpretation of the world is perfect. No one else's interpretation is perfect. Therefore, God's interpretation is authoritative. Man's is not.

God's omniscience includes the imputation of economic value. God imputes value subjectively. His church is the beneficiary in eternity. It also benefits in history. Redeemed mankind has begun to be restored to the ability possessed by Adam: accurate imputation. Adam violated this at the fall. He decided that his autonomous assessment was superior to God's. Jesus has come to restore the assessment we have lost.

The natural person does not accept the things of the Spirit of God, for they are folly to him, and he is not able to understand them because they are spiritually discerned. The spiritual person judges all things, but is himself to be judged by no one. "For who has understood the mind of the Lord so as to instruct him?" But we have the mind of Christ (1 Corinthians 2:14–16).

The officers of the church through prayer and biblical understanding can more closely assess the mind of Christ. The Holy Spirit guides them (John 16:13). They can make judgments regarding the best uses of the church's assets. They serve as judges, both judicially and economically. Their subjective imputations come closer to God's authoritative imputation. If there were no mind of Christ, then there would be no way to reconcile the individual economic imputations of church officers and the individual imputations of church members.

There is a corporate imputation of economic value. If there weren't, then all organizations would be economically blind. The fact that modern economic theory, which is based on the unproven and unprovable presupposition of methodological individualism, cannot make scientifically valid interpersonal comparisons of subjective utility does not mean that men, made in God's image, cannot do this. If they couldn't, then there could be no policy recommendations for decision-makers in collectives, including the church.

E. Inheritance

The concept of inheritance is basic to church economics. It is analogous

to the concept of succession in political theory. But in the church, inheritance is by confession of faith—of the church and also the members.

Then I saw a new heaven and a new earth, for the first heaven and the first earth had passed away, and the sea was no more. And I saw the holy city, new Jerusalem, coming down out of heaven from God, prepared as a bride adorned for her husband. And I heard a loud voice from the throne saying, “Behold, the dwelling place of God is with man. He will dwell with them, and they will be his people, and God himself will be with them as their God. He will wipe away every tear from their eyes, and death shall be no more, neither shall there be mourning, nor crying, nor pain anymore, for the former things have passed away” (Revelation 21:1–4).

Future-orientation is basic to leaving an inheritance. Capital accumulation must be multi-generational. A single generation can end the process through bad investing and capital consumption. The limited-liability corporation is the market’s answer to the failure of the next generation to build capital. But corporations are not confessional. A church is. Its members are bound by public oaths before God.

Conclusion

The church is not a market phenomenon. It is not the product of the market. Throughout history, the division of labor within the church has been the most important source of the extension of the kingdom of God. It provides its members with marching orders.

The church, unlike the family, has a system of open entry. People can join a church at any time. They can also leave. This is an indirect bidding for resources. But there is no pricing. There is no open bidding. Without pricing, there is no way to establish a predictable connection between subjective value and resource allocation. This is not fatal to the church. Most churches are small: about a hundred adult members. They are governed by the integrating factors of love, hierarchical responsibility, and charity. They are not governed by the auction’s principle of high bid wins.

They are not governed by the extension of high bid wins: “Buy low. Sell high.” So, the logic of economic theory does not apply effectively to the church. There is no system of endogenous sanctions imposed by objective

accounting: monetary profit and loss. This reveals the institutional limits of economic logic. This is why economists generally avoid discussing the economics of the church.

STATE

Let every person be subject to the governing authorities. For there is no authority except from God, and those that exist have been instituted by God. Therefore whoever resists the authorities resists what God has appointed, and those who resist will incur judgment. For rulers are not a terror to good conduct, but to bad. Would you have no fear of the one who is in authority? Then do what is good, and you will receive his approval, for he is God's servant for your good. But if you do wrong, be afraid, for he does not bear the sword in vain. For he is the servant of God, an avenger who carries out God's wrath on the wrongdoer. Therefore one must be in subjection, not only to avoid God's wrath but also for the sake of conscience. For because of this you also pay taxes, for the authorities are ministers of God, attending to this very thing. Pay to all what is owed to them: taxes to whom taxes are owed, revenue to whom revenue is owed, respect to whom respect is owed, honor to whom honor is owed (Romans 13:1–7).

Analysis

The Apostle Paul made it clear that civil government is covenantal, not contractual. It is appointed by God. It is not optional. It is as universal as the family. There is no society that does not have at least one civil government. *This passage categorically refutes any theory of Christian anarchism.*

The text speaks of authorities in the plural. This is important. The state is not the only lawful authority. Families possess authority. So does the institutional church. Furthermore, a unitary state is not biblical. It lodges excessive power in the hands of an elite core of rulers at the top. There must be a hierarchy of rulers: point two of the biblical covenant. Lower magistrates possess lawful authority. It is possible for a central government to become a threat to justice. Lower magistrates must then challenge an unjust central government.

A tax revolt is not biblical if conducted by private citizens. The text is clear: pay the taxes owed. Jesus was clear on this:

Then the Pharisees went and plotted how to entangle him in his words. And they sent their disciples to him, along with the Herodians, saying, "Teacher, we know that you are true and teach the way of God truthfully, and you do not care about anyone's opinion, for you are not swayed by appearances. Tell us, then, what you think. Is it lawful to pay taxes to Caesar, or not?" But Jesus, aware of their malice, said, "Why put me to the test, you hypocrites? Show me the coin for the tax." And they brought him a denarius. And Jesus said to them, "Whose likeness and inscription is this?" They said, "Caesar's." Then he said to them, "Therefore render to Caesar the things that are Caesar's, and to God the things that are God's." When they heard it, they marveled. And they left him and went away (Matthew 22:15–22).

The state provides peace. It provides personal safety. It facilitates trade. These activities make men richer. They make men safer in their ownership of property. These benefits must be paid for. Taxation is legitimate. Jesus refused to call on people to refuse to pay taxes.

When they came to Capernaum, the collectors of the two-drachma tax went up to Peter and said, "Does your teacher not pay the tax?" He said, "Yes." And when he came into the house, Jesus spoke to him first, saying, "What do you think, Simon? From whom do kings of the earth take toll or tax? From their sons or from others?" And when he said, "From others," Jesus said to him, "Then the sons are free. However, not to give offense to them, go to the sea and cast a hook and take the first fish that comes up, and when you open its mouth you will find a shekel. Take that and give it to them for me and for yourself" (Matthew 17:24–27).

I once gave a lecture on taxation. A tax rebel was in the audience. When I cited this passage, he answered that the disciples did not pay the tax. The fish did. His commitment to the tax revolt had clouded his ability to think clearly. The disciples owned both the fish and the coin. If you possess some-

thing as the owner, you have responsibilities that are part of the bundle of rights that you own. They paid the tax.

The state is not the outcome of independent sovereign citizens getting together to create a workable arrangement on their own authority. They are under God judicially. He is the source of civil government.

A civil government in one culture will be different from civil government in another. But all forms of civil government have this in common: *there is a final earthly court of appeal*. There is an agency that decides when enough evidence has been presented by contending parties, and it is time to hand down a verdict that is beyond normal appeal. There can always be an appeal to God, who may intervene. There can be an appeal to revolutionary action. There can be an appeal to another civil government to invade, thereby overturning the decision. Perhaps there can be a constitutional convention to overturn the law that led to someone's conviction. But in most instances of a supreme court, the decision is final. The state imposes sanctions involving violence or the threat of violence. This is a mark of judicial sovereignty. The state possesses judicial sovereignty.

The crucial economic fact is this: *the state possesses a monopoly of violence*. There are no competing courts. There is no possibility for a rival court of appeals to intervene and unilaterally and autonomously reach a different conclusion. *There is therefore no auction*. The decision of the court is not supposed to be the outcome of the free market's auction principle: high bid wins. In fact, any attempt to substitute the principle of high bid wins is a mark of corruption. It is a criminal offense in a just society.

The state is an inescapable concept. It is never a question of state vs. no state. It is always a question of which state. There is no such thing as a stateless society. I choose to explain this in terms of economics. Specifically, I invoke what Adam Smith invoked in 1776 in *The Wealth of Nations*: the division of labor. In the division of labor, some men specialize in violence. Others became masters of fraud. As they specialize, they increase their market share. They get a reputation for being skilled users of violence. They attract subordinates who are also good at violence, but who are willing to follow orders issued by someone more powerful at least for the moment. The skilled specialist puts together a gang. The gang operates in terms of violence. It does not respect property rights.

Next, there is competition among gangs. Some of them prove to be highly skilled. Their market share increases. Their territory also increases.

They are able to apply their skills to more victims. Over time, warlords rise to the top of the gang alliances. Or perhaps there is a consortium of criminal syndicates. The point is this: *the specialization of production is not limited to family and the free market*. Other types of organizations can gain advantages based on economies of scale.

Over time, the victims threaten to revolt. It becomes more difficult for warlords to gain self-government and compliance from their victims. Warlords are forced to make adjustments. They allow greater predictability in their imposition of violence. So, there is at least a conceptual progression: *from bully to gang, from gang to warlord, and from warlord to state*. This hypothetical history makes more logical sense and more historical sense than the familiar story of a meeting of autonomous men to create a civil government by mutual consent and verbal contract—a meeting that somehow left no historical traces. This is the theory of the social contract, first proposed anonymously by John Locke in 1690, but more famously expounded by Jean-Jacques Rousseau in 1762 in *The Social Contract*. Far more accurate was Rousseau's comment in his *Discourse on the Origin of Inequality* (1754): "Let us begin then by laying facts aside, as they do not affect the question. The investigations we may enter into, in treating this subject, must not be considered as historical truths, but only as mere conditional and hypothetical reasonings, rather calculated to explain the nature of things, than to ascertain their actual origin; just like the hypotheses which our physicists daily form respecting the formation of the world." I think my hypothetical history of the origin of the state better fits the facts of human motivation and the specialization of labor. I could easily have substituted a similar theory: from a local family to extended families, from extended family to clan, from clan to tribe, from tribe to territorial state. This progression has to do with substituting impersonal political power for blood relationships, and also establishing a geographical monopoly of violence under law. At no stage was anyone or any institution autonomous.

A. Purpose

God has established the state as the primary agency of justice (Exodus 18; Romans 13:1–7). The state's system of courts is analogous to God's court at the final judgment. The state declares justice, and it imposes negative sanctions. There will be a final assessment of guilt and innocence (Matthew 25:31–46). The state offers this preliminary judgment in history. It is the

initial court of God's justice. God's court is the supreme court. Here is the judicial model. "The end of the matter; all has been heard. Fear God and keep his commandments, for this is the whole duty of man. For God will bring every deed into judgment, with every secret thing, whether good or evil" (Ecclesiastes 12:13–14). Here is the preliminary judicial manifestation in history: "And all Israel shall hear and fear and never again do any such wickedness as this among you" (Deuteronomy 13:11). When the sanctions match the infraction, when the punishment fits the crime, there will be greater self-government. Why? Fear. This will reduce the necessity of expanding the state.

The state does not extend into eternity. The state deals with certain kinds of public infractions: violations of law. The state's purpose is to reduce the amount of evil-doing by imposing costs on evil-doing. Economic analysis informs us that when there is an increase in cost, there will be reduced demand.

Biblically speaking, civil magistrates are God's ministers of justice. They are held accountable by God. But in the state's division of labor, they are supposed to listen to the people. Taxpayers and citizens bear the financial costs of the state. Their cooperation is likely to be greater when the magistrates consider their opinions. There will be greater self-government if the people agree with the laws and their means of enforcement. The citizens will impute legitimacy to the state. This is crucial for its survival. It cannot afford to enforce laws that people evade or resist. Acceptance by the public reduces the cost of civil government.

B. Planning

Under biblical law, rulers act as mediatorial agents in between God and the individual. They represent God to the individual, and they represent the individual to God. This representational system is also true of parents and church officers. It is an aspect of point two of the biblical covenant: hierarchy.

There are economic considerations involved in all areas of the state. The state possesses the authority to collect taxes. It also regulates certain kinds of behavior. It provides a hierarchical court of appeals (Exodus 18). None of this is free of charge. There must be budgeting by state officials. The effects of tax collection are part of this budgeting process. The state's officials do not want to produce a tax revolt comparable to the one described in I Kings 12.

In a modern democracy, voters have the authority to replace elected rulers. In contrast, they do not have the right to remove bureaucrats who are

protected by law from being fired. The basis of such protection is a theory of bureaucrats as non-partisan technicians who enforce laws neutrally. This theory assumes that political power is ethically neutral. This is an error. The theory has been favored by bureaucrats, who want job security.

Bureaucrats have created their own judicially separate court system, which is not directly subordinate to voters. It is only occasionally subordinate to politicians. This is called administrative law. Administrative law judges act on behalf of a government enforcement agency, interpreting its rules and applying sanctions independent of the civil court system. This parallel court system has extended its power throughout the West.

Here is the fundamental economic fact regarding civil government. *Within the state's hierarchy, there is no system of autonomously generated prices.* In this sense, it is comparable to any other corporation. Prices are set outside the state. Outside the state, there is a competitive market that is governed by the auction's principle of high bid wins. There are capital markets that set the prices of capital equipment. There is nothing comparable to this inside any organization that has no ability to buy or sell, i.e., to own or disown.

State economic planning is a matter of subjective valuation by the bureaucrats. They must adhere to a system of sanctions that God has mandated to enable them to achieve God's goals for the state, both collectively and locally. Here is the conceptual problem. How can the politicians establish objective performance criteria in order to maximize the state's goals? In terms of humanism's theory of methodological individualism, it is scientifically impossible to make interpersonal comparisons of subjective utility. State leaders must think representatively on the citizens' behalf. But how? How can they design a required system of punishments to gain the cooperation that they need in order to attain the state's goals? The Bible does not spend much space on this issue.

Then there is the issue of priorities. I wrote about this in Section B of Chapter 46 on the family. I see no good reason not to repeat those observations here, since they were originally developed in the context of civil government. Priorities are hierarchical: first, second, third. They are ordinal. They are not cardinal. They cannot be measured. There is no objective hierarchy of values. A goal is not objective: exactly this much more valuable than some other goal. According to subjective value theory, people use each additional unit of income to attain the most important as-yet unfulfilled goal. This is the concept of marginal economic value. It underlies all modern eco-

nomics, especially Austrian School economics. It was first articulated by Carl Menger in 1871. The priorities are individual. There has never been a theory of collective economic values. All theories of collective economic planning rest on the existence of such an objective collective hierarchy of priorities. It must also rely on a theory of knowledge that is collective. But no such theory exists. All theories of individual decision making are inherently based on nominalism: individually imputed value. But there is no way to derive a concept of collective and objective value from nominalism.

This was the basis of Ludwig von Mises' path-breaking essay in 1920, "Economic Calculation in the Socialism Commonwealth." He concluded that all socialist economic planning is irrational. There is no way for the planners to obtain objective prices that accurately reveal the priorities of consumers. There is no private ownership. There is no way for asset owners to bid for other assets.

This criticism extends beyond civil government. It applies to every non-profit institution. Most institutions in society are non-profit. Surely, the family and the church are. So, how is the plan of a civil magistrate be said to be rational? How can the subjective economic evaluations of magistrates reconcile the subjective economic evaluations of all citizens? Magistrates can announce plans, but these plans are representative. They are to lead to objective decisions. But there is no scientific way for the decision-makers to know whether their decisions are conformable to God's plans and the members' plans.

This is the problem of the imputation of value: point four of the biblical covenant. Point four is always related to point two: hierarchical authority. The imposition of sanctions (point four) is always hierarchical (point two). The biblical solution of this dilemma is the doctrine of man as the image of God. Man has the analogous ability of God's to impute value. God has the ability to assess and apply perfectly His permanent standards to historical situations. But humanist economic theory relegates God to Kant's noumenal realm, where scientific cause and effect do not apply. Kant's god is not seen as the Creator and Final Judge.

C. Standards

The Bible has this law of economics: "You shall not steal" (Exodus 20:15). It also has this law: "You shall not covet your neighbor's house; you shall not covet your neighbor's wife, or his male servant, or his female servant, or his ox, or his donkey, or anything that is your neighbor's" (Exodus

20:17). The case laws of Exodus are found in Exodus 21–23. Many of them are laws of economics. There are laws defending private property. *The free market is the inescapable institutional development of a legal order that defends the Bible's laws defending private property.* Property rights are inescapably the right to exclude. Property rights are grounded in the Bible's story of the forbidden tree in the garden. The state enforces the right of individuals and groups to enforce the legal right to exclude. This is the meaning of property rights.

These rights are not negotiable. Politics is all about negotiation, as is the free market. But negotiation in the free market is based on private ownership. It is the right to trade away something that you own. *In the negotiation of politics, however, politicians trade away what they do not own.* They trade away some citizens' property as a way to gain an economic advantage for their own political constituencies. They act as thieves on behalf of certain voting blocs. They misuse the state's God-given authority to use coercion against criminals. They grant political favors to voting blocs. They get elected and re-elected on this basis. Biblically speaking, this is criminal.

Biblical civil law rests on the principle of the rule of law. All people are responsible to God by way of His law. No one is exempt. "There shall be one law for the native and for the stranger who sojourns among you" (Exodus 12:49). This means that private property must be defended by the state.

D. Imputation

Imputation is point four of the biblical covenant. It is the issue of sanctions. The state imposes negative sanctions. It imposes these sanctions only because of imputation. Imputation in the field of civil government is the assessment of guilt or innocence. It is casuistry: the application of fixed principles of law and also specific legislation to specific cases where a violation is asserted by a plaintiff or the state. The violation is negative. The penalty is also negative. *The biblical state is concerned with the imposition of negative sanctions, not positive sanctions. It does not create wealth. It is therefore not a lawful source of positive sanctions.* It can provide positive sanctions for members of one group only by imposing negative sanctions on members of some other group. The state must not favor any person or group. "You shall do no injustice in court. You shall not be partial to the poor or defer to the great, but in righteousness shall you judge your neighbor" (Leviticus 19:15).

The family is the primary source of productivity, either directly or as owner of productive businesses. It can therefore lawfully provide positive sanctions. The church is God's agency of spiritual healing. It can also provide positive sanctions. God authorizes deacons to offer charity (Acts 6). This is lawful because the church is not an agency of compulsion. In contrast, the state is an agency of compulsion. It therefore is not authorized by God to become an agency of positive sanctions. It is allowed to impose negative sanctions only for the purposes of establishing justice through restitution. The thief must pay restitution to his victim (Exodus 22:1, 4).

There is an inescapable conflict between humanism's view of the economics of the welfare state and the Christian view. The welfare state is grounded on a concept of collective guilt. The mark of this guilt is economic inequality. The rich are defined as evil-doers because they possess wealth. They are accused of being immoral because of this. Welfare statisticians impute objective guilt to the rich because of the greater objective wealth of rich people. They call for "social justice." This justice is corporate. It is imposed on the rich by the state in the name of the poor. The political programs are administered by government bureaucrats who receive salaries that are higher than those paid in the free market.

The welfare state rests on a re-writing of the eighth commandment: "You shall not steal except by majority vote." It rests on theft. It steals from the rich and gives to the poor. It transfers wealth from those who do not have a sufficient number of votes to defend their property. It transfers this wealth to beneficiaries who have political influence. This wealth transfer is based on coercion: the state's God-given monopoly of violence. *The welfare state is a violation of biblical laws against theft.*

The economic sanctions of the free market are these: monetary profit and loss. These sanctions arise in the context of forecasting and planning. They arise in the context of "high bid wins." This is not the context of the state, where bribery is a crime. "And you shall take no bribe, for a bribe blinds the clear-sighted and subverts the cause of those who are in the right" (Exodus 23:8). "You shall not pervert justice. You shall not show partiality, and you shall not accept a bribe, for a bribe blinds the eyes of the wise and subverts the cause of the righteous" (Deuteronomy 16:19). There is no open bidding for court decisions. There is no competition of court systems. The state has a monopoly of declaring guilt and innocence, and then using coercion to enforce its decision.

E. Inheritance

The concept of inheritance is basic to state economics. It is the concept of succession.

There must be continuity of law. Jesus' ministry is the archetype: "Do not think that I have come to abolish the Law or the Prophets; I have not come to abolish them but to fulfill them. For truly, I say to you, until heaven and earth pass away, not an iota, not a dot, will pass from the Law until all is accomplished" (Matthew 5:17–18). *If there is no judicial continuity, the state's officials become arbitrary.* Their decisions become unpredictable. This weakens property rights. It weakens liberty. People do not know how the courts will decide. They do not know how law-enforcement officials will interpret any law and then impose only appropriate negative sanctions.

Without judicial continuity, it becomes expensive for individuals to make plans.

When citizens decide to break the continuity of obedience, they resist. They may launch a revolution. This centralizes power. It breaks continuity. It reduces predictability. But if lesser magistrates are persuaded that there is no other way to defend justice, they revolt. This is what Jeroboam did in a tax revolt against Rehoboam in I Kings 12.

But the word of God came to Shemaiah the man of God: "Say to Rehoboam the son of Solomon, king of Judah, and to all the house of Judah and Benjamin, and to the rest of the people, 'Thus says the Lord, You shall not go up or fight against your relatives the people of Israel. Every man return to his home, for this thing is from me.'" So they listened to the word of the Lord and went home again, according to the word of the Lord (I Kings 12:22–24).

Conclusion

The state is not a market phenomenon. It is not the product of the market. The state, unlike the family, has a system of open exit. People can move away. This is an indirect bidding for resources. But there is no coherent pricing. There is no open bidding. *Without coherent pricing, there is no way to establish a predictable connection between subjective value and resource allocation.* This is not fatal to the state as long as it is limited by law and cus-

tom. But states are not governed by the extension of high bid wins: “Buy low. Sell high.” So, the logic of economic theory does not apply effectively to the state. There is no system of endogenous sanctions imposed by objective accounting: monetary profit and loss. This reveals the institutional limits of economic logic. Yet economists pretend to be able to discuss the operations of the state in terms of free market categories. An entire sub-field has attempted to do this: public choice theory. It has not been successful. Ludwig von Mises said why in his 1944 book, *Bureaucracy*. The sources of funding are different: market vs. compulsion.

Now we are in a position to provide a definition of bureaucratic management: Bureaucratic management is the method applied in the conduct of administrative affairs the result of which has no cash value on the market. Remember: we do not say that a successful handling of public affairs has no value, but that it has no price on the market, that its value cannot be realized in a market transaction and consequently cannot be expressed in terms of money.

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CHARITY

Do not lay up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also (Matthew 16:19–21).

Analysis

This is correctly seen as an otherworldly concept of rewards. Jesus clearly taught that money or wealth that is used to extend His kingdom in history will result in greater individual rewards in the world beyond the grave. *There is economic continuity between personal history and personal eternity.* More than this: this continuity is assured. Continuity in history is not assured. Moth and rust destroy: here is strong rhetoric. Thieves break in and carry off earthly wealth, most notably silver and gold. That which men trust in to provide them with continuity between the known world of the present and the uncertain world of the future is not reliable in history. Men's departure from this world strips economic capital away from them. Paul put it this way:

But godliness with contentment is great gain, for we brought nothing into the world, and we cannot take anything out of the world. But if we have food and clothing, with these we will be content. But those who desire to be rich fall into temptation, into a snare, into many senseless and harmful desires that plunge people into ruin and destruction. For the love of money is a root of all kinds of evils. It is through this craving that some have wandered away from the faith and pierced themselves with many pangs (1 Timothy 6:6–10).

This is a deservedly famous passage. It focuses on the temporary benefits of riches, meaning the temporal benefits of riches. It contrasts the ben-

efits of wealth, which are universal lures to destruction, with contentment with food and clothing: bare necessities. This is the mentality of a monk, yet Paul presented it as the correct guide to personal wealth.

How can this outlook be reconciled with the obvious benefits to mankind of accumulated capital? The benefits of tools in increasing men's productivity and wealth have been at the heart of the defense of free market capitalism ever since the days of Adam Smith in 1776. He called his book *An Inquiry into the Nature and Causes of the Wealth of Nations*. His inquiry came to a monumental conclusion: the pursuit of individual wealth has produced the wealth of nations, in which the entire society participates and profits. This idea has shaped Western civilization ever since. *This is the central idea of free market economic theory*. Opponents of the free market have attacked it ever since he wrote it.

There is no evidence from biblical texts that anything that Jesus said or the apostles said in any way hints at the cause-and-effect pattern that Adam Smith presented. What Smith wrote was not grounded in Jesus' teaching. Then how can it be correct? Only because of the system of economic sanctions that God originally built into the creation and also in the laws of private property that the Mosaic law established. Smith defended private property. So did Moses. Smith defended productivity. So did Moses. The first 14 verses of Deuteronomy 28 constitute a call to economic growth. Above all, so did Moses' discussion of the fixed relationship between covenant-keeping and positive sanctions. "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18). This places wealth within the framework of the covenant: covenant blessings. Here is the pattern: blessings (grace) => obedience (works) => greater blessings. *The economic blessings confirm God's national covenants*. There is therefore no contradiction between the Mosaic concept of economic causation and Jesus' teaching on the wisdom of accumulating wealth beyond the grave. The difference is this: the focus of the teachers on where wealth is to be accumulated. The Old Testament had only a few hints of God's final judgment, and not one word with respect to personal wealth in the world beyond the grave. That was uniquely Jesus' message.

This is also the issue of God vs. mammon (Matthew 6:24). Who or what was mammon? It was the god of this world: "more for me in history." Ac-

cumulating capital for the sake of money, sex, power, and fame is futile. The benefits end with the death of the accumulator or even before. It soon passes to his heirs. What they do with what had been his wealth is uncertain. The pursuit of wealth is all vanity.

I hated all my toil in which I toil under the sun, seeing that I must leave it to the man who will come after me, and who knows whether he will be wise or a fool? Yet he will be master of all for which I toiled and used my wisdom under the sun. This also is vanity. So I turned about and gave my heart up to despair over all the toil of my labors under the sun, because sometimes a person who has toiled with wisdom and knowledge and skill must leave everything to be enjoyed by someone who did not toil for it. This also is vanity and a great evil. What has a man from all the toil and striving of heart with which he toils beneath the sun? For all his days are full of sorrow, and his work is a vexation. Even in the night his heart does not rest. This also is vanity (Ecclesiastes 2:18–23).

This is a cry of despair by a wealthy covenant-breaker. Solomon explored the mindset of such a person throughout the book of Ecclesiastes. History offers no deliverance, only vanity. Not so, said Jesus. There really is a way to take wealth with you. Transfer it into eternity while you live in history.

The capital that a rich man accumulates is not lost when he sells it. It is merely transferred to a new owner. The new owner's wealth increases. Therefore, so does his responsibility. There is no such thing as a blessing that is covenantally separated from responsibility (Luke 12:47–48). The richest man in the world in my era is Bill Gates, who created Microsoft. He is worth \$90 billion. He is steadily giving billions of dollars worth of Microsoft shares, tax-free, to the Bill and Melinda Gates Foundation, which is worth \$37 billion. He advises other multi-billionaires that they should leave at least half of their wealth to charity. Gates is an atheist. His wife, however, is a church-attending Catholic. She was the driving force behind his decision to leave his business and devote his efforts to the foundation. He switched from a job to a calling; the most important thing he can do in which he would be most difficult to replace. Only one comparably rich entrepreneur has ever made this transition successfully: steel magnate An-

drew Carnegie after 1901. But Gates is far more involved in the foundation's operations than Carnegie was in his.

Jesus told the rich young man to sell all that he possessed and give the money to the poor. The man went away troubled (Matthew 19:20–22). The man had insisted that he had followed commandments six through ten. But now Jesus added something far more difficult: a positive command, not merely the avoidance of five sins. This was too much for him to bear. He would have to abandon his wealth. That was his god: mammon. So, he departed, troubled.

Jesus did not call for the destruction of his wealth, only its transfer to new owners. Jesus did not criticize capital. He merely warned the owner that he should sell it to others as a way to raise money. Then he should give away money to the poor. The young man would be de-capitalized, but the nation of Israel would not be.

This is the correct pattern for charitable giving by the wealthy. Their capital remains intact. It continues to generate productivity for its owners. Their society is not impoverished. But the wealth of the capitalists who built up this capital is transferred to new owners. These new owners are still part of the productive process. They possessed sufficient money to buy the capital from the existing owners. They were still part of the process of capital formation. But the owners who had accumulated this capital are now supposed to move on with their lives. They are to abandon the pursuit of more wealth. This capital will be transferred anyway. That is what death does to inheritances. Jesus warned that it is wise to arrange the transfer while you are still alive. Start early. "Avoid the rush!"

And he told them this parable: "The ground of a certain rich man yielded an abundant harvest. He thought to himself, 'What shall I do? I have no place to store my crops.'" "Then he said, 'This is what I'll do. I will tear down my barns and build bigger ones, and there I will store my surplus grain. And I'll say to myself, 'You have plenty of grain laid up for many years. Take life easy; eat, drink and be merry.'" "But God said to him, 'You fool! This very night your life will be demanded from you. Then who will get what you have prepared for yourself?'" "This is how it will be with whoever stores up things for themselves but is not rich toward God" (Luke 12:16–21).

In the early 1970s, I knew a free market economist who advised a rich libertarian industrialist in Indiana, Pierre Goodrich. The economist's name was Ben Rogge [ROWeguee]. He told me this. "Rich people know how to accumulate wealth. They do not know how to give it away. I see my task as advising Goodrich in such a way that his money will not do too much harm." He understood how destructive and wasteful large amounts of non-profit money can be. Rogge helped Goodrich design the Liberty Fund, which publishes reprints of libertarian books and classical liberal books. This is a limited but positive contribution to society. The Liberty Fund does not do anything innovative, but it does no harm. Rogge was successful.

A. Purpose

Every charity has an official purpose. If it had no purpose, its officers could not raise much money. People do not donate their hard-earned money to organizations that have no official purpose.

The official purpose is the organization's mission statement. In the world of profit-seeking business, this is sometimes called the USP: the unique selling proposition. I maintain the same acronym for charities: USP. I call it the unique service proposition. Yet there is no difference in economic principle between selling and service. What distinguishes them is this: access to the service. The buyer of a service buys it for himself or those in some way related to him. He exchanges money for unique and exclusive access to the service. In contrast, a donor buys the service for someone else. He has no legal claim on this service as a result of his transfer of money to the organization. He allows the organization's decision-makers to decide who receives the services funded by his donation.

The mission statement generates donations. Donors agree with it. They decide that providing money to achieve it is worthwhile. A donor wants members of some identifiable group to benefit from the service provided by the charity.

There is an implied benefit for donors: the sense of participating in a righteous cause. But for the Christian who believes Jesus' words about storing up treasure beyond the grave, there is an additional benefit: capital accumulation.

B. Planning

For any organization to achieve its mission, it must have a plan. There has to be some system of cause and effect between the donations coming in

and the benefits flowing out. This system of causation should be sufficiently clear so that donors believe it. Otherwise, donors will stop donating. The organization comes with a message: "Donate, and you will see the following types of benefits."

The organization hires people who have expertise. If they do not know what they are doing, donors will stop donating. There must be a plan. There must also be employees capable of implementing the plan. The organization must be better at implementing its plan of action than competing organizations. Otherwise, donors may switch their allegiance to other organizations.

In effect, the organization represents donors, economically speaking. Donors have money. They do not have a plan of action or the expertise to implement it, but they share the organization's official vision. So, they donate to it. They choose the organization to fulfill their purposes. They expect the organization to represent them to the beneficiaries. At the same time, they regard the organization as representing the beneficiaries to them. The organization is part of a hierarchy between donors and beneficiaries. This is why I classify planning as part of point two of the biblical covenant: hierarchy/representation.

Often in published fund-raising materials, there are photographs of beneficiaries. Donors and prospective donors can see a representative beneficiary of the organization's mission statement. The image adds a sense of specificity: beyond beneficiaries in general. *People are more likely to give to help a person than to support an impersonal cause.* The easiest way to raise money from Christian women is by including photographs of smiling black children in sub-Saharan Africa. Middle age women have been the primary donors to Protestant foreign missions ever since the late nineteenth century. They are people-oriented.

C. Standards

There must be moral standards governing the distribution of the funds. The money raised for benefitting members of some group must be used for this purpose. Otherwise, donors will feel cheated.

Let us say that money is donated to feed the poor in an African famine. It is only in Africa these days that there are famines. The famines are always the product of war, either between tribally dominated nations or in tribal civil wars. The best way for a charity to see to it that the food gets to hungry people is to make a deal with smugglers: it provides the food for free, and

the smugglers will sell it at a market price. There is great risk to get this food to hungry people in a war zone. The food will get through this way, but it will not go to the hungriest people. It will go to people who can afford to pay a smuggler. But this is not what the donors want. They did not donate food to enrich smugglers. Yet the fact is this: the best way to be reasonably sure that the food will get through is to make food delivery profitable for a smuggler. The charity does not adopt such a plan. The smuggler-based strategy sacrifices ethics to efficiency. Donors will not approve.

Donors want ethical consistency. They donate to what they regard as a righteous cause. They want the organization to match the ethical standard of the organization's mission statement with the means adopted to fulfill it. As Christian fundamentalists say, "God's work done in God's way." Humanists say: "The means must be consistent with the ends." Donors do not believe that a righteous cause can be attained by the use of morally questionable means. Put differently, they believe in doing good, but only by good means.

D. Imputation

For the free market, the primary economic sanctions are monetary profit and loss. This is not true in the world of non-profit organizations. In the world of non-profits, the sanctions are murky. So are the goals. "Help the poor." "Save the planet." "Change their minds." What objective measures can be used to determine whether an organization is fulfilling its goals? In business, there is accounting. There is "black ink" for profits and "red ink" for losses. There is also accounting in the realm of non-profits. But the recipients of the non-profits' benefits do not pay full price for them, unlike buyers in the world of profit management. They are subsidized by donors. So, there is no way for donors to know for sure if the benefits were sufficient to justify the donations. After all, there is strong demand for services priced below market. But is this donor-subsidized demand being spent well? How can donors know? For that matter, how can the managers of the non-profits know? Donors can see that money flows in, and money flows out. All of this money can be accounted for. No one is stealing money. But is this money achieving anything significant? How can donors know? This is the problem with financial sanctions in the world of non-profits.

Then there is the problem of positive sanctions for the managers. The organization has a mission statement. But maybe the mission statement no

longer gets much financial support. Should the organization openly change its mission statement? This problem faced the March of Dimes, which was founded in 1938 to discover a cure for polio. When Jonas Salk discovered a cure in the mid-1950s, the March of Dimes had a major problem. How could it keep raising money? Should it shut down? The managers did not want to lose their jobs, so they switched the goal to finding cures for birth defects. That was an open-ended mission statement. There are lots of birth defects. The organization continues to raise funds. Donors agree with the mission statement.

Do the positive sanctions promoted by a reform organization reward the desired behavior? Is there greater adoption of this behavior among the charity's recipients? Why? To get the rewards or to achieve moral improvement? Do the recipients appreciate the benefits? Are the senior managers gaming the system to make it look as though the outcomes are what donors expected? Donors are in charge. Their money funds operations. But donors can be deceived by full-time managers who "spin" the fund-raising messages.

Do the donations create dependence by the recipients? Will the recipients ever escape this dependence? Is the money creating a class of welfare dependents? Donors do not want this. How can they be sure that this is not taking place? Is there consistency between the sanctions and the hoped-for results?

There are no sanctions in civil government comparable to monetary profit and loss under profit management. That was Ludwig von Mises' point in *Bureaucracy* (1944). But the same criticism applies to non-profits. Managers do not have property rights to the assets of charitable institutions.

There must be wisdom in giving money away. Wisdom is always in short supply. It does not command a high price. There is more to biblical wisdom than a profit-and-loss statement. This is true in the for-profit sector. It is surely true in the non-profit sector, where the recipients of benefits are different from those who pay for the benefits.

E. Inheritance

Managers come and go. Recipients come and go. What about the non-profit organization? Does it persevere? Should it persevere?

Successful non-profits have large endowments. These keep the doors open. But endowments reduce the authority of donors, whose donations become marginal in the total budget of the non-profit foundations.

Over time, the official goals of the founders of non-profit foundations tend to be forgotten by the successors. The outlook of the founder is not shared by the future managers. The richest Calvinist who ever lived was J. Howard Pew of Sun Oil (1882–1971). He wanted to save the Northern Presbyterian Church from theological liberalism. He failed. This should have been obvious to him in 1967 when the denomination revised its confession of faith. But he never gave up hope. He and his siblings funded the Pew Charitable Trusts. These trusts ceased to be remotely Calvinistic within a year of his death. They no longer promoted his pro-free market outlook. He had for two decades funded *Christian Economics*, a tabloid sent free of charge twice a month to every minister in the United States. Within three years of his death, the bureaucrats at the Pew Trusts stopped funding the publication and thereby killed it. Today, the organization conducts public opinion surveys. There is nothing wrong with this, but it is neither Calvinism nor the free market. It is strictly non-ideological. It is not controversial. It is safe.

Non-profit charities are easily hijacked by upper-middle-class bureaucrats who are hired by the founder. They seem to share his vision until about ten minutes after he reaches room temperature. Then the organization begins to be transformed into something preferred by the employees. They were “yes men” until he died. They become their own men if he left a large enough endowment.

Conclusion

When a profit-seeking organization ceases to make a profit, it is replaced rapidly if its managers cannot adjust to the new economic conditions of supply and demand. This is not equally true of non-profits, including charities. The managers have no ownership rights to the assets of the organization. They can continue to benefit, but only as employees. They begin to focus on the means: receiving their salaries. They pay less attention to the mission statement, which is difficult to enforce if senior managers choose not to enforce it. The monetary sanctions paid to senior managers begin to direct the operation of the charity. That is what monetary sanctions are supposed to do. In the free market, monetary sanctions transfer authority to buyers. In the non-profit world, monetary sanctions transfer authority to donors. But the larger the charity's permanent endowment, the less authority the donors possess. They lose leverage.

There is no economic theory of non-profits precisely because there is no system of built-in economic sanctions. The profit system is self-regulating because of profit and loss. Customers are in control. They evaluate the success of a company in meeting their wants at prices they are willing and able to pay. Donors have no comparable system of sanctions to guide their allocation of capital: time and money. Donors must think through the effects of their donations in the thinking and then the lives of the recipients. They must act on behalf of the recipients. They must “get inside the heads” of recipients. But how? There is no objective answer, unlike monetary profits and losses. It takes wisdom to evaluate the many factors. Biblical wisdom is best.

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EDUCATION

Train up a child in the way he should go; even when he is old he will not depart from it (Proverbs 22:6).

Analysis

I have made the biblical case against state-run, tax-funded education in Chapter 43. But what about non-profit education? As I argue here, it is not fundamentally different. It, too, is the product of state coercion.

The fundamental principle of Christian education is this: it must be theocentric. The God of the Bible must be at its center. This means that there can be no covenantal neutrality in education. Every system of education reflects the God who undergirds the program's concept of truth.

When God educated Adam, He had a plan. He wanted to test Adam's commitment to God and His word. He wanted Adam to assume that God, not Adam or the serpent, is the source of truth. The serpent sought to undermine this outlook. He asked Adam to decide, as if Adam were God. Who was in charge? Adam and Eve would be if they ate, the serpent said. "For God knows that when you eat of it your eyes will be opened, and you will be like God, knowing good and evil" (Genesis 3:5). Is God's law absolute? The serpent said no by means of a rhetorical question: "Has God said?" Adam would autonomously impute truth either to God's word or the serpent's word. If he imputed truth to the serpent's word rather than God's word, and then acted consistently in terms of this word, would he die? Would there be a cutting short of his future? The serpent said no. Here was a covenantal conflict. Here was a clash of educational systems.

Proverbs 22:6 does not say that it is the parents, and only the parents, who have a say in the education of the child. But they do possess the final say. They can lawfully delegate some aspects of education. This is part of the intellectual division of labor. God delegated authority to mankind. Men can do the same.

The issue is this: Who is responsible before God for the education of children? Clearly, parents are. They owe their children support and training. The relationship is mutual and hierarchical.

Children, obey your parents in the Lord, for this is right. “Honor your father and mother” (this is the first commandment with a promise), “that it may go well with you and that you may live long in the land.” Fathers, do not provoke your children to anger, but bring them up in the discipline and instruction of the Lord (Ephesians 6:1–4).

There is no neutral education. Every educational system is covenantal. It is structured in terms of a worldview. This is rarely self-conscious on the part of classroom teachers below the college level, but the founders of modern education knew exactly what they were doing: substituting an anti-Christian worldview. *Every theory of education has religious presuppositions regarding God, man, ethics, causation, and time.* Put differently, it has a theory of sovereignty, authority, law, sanctions, and the future. Every worldview is confessional: “we believe.” The more confessional the worldview, the more consistent it is.

Every system of education must be funded. Funding establishes the voice of authority in the program. He who pays the piper calls the tune. In a free market transaction, the source of authority is clear: the buyer is in charge. He buys the program he prefers. He acts representatively on behalf of his children, legally and economically. This is why point two of the biblical covenant is crucial for understanding how education works: authority/representation.

The covenantal problem is the parents’ surrender of financing. They look for someone else to pay for the schools. Someone who provides the money then substitutes his authority for the parents’ authority. There are no free lunches in life. When it comes to money, there is always an agenda. Question: How best to discover this agenda? First, follow the money. Second, follow the confession of faith of the one who supplies the money. In education, this two-part exercise will reveal the agendas—usually hidden—of those who fund education for other people’s children.

There are three parts in all verbal communication: grammar, logic, and rhetoric. There is a linguistic structure. There is logic: the structure of the argument. There is rhetoric: persuasion. In education, we think of this

three-part structure as pedagogy, content, and symbols. There is a theory of how students learn. There is a presentation of the facts and logic of a field of study.

Then there is persuasion: emotional language and symbols. Parents may not be aware of this three-part theory of education, but all three exist in every educational program or system. But most parents are not self-conscious about these matters. They rarely recognize how these three features work to convey a specific view of the world. The presuppositions of all three are rarely presented to the public by teachers, let alone administrators.

God assigns to parents the responsibility of educating their children. They must pay to educate their children by means of time invested or money invested or both. Most parents do not want this responsibility. It is burdensome. It need not be expensive in terms of money, but for families in which the mother earns a salary outside the home, the cost of quitting her job and teaching her children is high. Some Christian parents do not want to pay this expense. They want to find someone else to educate their children, beginning with funding.

Classroom-based education is expensive. Internet-based education is cheap. In the case of the Khan Academy, it is free. YouTube delivers free video lessons. Any organized religious movement or church denomination could produce a complete curriculum, kindergarten through graduate school, in a year. All it would take is money and commitment. I put such a program together in four years with the Ron Paul Curriculum. It offers a 12-year program with 47 courses. By sharing course payments, which are quite low, with course creators, the RPC gained the curriculum. This is a functional model.

Retired teachers with vision could do it with donated time. The key is vision, not money. There is not much vision in 2017. A million dollars could buy a complete curriculum, K–12, in a year, by paying teachers about \$20,000 for 47 courses with 180 lessons each to match the typical public school's academic year. Denominations could easily afford to do this. They refuse. They are simply not committed to Christian education. They accept the humanists' convenient myth of neutrality. (These denominations could train seminary students free, too, using apprenticeship with pastors, plus online videos and readings. They are not interested. They prefer that their young men take on \$50,000 of needless debt at ages 22–25. This keeps their educationally peripheral seminary professors employed.)

Non-profit education is education in which there are no individual owners of the delivery system. There is no way for salaried officials to pass an economic inheritance to heirs. Parents who pay the schools' tuition are not in charge of the curriculum. Salaried bureaucrats with no ownership claims are in charge. This transfers economic authority to the bureaucrats for as long as parents and donors do not exert much authority.

The donors usually ignore both the content and techniques of classroom education. So do the parents. Both groups meekly defer to the guild-policed educational establishment. The system seems to be privately controlled, but it is not. It rests on state power: coercion. It is privately funded, but not privately defined and policed.

The school accreditation system favors control by bureaucrats. This accreditation system rests on the power of the state to control both the content and the pedagogy of private education. It removes authority from parents and places it in the hands of educational bureaucrats who must please state officials and donors. The guild-certified classroom teachers and administrators are the people with the greatest incentive to devise the academic rules that keep competitors from getting the legal right to compete against them. They have been certified by state-certified educational institutions. The state prohibits non-accredited institutions from granting certification to teachers. This reduces the supply of teachers. It therefore keeps wage costs high. These beneficiaries of the accrediting system pay close attention to the criteria of certification. Donors and parents do not. Their interest is not focused. The beneficiaries of state regulation are highly focused. This is true of members in every state-licensed guild.

A. Purpose

At the beginning of any Christian educational institution is the desire of its employees to spread a particular message: a unique interpretation of the world. But in the field of education, this purpose from the beginning is compromised by the Christians' acceptance of the humanists' philosophical premise of the possibility and desirability of neutrality in education, especially neutrality toward the God of the Bible. In this sense, Christian education has always been intellectually schizophrenic, going back to the early church's apologists in the second century A.D. R. J. Rushdoony's third book was titled *Intellectual Schizophrenia* (1961). It was subtitled: *Culture, Crisis and Education*. It was the first book of his that I read, in 1962. The book was

an extension of the philosophy of Cornelius Van Til, who more than any previous Christian philosopher denied the possibility of intellectual neutrality. Rushdoony had a master's degree in education from the University of California, Berkeley. His detailed book, *The Messianic Character of American Education*, was published in 1963. It showed how American state-run education has been deeply religious and deeply anti-Christian.

My own work in economics defends Van Til's perspective. I deny the possibility of value-free economic theory. This presupposition is the epistemological foundation of this book. In the 1963–64 academic year, I took apologetics (Christian philosophy) from Van Til. I wrote a paper for him on libertarian economist Murray Rothbard's epistemology.

The mission of professional educators is to transform the world in terms of a consistent worldview. The leading humanists in education are far more consistent in this regard than the Christians are. They seek to construct a humanist civilization through compulsory state education. In contrast, the vast majority of Christians seek peace and quiet as second-class participants in a supposedly neutral social and political order. They have no vision of victory regarding history. Their purpose is a permanent stalemate until Jesus comes to rescue them, either in final judgment (amillennialism) or else just before He sets up an earthly international bureaucracy in which Christians at last gain power for a thousand years (premillennialism). I explore this theme in my book, *Millennialism and Social Theory* (1990).

B. Planning

The first point of the biblical covenant in economic theory is God's absolute ownership. He delegates ownership to representatives: point two of the covenant.

In non-profit education, no one has personal ownership of the assets. Ownership is held by a representative committee: point two of the covenant. The Board of Trustees officially acts on behalf of God (upward), donors (upward), the community (outward), and students, parents, and the faculty (downward). In fact, because the board is usually composed of non-specialists who are not in academia, the faculty gains control of the college operationally. In most colleges, the doctrine of academic freedom protects professors from donors and the Board of Trustees.

Professors answer only to senior professors in their department. After they are granted tenure, they answer to nobody. This doctrine was first de-

veloped in Prussia in the early nineteenth century to defend professors at the University of Berlin who were on the government's payroll, but who resented any interference by the politicians who paid their salaries. The founder of the University of Berlin, Wilhelm von Humboldt, was the source of this doctrine. It is now widely accepted because it is in the self-interest of professors to teach it. This doctrine is a way for them to gain career independence from those citizens whose tax money pays their salaries.

The idea of academic freedom has taken root in private colleges. The faculty resents control by the board members. Why? Because the board members are not academics. Also, they act on behalf of the many special-interest groups that claim to have a stake in higher education because they pay for part of the program: donors, parents, and even students. The board does not in fact represent these groups. This universal defection by boards has led to the functional ownership of higher education by the faculties, who legally have no ownership claims. The economics of this dysfunctional system was first discussed in 1971 by legal theorist and educational innovator, Henry Manne [MANee], who later was the founder of the law and economics graduate program at George Mason University in Virginia. He argued that parents who pay tuition, books, and room and board would be far better served if the schools were made profit-seeking, and the assets were turned over to the faculty in a corporate structure. This would further academic competition. Manne also argued that university faculty members are generally hostile to the free market. This reflects the non-profit structure that supports them, which does not hold them legally or economically accountable. (Manne, "The Political Economy of Modern Universities," 1971) Manne described a system of bureaucratic management, not profit management. It is not innovative. It resists change. It does not respond to offers of money if those who are offering money demand educational changes.

The less that parents judge the educational programs in terms of the programs' covenantal content, the greater the authority of guild members who control the programs. Also, the more money provided by donors, the less control parents have over content. The parents' surrender of control is encapsulated the phrase: "Is your college accredited?" They demand accreditation, which is ultimately enforced by the state.

C. Standards

Every system of education operates in terms of ethics: right vs. wrong.

It also operates in terms of efficiency: effective vs. ineffective. In non-profit education, the market does not define efficiency. The ability to raise donated money does. So does the ability to get government grants.

There are multiple issues in all formal education. One is the issue of the proper techniques of teaching: pedagogy. In institutional affairs, these standards are always officially numerical: so much student time spent in classrooms, so many books in a school library, and evidence of the teachers' formal qualifications. These are all issues of academic accreditation. Officially, the content of education is not supposed to be used to disqualify a program. This is because of the theory of neutral education. Education quality is supposedly judged in terms of neutral techniques, not ethical content.

Second, there is worldview. Worldview always plays a role in which schools get accredited. Formal academic accreditation is the means by which humanists control non-profit private education. This aspect of screening is always concealed by the accrediting agency. I had a friend who was a librarian at an obscure but expensive Protestant college that raises money from naive conservative donors and even more naive parents who spend over \$150,000 for a bachelor's degree that is available for \$15,000 by distance learning. A political liberal on the faculty spotted a book on the library's shelves written by a controversial historian. She ordered the librarian to remove it. There was nothing wrong with the book, she admitted, but the author was notorious. The very presence of the book in the library might lead to the college's loss of accreditation, she insisted. The college's president ordered the book removed. The librarian resigned in protest. That was the moral thing to do. But the school got away with it. Parents and donors never heard about this. Most of them would not have cared.

A major tool of control over education is the humanists' control over the degree-granting institutions. They screen the people who are granted higher degrees, above all the Ph.D. This degree was invented in Prussia in the early nineteenth century. Beginning with Johns Hopkins University in the 1880s, control over the issuing of the Ph.D. became the supreme tool of the humanists in replacing Christians, especially retired ministers, on the faculties of what was then a mostly privately funded higher education system in the United States. One of the first recipients of a Ph.D. from Johns Hopkins was Woodrow Wilson, who later used the Ph.D. requirement to secularize Princeton University's faculty when he was president from 1903 to 1910. He was elected President of the United States in 1912. He was re-elected in 1916. He

was the only Ph.D. ever to be elected President. He ran the country in World War I with the same arrogance with which he ran Princeton.

D. Imputation

The economic value of education is imputed by employers. They bid against each other for graduates of various schools and programs. To the extent that the academic guild can limit the production of degree-holding graduates, it can raise the wages of graduates. But at the same time, guild members must justify their own high salaries and benefits. They must continue to produce lots of graduates. Tax-funded universities produce such graduates in abundance. Wages cease to rise as rapidly due to increased supplies of graduates.

Parents decide whether to send their children to private high schools based on such factors as tuition costs, the physical surroundings, and the ability of graduates to get jobs or be accepted at prestigious colleges. Parents look at the future wage potential of a school's graduates. They ignore the fact that they can enroll their children in far less expensive distance-learning collegiate programs that cost 10% of the costs of private, classroom-based education. They are not buying a good education for their children. They are buying hoped-for certification, which will lead to higher wages because of the limited number of degree holders. This has been the primary motivation of parents throughout the history of formal education.

Parents impute economic value to higher education in terms of the hoped-for wages of graduates. They care little or nothing about the content of the curriculum. They do not spend time in the college bookstore looking at what books are being assigned to students. They do not feel qualified to make academic judgments. They surrender authority to the faculty. The Board of Trustees does the same. The result has been the capture of higher education by humanist guild members who control the granting of the Ph.D. degree. The content and structure of non-profit private education is therefore identical to the content and structure of tax-financed education.

E. Inheritance

The structure and content of accredited formal education is the central inheritance of the modern world. Formal education is dominant over all rival sources of worldviews.

The content of education changes slowly, but the structure of higher

education has not changed significantly in the West since the eleventh century: lectures in a classroom. The structure of formal education below college has not changed in the West since the early seventeenth century.

Western culture is the outworking of market forces and formal education. As bureaucratization has increased along with greater expenditures by civil governments, the economic returns to formal certification have increased. This process accelerated in the late nineteenth century with the development of the civil service, which legally protects government job holders from political replacement after an election. Access to these jobs is by formal examination. This increases the economic returns to formal education.

The covenantal content of formal education becomes the confession of faith for leaders in the modern world. The content and structure of formal education are independent of the sources of the funding. This seems to negate what economic theory teaches regarding funding and hierarchy. This observation is in fact fully consistent with the bureaucratization of social life. The economics and therefore the structure of formal education are the same in private education as in tax-funded education because of state certification, funding, and licensing of professions. *The educational system reflects these state-imposed standards.* Parents purchase educational services in terms of their outcome: formal certification, not ethical content. This reflects the triumph of the central confession of faith of the educational establishment: the myth of neutrality.

Conclusion

The content and structure of privately funded formal education does not differ in any fundamental way from tax-funded education. This is because the parents' desired outcome of formal education is formal certification for employment reasons in a state-regulated job market. This is a strictly economic result. The minority of children who pass through the educational system and receive certification do gain economic benefits. These benefits are created by the state: the restriction of the supply of labor by licensing and certification. The professional guilds retain control, and above all, the educational guild.

Privately funded formal education is protected by law from market competition. The state defines what constitutes a school that is authorized to issue academic degrees. This is the state's way to restrict the supply of eligible workers. This provides these certified workers with above-market income. The state

thereby gains control over professions that are regulated by the state.

The tendency over time is for the professional guilds to gain control over the regulatory system. Employees in the regulatory agencies can retire and become well-paid, influential lobbyists in the regulated professions. They maintain personal connections to people still employed by the agencies. These government employees then become advocates of the agendas of the regulated groups. This way, they also will have high-paying careers later in life when they retire from the government and receive above-market pension income, plus salaries paid for by the guilds regulated by the agencies.

The educational establishment gains its influence through the state's regulation of the economy. A profession is regulated by the state, but over time its representatives gain control over the standards imposed by the state and enforced by the state. Formal education is not a market-generated service.

CONCLUSION TO PART 5

But a man named Ananias, with his wife Sapphira, sold a piece of property, and with his wife's knowledge he kept back for himself some of the proceeds and brought only a part of it and laid it at the apostles' feet. But Peter said, "Ananias, why has Satan filled your heart to lie to the Holy Spirit and to keep back for yourself part of the proceeds of the land? While it remained unsold, did it not remain your own? And after it was sold, was it not at your disposal? Why is it that you have contrived this deed in your heart? You have not lied to man but to God." When Ananias heard these words, he fell down and breathed his last. And great fear came upon all who heard of it. The young men rose and wrapped him up and carried him out and buried him (Acts 5:1–6).

Property in the free market is different from property in a non-profit institution. The difference has to do with ownership. The non-profit institution does not grant property rights to individuals who donate to the organization or who administer it. There is still hierarchical control, as is universally true in God's world of delegated sovereignty, which we call authority. Point two of the biblical covenant is authority. But this authority does not involve the authority to buy and sell on behalf of the decision-makers. The sanctions are therefore different, as Ananias and wife learned too late. They wanted to get credit with church members for having been more generous than they were. They sought positive sanctions in the form of imputation by others. God's negative sanction against them was definitive. "And great fear came upon the whole church and upon all who heard of these things" (v. 11).

This difference in ownership has economic effects. The main one is this: the absence of pricing within a non-profit organization. There is also no pricing within a profit-seeking business, but there are prices generated outside a business. The buying and selling that go on at all times provide prices. But in non-profit institutions, no individual can legally lay claim to the organization's property. He cannot take advantage of ownership by selling into the

general marketplace. He can at most benefit the organization as an employee or as a board member. He cannot personally profit from such sales.

Because there is neither internal pricing nor individual property rights, there is no endogenous monetary system of sanctions that provides direct personal feedback, either through gain or loss. Without such a system of direct feedback, there is no possibility of a precise theory of human action. Because most of life is lived in non-profit institutions, most of life lies outside the precision of economic analysis. A theory of non-profit decision-making resembles sociology.

Any attempt to apply the logic of the free market's auction process to the operations of a non-profit institution will produce either narrowly focused predictable results or inaccurate results. There is no remotely scientific theory of human action outside of the market process.

Ludwig von Mises wrote *Human Action* in 1949. He wrote *Bureaucracy* in 1944. The earlier book made it clear that the logic of the free market process does not apply to bureaucracy. The structure of ownership is different. Therefore, the funding is different. He offered no theory of bureaucratic management that is as rigorous as the logic of the market in *Human Action*. He had already distinguished the two approaches in the subtitle of his great work, *Socialism: An Economic and Sociological Analysis* (1922). His analysis of the operations of the socialist commonwealth was primarily sociological, not economic. Economic logic does not apply to the operations of the socialist economy. There is no autonomous, endogenous system of pricing.

There is no feedback between subjective value theory and objective prices. Without pricing, humanistic economic analysis turns into sociology. "Buy low. Sell high" devolves into this: "Some do. Some don't."

Part 6

RIVAL WORLDVIEWS

INTRODUCTION TO PART 6

I am the Lord, and there is no other, besides me there is no God; I equip you, though you do not know me, that people may know, from the rising of the sun and from the west, that there is none besides me; I am the Lord, and there is no other (Isaiah 45:5–6).

Isaiah 45 is a chapter on the sovereignty of God. It is also a chapter on prophecy. Isaiah predicted what Cyrus the Medo-Persian would do to Babylon almost two centuries later. The prophet names him (v. 1). This is the most explicit prophecy in the Bible. Its fulfillment in 586 B.C. stands as one of two things: (1) the greatest historically verifiable announcement of the omniscience of God in all of human history; (2) proof that the passage was written after Cyrus had conquered Babylon: a fake historical document forged by someone in authority in Israel's priestly hierarchy. There are rival views of sovereignty at work here: God's vs. man's. There are rival views of authority: Bible vs. forgery. There is no way to reconcile these rival views. At least one of them is wrong.

Which one is wrong? How can we sort this out? How can we come to logical conclusions? How can we deal honestly with the historical facts?

Epistemology

We come now to a topic that most economists hate: epistemology. Epistemology asks two questions: "What can man know, and how can he know it?" Then it attempts to answer it. But these are tricky questions. "What can man know?" Which man? Is this mankind in general, or merely very smart men? "How can he know it?" Who are we speaking of? A real, live man? If he says he knows something, can other people verify this? How?

Rare is any graduate school program in economics that offers a course on epistemology, even a disguised one on methodology. No one on the faculty wants to teach it. Students do not want to take it. Their attitude is: "Let's get on with doing economics. Who cares if we know what we're doing?" No one cares.

I did not raise these questions early in this book. That is because I did not want you to stop reading the book. Ludwig von Mises made this mistake back in 1949. The first three chapters of *Human Action* are on epistemology. Mises thought this topic was a crucial issue, meaning central to economic theory. He was correct. His problem was this: almost no other economists did. So, this section has kept generations of young economists and graduate students from finishing his book.

If you have read this book carefully, you have a sense that my approach to economic theory is different from whatever you have read in any college textbook on economics, assuming that you have read such a textbook. It is different from general treatises on economics, of which *Human Action* is the premier example. The presuppositions are different. Starting each chapter with a citation from the Bible is different. But you may not be able to put these differences into words. After you have read Part 6, you should be able to put these differences into words.

There is a war of the worldviews going on. This war affects every area of life. It surely affects economic theory. Part 6 focuses on this war. It shows that, while the conclusions of Christian economics are similar to the conclusions of free market, anti-Keynesian humanistic economics, the logic of the each approach is different from its rival. The differences are radical, i.e., at the root. In terms of the intellectual foundations of economics, the Keynesians and the Austrians are closer to each other than they are to me.

The Biblical Covenant

The differences begin with my view of the covenant. Point one of the biblical covenant is the transcendence of God. He is the Creator. Yet He is also present with His creation. This is the theological foundation of the doctrine of the sovereignty of God. "Who's in charge here?" This question should begin every investigation of every institution or arrangement. Someone in charge decides what is true, what is false, and what is presently unknown. This person is the judge: the final court of appeal.

The second question to ask is this: "Who speaks on behalf of the one in charge?" This person or committee speaks on behalf of the supreme authority, whatever or whoever this supreme authority is said to be. When beginning your investigation, you would be wise to find out well in advance who decides what, and in whose name. This is because there is no neutrality. There may be temporary indifference, but there is no neutrality.

Christian economics begins with the Genesis account of the creation. God made the creation initially out of nothing. This places Him in charge. The Bible speaks for God. That places it in authority. If you are a Christian, your task is to speak for God in terms of what the Bible says: point two of the biblical covenant.

You then announce God's law, which is point three. Next, you must apply the law to aspects of the creation where you possess authority. You must interpret the Bible and then apply it by bringing sanctions: point four of the biblical covenant. Maybe you bring sanctions as a voter. Maybe you bring sanctions as an administrator. But you must bring sanctions in some areas of your life. This is point four. This is what building the kingdom of God is all about: imposing sanctions.

Then comes point five: inheritance. Who will inherit in history: covenant-keepers or covenant-breakers?

Conclusion

If you are speaking as a Christian economist, you will be challenged. Most economists are self-identified agnostics. They are therefore operational atheists. They do not accept the biblical doctrine of God and the biblical doctrine of the Bible's authority. They are not usually forthright about their idea of who or what is in charge in economics. But most economists place man's reason at the pinnacle. Man proposes, and man disposes. The crucial questions are these: Which men speak for mankind? On what basis? On whose authority?

I hope that Part 6 will provide you with an understanding of the confrontation between the two views of economics.

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DESIGN VS. DARWINISM

And we know that for those who love God all things work together for good, for those who are called according to his purpose (Romans 8:28).

From these conceptions gradually grew a body of social theory that showed how, in the relations among men complex and orderly and, in a very definite sense, purposive institutions might grow up which owed little to design, which were not invented but arose from the separate actions of many men who did not know what they were doing. This demonstration that something greater than man's individual mind may grow from men's fumbling efforts represented in some ways an even greater challenge to all design theories than even the later theory of biological evolution. For the first time it was shown that an evident order which was not the product of a designing human intelligence need not therefore be ascribed to the design of a higher, supernatural intelligence, but that there was a third possibility—the emergence of order as the result of adaptive evolution.

— F.A. Hayek, *The Constitution of Liberty* (1960), Ch. 4:3.

Analysis

Here we see two rival views of causation. Paul affirmed the existence of a cosmic order. There is providence undergirding the creation. All things work together. In what way does the structure of creation work as a unit? To achieve a purpose: to guarantee good things for all those who are called according to God's purpose. *There is an overarching coherence in the creation.* Creation is good for those called according to God's purpose. This goodness is built into the creation. Creation is structured in terms of this. History has meaning in terms of this.

In self-conscious opposition to this view is Hayek's view of the origin of social order. All social order arose from the decisions of individuals who

had no intention of creating a social order. There was no central plan in heaven or on earth. There is no heaven. There is no God. There is no design. These decision-makers had no design in mind. Nevertheless, there is a social order that looks as coherent as we imagine that a personally designed order would look. This appearance of a design is an illusion. There was no designer. There was no conscious design. There was no collective purpose.

The great intellectual battle in the modern world is the battle over cosmic purpose vs. Darwinism. All other intellectual conflicts are minor compared to this one. *The denial of all purpose prior to the evolution of mankind is the heart, mind, and soul of Darwinism.* Darwinism is the reigning religion of the intellectuals in the modern world. Darwinism was a direct assault against the intellectual heritage of classical philosophy, as well as Christianity, Judaism, Islam, and the intellectual tradition of the West, which grew out of a combination of classical philosophy and Christianity.

Darwinism teaches explicitly that, prior to the unplanned advent of man, all matter evolved in terms of impersonal forces. Life spontaneously evolved out of lifeless matter as a result of impersonal forces. *The essence of Darwinism is cosmic impersonalism.* Man brought purpose into the world. There is no God. There is no cosmic purpose. There is only man, either collective or anarchic, to provide meaning, direction, and progress, as defined by man, either collective or anarchic. Man is the only god there is, according to Darwinism.

In contrast to this philosophy of cosmic impersonalism is cosmic personalism, which rests on the doctrine of God's purposeful creation of the universe out of nothing. This must be the foundation of all thought, the Bible teaches: "In the beginning, God created the heavens and the earth" (Genesis 1:1). Christian thought begins here. Christian economics begins here. To start Christian thought, including economics, with any other presupposition is a conceptual error.

Hayek made it clear that Darwin got his idea of cosmic purposelessness from the social theories of two late-eighteenth-century Scottish rationalists: Adam Ferguson and Adam Smith. I began this chapter with Hayek's statement on social evolution. Here is the next paragraph.

Since the emphasis we shall have to place on the role that selection plays in this process of social evolution today is likely to create the impression that we are borrowing the idea from biol-

ogy, it is worth stressing that it was, in fact, the other way around: there can be little doubt that it was from the theories of social evolution that Darwin and his contemporaries derived the suggestion for their theories.

This is why the intellectual battle between Christian economics and humanistic economics begins with the closely related doctrines of God's creation of the universe out of nothing and His absolute providence over creation ever since. I cover the issue of creation in this chapter.

The concept of individual purpose is central to economic theory. That is because the doctrine of God's purpose is central to all social theory. Man is made in God's image. Men have purposes because God has purposes. There is God's general purpose, which was the foundation of God's week of creation. That purpose was the dominion covenant: God's delegation of authority to mankind to rule over the creation in God's name and on God's behalf (Genesis 1:26–28). Man's authority is legal (in God's name) and economic (on God's behalf). It is based on trusteeship. *The fundamental economic principle is this: God's absolute ownership of all creation, including man.* This is the inescapable economic implication of God's creation of all things out of nothing. *Private ownership is an extension of God's delegated ownership.* Private ownership is based on trusteeship. This includes life itself. Thus, Christian economics rests on a self-conscious repudiation of this principle of humanistic free market economics: the individual's absolute self-ownership. There is trusteeship under God, not autonomous self-ownership. (See Chapter 52.)

Adam Smith in *The Wealth of Nations* built an economic philosophy on the principle of autonomous self-interest. He never mentioned God in the book. It is an inherently atheistic book. All economics built in terms of *Wealth of Nations* is implicitly atheistic. This is why modern economics is the most atheistic of the social sciences. The economics profession has never taken seriously Smith's other book, *The Theory of Moral Sentiments*, a deistic defense of morals as the basis of social order. There is nothing in *The Wealth of Nations* that in any way depends on *The Theory of Moral Sentiments*. That is why the latter has been ignored.

It was Smith and the other Scottish rationalists who developed theories of social order that did not rest on the assumption of creation and providence as the source of social order. Social order evolved impersonally, they

argued. There was no cosmic purpose, no cosmic direction in the development of social institutions that are orderly.

The British politician and political theorist Edmund Burke was a contemporary of Smith. He respected Smith's ideas in *The Wealth of Nations*. Burke developed a social philosophy that was equally evolutionary. He rejected all grand theories of social change. He believed in custom as the only reliable source of social order. He believed that institutions compete for men's allegiance. Institutions develop in terms of successful competition. Burke was famously hostile to the French Revolution. His book, *Reflections of the Revolution of France* (1790), became the premier diatribe against it. He saw the revolution as a monstrous product of men's rationalist schemes. There was an inherent pragmatism in Burke's social thought. He did not view the social order as directed by a providential God. He did not believe in permanent laws. He was, in this sense, a believer in situational ethics. He was a social evolutionist.

Thus, both the Scottish libertarian tradition of the free market and the European conservative tradition of anti-revolutionary social change grew out of late-eighteenth-century concepts of social evolution. This evolutionary outlook has been one of the two major foundations of Western social thought ever since. The other is social revolution: the French Revolution and its legacy. This tradition has been equally atheistic, i.e., anti-providential. It substitutes central economic planning and armed violence for market-based economic development and social custom as legitimate sources of social change.

There is an inescapable pragmatism in Darwinism. It has faith in time-based, time-ruled wisdom. *Pragmatism is the basis of ethics in Darwinism. Ethics can evolve.* Hayek put it this way in his 1964 essay, "The Theory of Complex Phenomena."

... the basic conclusion that the whole of our civilization and all human values are the result of a long process of evolution in the course of which values, as the aims of human activity appeared, continue to change, seems inescapable in the light of our present knowledge. We are probably also entitled to conclude that our present values exist only as the elements of a particular cultural tradition and are significant only for some more or less long phase of evolution—whether this phase includes some of our pre-human ancestors or is confined to certain periods of human civi-

lization. We have no more ground to ascribe to them eternal existence than to the human race itself.

Humanistic free market economics rests on some version of this outlook. It builds its case for both personal liberty and economic growth in terms of an inherent pragmatism and situation ethics. It denies that the creator God and God's laws have anything relevant to say to economists. Such a God is irrelevant to economic theory, they assure us. They are wrong. Dead wrong.

I have discussed this in considerable detail in Appendix B of my book, *Sovereignty and Dominion* (2012). I wrote it for the original edition, *The Dominion Covenant: Genesis* (1982). (<http://bit.ly/gngenv2>)

A. Purpose

The very concept of purpose is problematical in modern science. The idea of purpose presupposes a realm that is independent of scientific cause and effect. Men need a theory of causation in order to attain their purposes, yet they also want to believe they are free men, i.e., outside this system of rigorous causality. This has been the irreconcilable philosophical dualism of modern man's thought after Immanuel Kant in the late eighteenth century. The scientific ideal of predictable and therefore controllable impersonal nature is at odds with the ideal of personalism and liberty. This is the *nature/freedom dualism*. If nature is under absolute law, and if men are exclusively the products of nature, then what is the source of men's freedom? If you view yourself as exclusively an evolutionary product of impersonal nature, and therefore not of God, then to the extent that you can control nature, to that extent someone may be able to control you. You gain power over nature, but someone else using nature can gain power over you. Soon, some humanistic scientists and programmers are warning, robots may be able to do this. Do robots have purposes of their own? Will human programmers someday provide these purposes? What will happen when robots and computer algorithms begin programming each other? These are not hypothetical questions. They are being debated in the highest scientific circles.

1. Design

God is sovereign. He has purposes. His original purpose is seen in the foundations of the creation. "The Lord by wisdom founded the earth; by

understanding he established the heavens” (Proverbs 3:19). Biblical economics begins with the creation, but before the creation there was cosmic purpose. Men, who are made in God’s image, are told to imitate God in this regard. “Blessed is the one who finds wisdom, and the one who gets understanding” (Proverbs 3:13). *It is only because God has purposes that men can have purposes.* What was God’s purpose?

Blessed be the God and Father of our Lord Jesus Christ, who has blessed us in Christ with every spiritual blessing in the heavenly places, even as **he chose us in him before the foundation of the world**, that we should be holy and blameless before him. In love he predestined us for adoption to himself as sons through Jesus Christ, **according to the purpose of his will**, to the praise of his glorious grace, with which he has blessed us in the Beloved. In him we have **redemption through his blood**, the forgiveness of our trespasses, according to the riches of his grace, which he lavished upon us, in all wisdom and insight making known to us the mystery of his will, according to his purpose, which he set forth in Christ as a plan for the fullness of time, to unite all things in him, things in heaven and things on earth. In him we have obtained **an inheritance**, having been **predestined according to the purpose** of him who works all things according to the counsel of his will, so that we who were the first to hope in Christ might be to the praise of his glory (Ephesians 1:3–12).

2. Darwinism

The Darwinist denies all cosmic purpose prior to man. There was no purpose. There was no plan. There were physical laws governing non-living matter. Out of the interactions between impersonal laws and impersonal matter came life, somehow. Out of life came man. This process was the product of a combination of an ultimate impersonal randomness and unbreakable impersonal physical laws. Somehow, total randomness and unbreakable law interact. We are never told how. We are assured only that they do. This impersonal process provides coherence to matter. It supposedly explains change. But there was nothing directing this change.

Then came man. It was just one of those things, just one of those crazy things. With man came purpose.

Austrian School economists begin their analysis with purpose, which undergirds human action. These economists are by far the most self-conscious economists in beginning with individual purpose. For Austrian economic theory, purpose is strictly individual. Individuals are responsible for the outcomes of their actions through market forces. Outcomes are inherently unpredictable because they are the results of undetermined human choice. This is why Ludwig von Mises rejected the legitimacy of mathematics in economic theory. He saw mathematical economics as an illegitimate invasion of scientism: the logic of physics, which denies purpose in the name of attaining scientifically predictable social causality. In this sense, he was at war with his brother, Richard von Mises, who was a mathematician and a defender of the idea of mathematical tools in social theory.

A huge philosophical problem facing free market economists is to explain the origin of collective purpose. If all purpose is individual, and all responsibility is personal, what is the meaning of collective purpose? What is it? How can it be discovered? How do decision-makers know how these collective purposes arise out of individual purposes? How can collective purposes be evaluated? How can they be measured? If economic value is subjective, how can decision-makers devise scientifically valid social policies?

Is ownership individual? If so, there is no meaning for collective ownership. How can property be valued accurately by central economic planners? Value must be assessed in terms of purpose. But what is social purpose in a world of individual purposes? Is there social value? Is there social justice? If so, how are they discovered?

The Darwinist has no doctrine of the Trinity, which is both individual and corporate. He has no concept of the creation as reflecting God (Romans 1:18–23). He is on his own. If he is a methodological individualist, as Austrian School economists claim to be, then there is no way for him to explain collective purpose. Most of them openly deny such a concept. This makes it difficult to persuade the public that Austrian economics has scientific validity for policy making. I cover this in detail in Chapter 5 of *Sovereignty and Dominion*, my economic commentary on Genesis (<http://bit.ly/gngenv2>).

B. Planning

People use individual plans to allocate scarce resources in order to achieve their purposes. Without plans, men could not achieve their purposes. Plans are extensions of purposes. Plans are personal because purposes are personal.

1. Design

God holds men responsible for their plans. This is the message of Jesus' parable of the talents (Matthew 25:14–30). The owner gives money to his stewards. Then he leaves. When he returns, he demands an accounting. The results guide him in entrusting additional resources to them. The owner had a plan. The trustees also had plans. This was a system of individual planning, but there would be a final accounting. Men's personal futures were at stake.

There was a hierarchy. There was an owner. He transferred ownership to the stewards, but they were not autonomous. They were part of a hierarchy. This hierarchy was a legal hierarchy. It was also an economic hierarchy. The owner never surrendered ownership permanently. He delegated it. The stewards were his legal agents. They could buy and sell in his name. They were also his economic agents. They were to act on his behalf.

There was an unstated rule: "turn a profit." This rule governed all of the stewards' plans. It was simple to understand. They knew what they had to do. They had to return more wealth to the owner at the end of his journey.

The owner imposed sanctions. The stewards' individual rewards matched their individual productivity. There was a system of monetary accounting. The owner knew who had served him well by the rate of return and also the original size of the allocated funds.

Finally, there were rewards in the form of more service and more opportunities for profit. The arrangement could be repeated on a profitable basis. There was an overarching plan. The owner delegated control. He invested in his stewards.

There were also individual plans: the stewards' plans. They were part of a whole: the owner's capital. This extended over time. The arrangement could be renewed. But the owner did not renew the contact with the steward who buried his coin. There was coherence. There was structure. There was also responsibility. All of this was personal.

2. Darwinism

The god of Darwinism is man. It is not clear whether this is collective man or individual autonomous men. There is division within the camp: individualists vs. central planners.

Whose plan is authoritative? The state's plan or the individuals' plans? Darwinism offers no way to resolve this. For Hayek and Mises, there is no

central plan. They both rejected the rationality of central planning. This was the debate over socialist economic calculation, which lasted from Mises' 1920 essay, "Economic Calculation in the Socialist Commonwealth," until the literal suicide of the Soviet Union on December 25, 1991. Then, overnight, the debate ended. The socialists disappeared.

There has been a rival tradition. The main founder was Lester Frank Ward, a self-taught American scholar in the late nineteenth century. His 1883 book, *Dynamic Sociology*, was an attack on two competing ideas: (1) Christianity, with its doctrine of a cosmic design, and (2) individualistic social Darwinism, which taught progress through individualistic competition, which had been Adam Smith's pre-Darwinist social evolutionary theory of national wealth. He argued that modern science now knows the laws of social evolution. Scientists can plan collectively through the state. I explored this theme in Appendix A of *Sovereignty and Dominion*: "From Cosmic Purposelessness to Humanistic Sovereignty."

The appeal of central planning is related to the concept of social purpose. Most people want to believe in design. They want to believe that there is something above the market's auction process that will enforce justice. But free market Darwinism denies that such categories exist in a competitive market. In contrast, social Darwinists who believe that top-down economic design is morally legitimate can appeal to voters on the basis of the ability of bureaucrats to design just systems of law and resource planning. They invoke morality. They get followers.

C. Standards

What is the source of economic law? God or the purposeless, evolving cosmos? The Bible affirms the reliability of economic laws because they are aspects of God's creation. The archetype was God's prohibition against eating from His tree: property rights.

Economists say that the source of economic law is the purposeless, evolving cosmos, when they say anything at all. But they prefer not to say. They do not believe that there is any such thing as authoritative moral laws that apply to economic theory. Most of them believe that causation is statistical.

If there is no connection linking moral standards, moral behavior, and economic success, most people will not trust the social philosophy in question. They will not commit to faith in any system of public morality that denies the connection between righteousness and success. They believe, as

Ben Franklin taught, that honesty is the best policy. To deny this connection is to commit suicide for your cause.

1. Design

The Bible makes it clear that God's creation is structured in terms of moral law. This includes all social sciences, so called. Moral philosophy is the basis of all social order, the Bible teaches. Leviticus 26 and Deuteronomy 28 present this view of historical sanctions. But the basis of God's law is the revelation of God. God's laws are part of a coherent, self-reinforcing covenant (Deuteronomy 8:17–18).

Psalms 119 is the longest chapter in the Bible. It is devoted to a defense of God's law. The Proverbs are pithy summaries of the relation between God's law and success. Some of these are economic laws.

The Bible is clear about private property. The private property order is the foundation of economic success for individuals and societies.

All of this is by design. It is built into the creation. It reflects God. This is denied by virtually all modern social theory, but especially economics. Economics was the original atheistic science. The laws of economics are regarded by economists as autonomous.

2. Darwinism

Hayek's views are typical. He was a consistent Darwinist. He denied that economic law is grounded in anything permanent. "... the individual, in participating in the social processes, must be ready and willing to adjust himself to changes and to submit to conventions which are not the result of intelligent design, whose justification in the particular instance may not be recognizable, and which to him will often appear unintelligible and irrational."

He argued that Charles Darwin came to his views of biological evolution by way of Scottish social theory. Hayek defended Scottish social theory. But he did not defend "social Darwinism."

It is unfortunate that at a later date the social sciences, instead of building on their beginnings in their own field, reimported some of these ideas from biology and with them brought in such conceptions as "natural selection," "struggle for existence," and "survival of the fittest," which are not appropriate in their field; for in social evolution, the decisive factor is not

the selection of the physical and inheritable properties of the individuals but the selection by imitation of successful institutions and habits. Though this operates also through the success of individuals and groups, what emerges is not an inheritable attribute of individuals, but ideas and skills—in short, the whole cultural inheritance which is passed on by learning and imitation (*Constitution of Liberty*, Ch. 14:3).

The message is clear: *there is no God backing up these evolutionary developments*. There is merely imitation, either conscious or unconscious. Men copy what works. This is pragmatism, not ethics. This is why few people have ever adopted Hayek's philosophy, and those who have adopted it have generally been academics who have been taught to believe in the world of Darwinism. People seek ethical justifications that support their conclusions. I am such a person.

D. Imputation

How are men to decide what is worth their time, and what is not? How do they decide what to sacrifice for? They must evaluate value. But how? How can they grasp what is worthwhile, and what is not? Every economic philosophy faces this question. It is the question of rendering judgment.

1. Design

God imputes economic value. He does so corporately. He also does so individually. This is one implication of the doctrine of the Trinity.

Men are made in God's image: corporately (mankind) and individually (men). It is therefore possible for people to assess value for groups.

There is a common standard. Men know the difference between good and bad, wise and foolish. Evil-doers may suppress this knowledge, but they know (Romans 1:18–23). This is why God holds them responsible.

God can make judgments about interpersonal comparisons of subjective utility. He can therefore make judgments about collective value. We know this because of the parable of the widow and the rich donors.

And he sat down opposite the treasury and watched the people putting money into the offering box. Many rich people put in large sums. And a poor widow came and put in two small copper coins,

which make a penny. And he called his disciples to him and said to them, "Truly, I say to you, this poor widow has put in more than all those who are contributing to the offering box. For they all contributed out of their abundance, but she out of her poverty has put in everything she had, all she had to live on" (Mark 12:41–44).

Because God can do this, we can do this. We are not allowed to call this "scientific" by methodological individualists. But we can do it anyway.

2. Darwinism

The Darwinist denies that there is any fixed value, economic or otherwise. Man is not made in God's image, since there is no God. So, the economist has a problem. How can he explain how it is that men can impute value? A man can decide what he likes right now, but there is no way to prove continuity with what he deemed valuable a year ago or a moment ago. (This was the argument of an economist, G. L. S. Shackle.) Here is the problem with methodological individualism. Imputation of value is strictly individual. It is strictly autonomous. It is strictly subjective. There is no way, according to methodological individualists, to compare subjective utility, one person vs. another. *If we begin with individualism, it is therefore scientifically impossible to provide useful advice regarding state economic policy.* We cannot scientifically balance subjective values among groups. Why not? Because there is no common measure of subjective value. This idea destroys the concept of objective economic advice. An individual's ability to establish value is limited to the moment. There is therefore no way to deal scientifically with changing tastes. When values change, imputation changes. As I have written with regard to all numerical accounting, "there's no accounting for taste." Tastes keep changing.

E. Inheritance

This is the issue of economic succession. Who will inherit? What will be done with this inheritance? Is the inheritance more than individual inheritance? What happens to the wealth of nations over time? Are there laws of inheritance?

1. Design

People care about the success of their children and grandchildren. This

is surely part of their purposes in life. This goes back to Paul's teaching: "And we know that for those who love God all things work together for good, for those who are called according to his purpose" (Romans 8:28).

The Bible is clear about what God wants for His people: inheritance. "But the meek shall inherit the land and delight themselves in abundant peace" (Psalm 37:11). "The righteous shall inherit the land and dwell upon it forever" (Psalm 37:29). We should regard this as a mission statement.

The question is this: Is the system of economic causation established to attain this? Yes. It is part of the covenant. "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18).

This is a matter of God's design of the social order. This is the affirmation of God in the texts. The covenant is supposed to be confirmed over time. Nations that obey God's economic laws will prosper. This is the providential basis of the wealth of nations down through the generations. "You shall not bow down to them or serve them; for I the Lord your God am a jealous God, visiting the iniquity of the fathers on the children to the third and fourth generation of those who hate me, but showing steadfast love to thousands of those who love me and keep my commandments" (Deuteronomy 5:9–10).

2. *Darwinism*

There is no design in nature, we are told. There is also no design in the social order. There is no designer. All biological development prior to man was the product of natural selection. If this is no longer true in the New Covenant era, then it is impossible to develop an explicitly biblical social theory. There is no other theory of social causation in the Bible.

Today, men do make decisions. They do plan. But central plans by the state cannot be attained, Hayek and the Austrians say. Knowledge is decentralized. No state planning committee has sufficient knowledge to plan for the nation. So, free market social orders prosper.

How long will this condition be true? It is not built into the creation. Nothing is built into the creation. Hayek spoke of "tools," a seemingly neutral word that seems devoid of ethical content. The future is all about tools, not ethics. It has nothing to do with cosmic design. There is nothing tran-

scendent to back up the following scenario.

These “tools” which man has evolved and which constitute such an important part of his adaptation to his environment include much more than material implements. They consist in a large measure of forms of conduct which he habitually follows without knowing why; they consist of what we call “traditions” and “institutions,” which he uses because they are available to him as a product of cumulative growth without ever having been designed by anyone mind. Man is generally ignorant not only of why he uses implements of one shape rather than of another but also of how much is dependent on his actions taking one form rather than another. . . . Every change in conditions will make necessary some change in the use of resources, in the direction and kind of human activities, in habits and practices. And each change in the actions of those affected in the first instance will require further adjustments that will gradually extend throughout the whole of society. Thus every change in a sense creates a “problem” for society, even though no single individual perceives it as such; and it is gradually “solved” by the establishment of a new overall adjustment. . . . Who will prove to possess the right combination of aptitudes and opportunities to find the better way is just as little predictable as by what manner or process different kinds of knowledge and skill will combine to bring about a solution of the problem (*Constitution of Liberty*, Ch. 2:3).

He wanted men to have faith in this evolving system of tools, customs, and institutional arrangements. He wanted men to place their trust in this impersonal system of evolution. But almost no one in his lifetime one did. Almost no one does today.

Conclusion

The supreme philosophical issue of the modern world is design vs. Darwinism. The problem that the Darwinian defenders of the free market have is this: how to persuade men that they can trust their lives and the future of their heirs in a system that is evolving. The average person wants to have faith in a world of ethical cause and effect, a world backed up by a God who

cares about ethics, and who has structured the world to make this true: “honesty is the best policy.” Hayek and atheist economists want men to mentally transfer their faith in God, God’s design, and God’s providence to an unplanned auction process that somehow assures both wealth and justice, despite the absence of any definition of justice, and despite any way of showing how it will somehow prevail.

Understandably, the economists get few takers for their offer to the masses to substitute Darwinian evolution for the God of creation. In this respect, the masses have greater wisdom than the economists.

TRUSTEESHIP VS. AUTONOMY

“For it will be like a man going on a journey, who called his servants and entrusted to them his property. To one he gave five talents, to another two, to another one, to each according to his ability. Then he went away. He who had received the five talents went at once and traded with them, and he made five talents more. So also he who had the two talents made two talents more. But he who had received the one talent went and dug in the ground and hid his master’s money. Now after a long time the master of those servants came and settled accounts with them. And he who had received the five talents came forward, bringing five talents more, saying, ‘Master, you delivered to me five talents; here, I have made five talents more.’ His master said to him, ‘Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master’”(Matthew 25:14–21).

There are two fundamental principles upon which the libertarian theory of just property rests: (a) Everyone has absolute property right over his or her own body; and (b) everyone has an absolute property right over previously unowned natural resources (land) which he first occupies and brings into use (in the Lockean phrase, “Mixing his labor with the land”). — Murray Rothbard (1982).

Analysis

Here we have rival principles of ownership. The first one describes a system of delegated ownership, which is best understood as trusteeship. The owner possesses original ownership. It is absolute. The owner is God. The passage appears in the New Testament’s chapter on the final judgment: sheep and goats, heaven and hell (vv. 31–46). The second principle of ownership is the one associated with pure free market social theory: libertarianism. Murray Rothbard was the most articulate developer of libertarian so-

cial theory, most notably in his book, *The Ethics of Liberty* (1982). He was also the most gifted developer of what is known as Austrian School economics. His book, *Man, Economy, and State* (1962), is by far the most rigorous and comprehensive presentation of a zero-state version of Ludwig von Mises' economic theories.

Mises and Hayek were Kantians, Darwinists, and utilitarians. They therefore denied the existence of innate natural laws and natural rights as social phenomena. Rothbard broke with them on this issue. He defended natural law theory, which was based on his understanding of Thomas Aquinas' logic, which Rothbard said did not rest on theology but on Aristotle. He made this clear in his introductory chapter in *The Ethics of Liberty*: "Natural Law and Reason." As with Mises and Hayek, he saw the individual as autonomous: not under God covenantally. Unlike Mises and Hayek, he denied that the individual is legitimately under the state judicially. He denied the legitimacy of all civil government. He was an anarchist. I regard him as the most logically consistent representative of the philosophy of autonomous man as it applies to economic theory.

The modern intellectual world is not Aristotelian. It is thoroughly Kantian. Kant rejected all forms of natural law theory. So do the followers of Charles Darwin, although Darwin never wrote about natural law. The modern intellectual views mankind as autonomous. He is Darwinian. He rejects the Christian idea of God's creation of the world out of nothing. He denies also that the world is the product of personal design. It is the product of purposeless, impersonal cosmic evolution, including natural selection in all things biological. Up until the unplanned evolution of man, there was no cosmic purpose. Man is unique in nature. Individual men have purposes. Most Darwinians insist that mankind has purposes, although Rothbard did not. Therefore, according to Darwinism, mankind is the functional equivalent of God.

This is the heart of modern social theory. What the Bible presents as point two of the covenant—delegated sovereignty—Darwinism implicitly regards as point one. The Bible identifies God as absolutely sovereign due to His role as Creator. Darwinism denies the existence of such a God. Mankind is therefore God by default. *For the Darwinist, point two of the biblical covenant is point one of the humanist covenant.*

With respect to Christian economics, ownership begins with God. With respect to the humanist covenant, ownership begins with mankind.

Darwinists generally see the state as the primary owner, as a result of the superior covenantal authority of collective man over individuals. The state possesses greater power than any individual does. *For most Darwinists, political power is the supreme mark of sovereignty in history.* Socialists are pure statist. They believe that the state should own all the means of production. This is also the view of communists, at least with respect to the era prior to the final withering away of the state and the triumph of pure communism, which Karl Marx never described. But there are few socialists and communists around these days. There never were outside of communist nations. With the collapse of the Soviet Union in December 1991, academic communists in the West have either defected or else have gone into hiding. No one likes to be laughed at by his peers for having invested his career and his self-image in a failed social order, which was said by Marx to be inevitably victorious. It wasn't. Keynesians are dominant in academia and politics. They are in favor of a mixed economy: individual owners and also bureaucrats who represent state regulatory agencies. In short, *modern man views the state as God by default*, but with the state as having delegated great authority to individuals and families.

Here is the five-point biblical economic covenant. First, God is sovereign. He possesses primary ownership as the Creator. But God is triune. He is both one and many. So, ownership is both one and many. There is individual ownership and collective ownership by the Godhead.

Second, God has delegated ownership to individuals and groups. Human ownership is both one and many. It is divided. It is not absolute. There is a rule associated with ownership: multiplication (Genesis 1:28). In economic terms, this means: "Produce a net increase." This is the message of the parable of the talents. The profit in the parable is monetary profit because the capital originally assigned to the stewards was monetary. But the parable is about profit in the widest sense: kingdom productivity. Third, there is a general ethical rule: do not steal (Exodus 20:15). Honor the property rights of all men and institutions. Fourth, there will be a day of reckoning. This is the meaning of accountability: accounting. The parable of the talents focuses on economics, but it applies to lifetime performance. The meaning of this is imputation: God's subjective evaluation and objective verbal declaration of value as applied to the output of a man's lifetime of work. Fifth, there will be an inheritance. Those who were profitable servants will inherit. Those who were unprofitable servants will be disinherited. "So

take the talent from him and give it to him who has the ten talents. For to everyone who has will more be given, and he will have an abundance. But from the one who has not, even what he has will be taken away. And cast the worthless servant into the outer darkness. In that place there will be weeping and gnashing of teeth” (Matthew 25:28–30).

In contrast, there is the humanist five-point economic covenant. There is either autonomous self-ownership or else state ownership. There is the “Adamic confession”: Adam, Adam Ferguson, and Adam Smith. The heart of the humanist covenant is a confession of faith: “more for me in history.” This is the confession of faith of the religion of mammon. First, man’s ownership is original. This can mean either the individual’s ownership or the state’s ownership. Second, there is hierarchy. Each owner is responsible. But to whom? Who is the God to whom he is responsible? The libertarian answers: “the free market.” The Keynesian answers: “the state.” Third, there are ethical rules. The libertarian says this rule is the free market’s rule: “Make a profit.” This is based on a judicial rule: “high bid wins.” The Keynesian also says the rule is “make a profit,” but this rule is modified: “according to state bureaucratic guidelines.” Fourth, there will be an accounting. The libertarian affirms that the market is constantly conducting an accounting. The Keynesian agrees, but with this modification: “with bureaucratic administrative law courts exercising a veto.” Finally, there will be an inheritance. The libertarian sees this as governed by a last will and testament for individuals, or else by corporate succession. The Keynesian adds this: “after death taxes imposed on the rich.”

A. Purpose

God has purposes for His creation: the dominion covenant (Genesis 1:26–28). This is the basis of the subordinate purposes of mankind. Men are made in God’s image, meaning they are analogous to God. The implications of purposefulness are different in the rival covenants: the biblical covenant and the covenant of self-professed autonomous man. In both systems, purpose preceded planning. Purpose is in the form of a mission statement.

1. Trusteeship

The first question of the shorter catechism of the Westminster Confession of Faith (1646), a Presbyterian document, reads as follows:

Q. 1. What is the chief end of man?

A. Man's chief end is to glorify God, and to enjoy him forever.

This is a cogent summary of the primary purpose attributed to mankind by all Christian traditions. No theologian would argue vehemently against it.

Mankind must glorify God. Yet God is in no need for further glorification. He is perfect. This is what Christian philosopher Cornelius Van Til called the full-bucket paradox. Mankind is supposed to add to God's glory, yet God is perfect. An analogous paradox applied to the creation. Adam had to care for a perfect garden and improve it.

Jesus' economic mission statement is this:

Therefore do not be anxious, saying, 'What shall we eat?' or 'What shall we drink?' or 'What shall we wear?' For the Gentiles seek after all these things, and your heavenly Father knows that you need them all. But seek first the kingdom of God and his righteousness, and all these things will be added to you (Matthew 6:31–33).

This is presented within the context of overall subjective contentment. Paul wrote:

But godliness with contentment is great gain, for we brought nothing into the world, and we cannot take anything out of the world. But if we have food and clothing, with these we will be content. But those who desire to be rich fall into temptation, into a snare, into many senseless and harmful desires that plunge people into ruin and destruction (I Timothy 6:6–9).

There is God's general command to be fruitful and multiply (Geneses 1:28). This is a call to biological reproduction. But the goal is not per capita poverty, so this is also a call to increasing per capita wealth. The West has achieved this since about 1800. The entire world is now experiencing this, beginning no later than 1950.

2. *Autonomy*

According to Mises, at the core of purposeful human action is discontent

or uneasiness. "What determines action is the fact that in choosing among various ways which can remove future uneasiness the length of the waiting time in each case is a necessary element" (*Human Action*, Ch. XVIII:2). The acting individual seeks to exchange one set of conditions for another.

Action is always directed toward the future; it is essentially and necessarily always a planning and acting for a better future. Its aim is always to render future conditions more satisfactory than they would be without the interference of action. The uneasiness that impels a man to act is caused by a dissatisfaction with expected future conditions as they would probably develop if nothing were done to alter them. In any case action can influence only the future, never the present that with every infinitesimal fraction of a second sinks down into the past. Man becomes conscious of time when he plans to convert a less satisfactory present state into a more satisfactory future state (Ch. V:2).

This is the humanist's version of Adam's assignment: to multiply. It is the dominion process. The difference is this: the humanistic economist does not explain this in terms of God's delegated capital and His expected rate of return. Man is seen as autonomous.

Men can seek to make themselves rich. Or they can give away their wealth. They may seek money, sex, power, and fame. Beautiful women seek to marry men who have achieved these four goals. Other men seek life in a library. They do not marry. But the issue for humanistic economics is their focus: to serve themselves or else some aspect of the creation. Their confession of faith is this: "more for me in history." It can mean more money, or more respect, or more personal satisfaction, or more self-esteem. This is the confession of faith for the religion of mammon. Jesus warned: "For what does it profit a man to gain the whole world and forfeit his soul?" (Mark 8:36).

B. Planning

We live in a world of cursed scarcity (Genesis 1:17–19). This forces us to cooperate with others to gain the benefits of the division of labor. It forces us to make economic plans. We have individual purposes. We must make plans in order to achieve them.

1. Trusteeship

Because we use God's capital, we are in debt to Him. We hold capital as trustees. So, we are servants upward. This is the primary form of service. It is at the heart of ownership.

This is not the only form of service. We serve God by serving others.

But Jesus called them to him and said, "You know that the rulers of the Gentiles lord it over them, and their great ones exercise authority over them. It shall not be so among you. But whoever would be great among you must be your servant, and whoever would be first among you must be your slave, even as the Son of Man came not to be served but to serve, and to give his life as a ransom for many" (Matthew 20:25–28).

This is the basis of productivity in history: serving others. The incarnation of Jesus is the model. *Service is the basis of success.*

Have this mind among yourselves, which is yours in Christ Jesus, who, though he was in the form of God, did not count equality with God a thing to be grasped, but emptied himself, by taking the form of a servant, being born in the likeness of men. And being found in human form, he humbled himself by becoming obedient to the point of death, even death on a cross. Therefore God has highly exalted him and bestowed on him the name that is above every name, so that at the name of Jesus every knee should bow, in heaven and on earth and under the earth, and every tongue confess that Jesus Christ is Lord, to the glory of God the Father (Philippians 2:5–11).

Service is also downward to those under our judicial authority in family, church, or state. Finally, we serve paying customers in order to improve ourselves in terms of wealth. Wealth is a positive sanction for righteousness and efficient service. It is a covenant sanction. "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18).

We accumulate capital by thrift: keeping our expenditures on consumption lower than our total income. We also accumulate it by wise investing: buying low and selling high. This takes wise forecasting. But it is all done in order to extend the kingdom of God.

When we possess greater capital, we can be even better servants. We seek greater capital in order to provide better service to more people. The process is other-directed.

2. *Autonomy*

Adam Smith placed consumption at the heart of his economic theory. Service is for the sake of consumption: “more for me in history.” He was the covenantal son of the original Adam.

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce (*Wealth of Nations*, Ch. IV:8:49).

This is why we serve others. It is the only way we can consistently persuade them to provide us the things that we desire.

But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this: Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but

from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages (Ch. I:2:2).

This is the essence of free market capitalism, as presented by humanists. It is man-centered. While this is better than socialism, it is not biblical. While the outcomes are the same in free market capitalism and biblical capitalism, namely, service to the buyer, the motivations are different. The result of autonomous man's service to the customer is the same as Christian man's service to the customer: profit or loss, as determined by the customer's decision to buy or not to buy, and also by the accuracy of the planner's forecast and his implementation of his plan.

C. Standards

Rules govern every competitive system. This includes the free market. These rules place legal boundaries around the market's transactions. They may be enforced by social custom. They may be enforced by the state. To be effective, the negative sanctions must correlate to the infractions. This is crucial for the voluntary support by the public of a sense of justice. This sense of justice is fundamental in promoting self-government under law. *Self-government reduces the costs of law enforcement.* The society gets more justice for the same expenditure of money.

1. Trusteeship

Leviticus 26 and Deuteronomy 28 are long passages devoted to the relationship between covenant-keeping and prosperity, and also covenant-breaking and poverty. The section in each chapter on negative sanctions is four times as long as the section on positive sanctions. These sanctions, positive and negative, are threatened by God. They are not civil sanctions. They are God's direct sanctions into history. This means that *the primary function of negative civil sanctions against specific crimes is to restrain God's corporate negative sanctions.* The civil sanctions are preventative, not merely in the sense of preventing criminal behavior, but in the sense of avoiding the wrath of God in history. This is not the outlook of those who defend the autonomy of man and society.

The rules in Leviticus 26 and Deuteronomy 28 are ethical. They are based on God's ethical code. First, there will be positive sanctions. "And if

you faithfully obey the voice of the Lord your God, being careful to do all his commandments that I command you today, the Lord your God will set you high above all the nations of the earth” (Deuteronomy 28:1). A list follows. Second, there will be negative sanctions. “But if you will not obey the voice of the Lord your God or be careful to do all his commandments and his statutes that I command you today, then all these curses shall come upon you and overtake you” (v. 15). A much longer list follows.

These rules are the equivalent of a business’s manual of operations. The manual sets forth the rules of procedure that govern the business. These rules are constraining factors that limit the general rule of every business: “Make a profit.” This positive command means: “Buy low. Sell high.” This is the governing principle of the parable of the talents. But that parable applies to kingdom expansion, not just a profit-and-loss statement based on monetary returns. It is much broader than business, which is governed by the laws of exchange. Yet it is clear in Leviticus 26 and Deuteronomy 28 that the parallel lists of sanctions are overwhelmingly economic. To get the Israelites’ attention, Moses did what Jesus also did in His pocketbook parables. He focused on economics.

2. Autonomy

In the worldview of autonomous man, there is no concept of God as a judge who brings visible sanctions in history. The only gods are impersonal nature and mankind. The law of gravity is seen as impersonal and universal. There are negative sanctions for disobeying it. In contrast are man-made laws of society. While they are imposed by the market, they are the results of personal decisions. Rothbard wrote:

Each individual producer, then, is sovereign over his own actions; he is free to buy, produce, and sell whatever he likes and to whoever will purchase. The farmer is not compelled to sell to any particular market or to any particular company, any more than Ford is compelled to sell to John Brown if he does not wish to do so (say, because he can get a higher price elsewhere). But, as we have seen, in so far as a producer wishes to maximize his monetary return, he does submit himself to the control of consumers, and he sets his output accordingly. This is true of the farmer, of Ford, or of anyone else in the entire economy—landowner, laborer,

service-producer, product-owner, etc. Ford, then, has no more “control” over the consumer than the farmer has (*Man, Economy, and State*, Ch. 10:3).

The sanctions are impersonal with respect to nature’s laws. Nature’s laws are not ethical for autonomous man. But what about economic laws? Are they based on ethics? Rothbard believed in natural law theory that is based on ethics. The vast majority of economists do not. This included Mises and Hayek. This made Rothbard unique. He wrote:

The natural law, then, elucidates what is best for man—what ends man should pursue that are most harmonious with, and best tend to fulfill, his nature. In a significant sense, then, natural law provides man with a “science of happiness,” with the paths which will lead to his real happiness. In contrast praxeology or economics as well as the utilitarian philosophy with which this science has been closely allied, treat “happiness” in the purely formal sense as the fulfillment of those ends which people happen—for whatever reason—to place high on their scales of value. Satisfaction of those ends yields to man his “utility” or “satisfaction” or “happiness.” Value in the sense of valuation or utility is purely subjective, and decided by each individual (*The Ethics of Liberty*, Ch. 5:2).

In contrast, Mises wrote this: “Law and legality, the moral code and social institutions are no longer revered as unfathomable decrees of Heaven. They are of human origin, and the only yardstick that must be applied to them is that of expediency with regard to human welfare” (*Human Action*, Ch. VIII:2). This is the essence of autonomy in economic theory.

D. Imputation

Economic value is imputed subjectively. This is the central premise of modern economics. Classical economics believed that economic value is intrinsic. It is either the product of the infusion of labor into production or else the cost of production generally. Classical economists disagreed as to which was the source. In the early 1870s, this view changed. Beginning with Austrian economist Carl Menger, economic value was seen as subjectively imputed by customers. Customer bidding is what sets prices, not the

cost of production. He was joined in this by William Stanley Jevons and Léon Walras, who simultaneously and independently came to the same conclusion. This insight re-structured economic theory. It moved economic theory from philosophical realism to nominalism. *This forthrightly moved economic theory back to a theory of legal sovereignty.* Who is sovereign in the economy? This is a legal concept: the concept of ownership. The modern economist identifies owners as sovereign: buyers and sellers. Austrian economics going back to an essay on money by Menger in 1892 had identified money as the most marketable commodity. Mises made this idea central in his *Theory of Money and Credit* in 1912. Because the buyer owns money, he has greater economic authority, though not greater legal sovereignty, than the seller.

1. Trusteeship

God is sovereign. He was the creator. On this basis, He secured absolute and total ownership. But then He delegated ownership to trustees. From then on, sellers have competed against sellers. Buyers have competed against buyers. Out of this objective competitive bidding for ownership comes an array of objective prices. Nevertheless, the imputation of economic value is subjective. Owners impute subjective value to scarce resources.

God imputes economic value to all things. His imputation is subjective. That is to say, it is personal. God is a Trinity. He is one God in three Persons. Thus, subjective imputation is both individual and corporate. But it is legally objective. It is based on ownership. He knows what prices should be in a world of covenant keeping, i.e., “on earth as it is in heaven” (Matthew 6:10). He also knows what today’s prices are. There is an objective process of accounting. It is continual. It is comprehensive. It is accurate. This points to the final judgment (Matthew 25).

Men are analogical to God. We are made in God’s image. Therefore, we also impute economic value. Out of our individual subjective imputations and objective market bidding comes an array of objective prices. These are monetary prices in the modern economy.

The Bible says that covenant-keeping men will judge the angels (I Corinthians 6:3). This indicates the extent of men’s capacity to judge. *Applying permanent ethical standards to specific historical circumstances is the essence of rendering judgment.* This is judicial imputation. It is the model for economic imputation.

There is profit and loss in history because there is profit and loss at the end of history. Paul wrote of covenant-keepers:

For no one can lay a foundation other than that which is laid, which is Jesus Christ. Now if anyone builds on the foundation with gold, silver, precious stones, wood, hay, straw—each one's work will become manifest, for the Day will disclose it, because it will be revealed by fire, and the fire will test what sort of work each one has done. If the work that anyone has built on the foundation survives, he will receive a reward. If anyone's work is burned up, he will suffer loss, though he himself will be saved, but only as through fire (I Corinthians 3:11–15).

This involves self-judgment under God's law. It is judgment in the name of God (judicial) and also on behalf of God (economic). Men's ability to make these estimates regarding God's final judgment is the moral and philosophical foundation of making economic judgments in history.

2. *Autonomy*

For the humanist who insists on autonomy, there is no way philosophically for him to equate objective value with subjective value. This is true of individual subjective judgments over time. Tastes change. It is also true of making corporate judgments. Under the assumptions of methodological individualism, which is nominalism, there can be no interpersonal comparisons of subjective utility. There is no objective measuring scale of economic value that is common to all people.

There is monetary profit and loss. Other people impute economic value to what they own and what others own. They make objective bids. But there is no way to know who wants anything the most. A rich man may barely want to buy some item that a poor man desperately wants. The poor man cannot match the rich man's bid. The rich man goes home with it: high bid wins.

Which institution should judge who goes home with it? The market or the state? How can this be decided? Not by the market process itself. It cannot set its own limits. Ethics sets the legal limits. This is the issue of representation: legal and economic. Should the property owner act on behalf of himself? His family? His clan? His church? His community? How should he decide? What sanctions are involved? Imposed by whom? On whose authority?

Competing ethical systems identify the responsibilities of the owners, who are representatives. But there is no agreement among these systems. This is the plight of all systems of man's autonomy. So, the issues are resolved by state power. Mises put it this way.

The essential problem of all varieties of universalistic, collectivistic, and holistic social philosophy is: By what mark do I recognize the true law, the authentic apostle of God's word, and the legitimate authority. For many claim that Providence has sent them, and each of these prophets preaches another gospel. For the faithful believer there cannot be any doubt; he is fully confident that he has espoused the only true doctrine. But it is precisely the firmness of such beliefs that renders the antagonisms irreconcilable. Each party is prepared to make its own tenets prevail. But as logical argumentation cannot decide between various dissenting creeds, there is no means left for the settlement of such disputes other than armed conflict. The nonrationalist, nonutilitarian, and nonliberal social doctrines must beget wars and civil wars until one of the adversaries is annihilated or subdued. The history of the world's great religions is a record of battles and wars, as is the history of the present-day counterfeit religions, socialism, statolatry, and nationalism (*Human Action*, Ch. VIII:2).

The twentieth century was not favorable to Mises' doctrine of nineteenth-century classical political liberalism. Classical political liberalism rested on widespread faith in philosophical realism, natural law, and natural rights theories. That faith disappeared when subjectivism, nominalism, and methodological individualism triumphed in the final third of the century. In economic theory, the Austrian School was at the forefront of that triumph.

E. Inheritance

There is an inheritance. The transfer of wealth is inescapable. It is an aspect of death.

1. Trusteeship

Jesus taught that inheritance beyond the grave is accomplished by means of a representative legal transfer of ownership in history. "Do not lay

up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also" (Matthew 6:19–21). So, this is a *call to charity* in history and also a *guarantee of wealth* in eternity. The rich covenant-keeper surrenders his wealth in history in the name of God. But God holds the value of this property in reserve, when He will hand it back.

There is a theocentric model for this arrangement: Jesus' transfer of His kingdom back to God the Father at the end of time.

Then comes the end, when he delivers the kingdom to God the Father after destroying every rule and every authority and power. For he must reign until he has put all his enemies under his feet. The last enemy to be destroyed is death. For "God has put all things in subjection under his feet." But when it says, "all things are put in subjection," it is plain that he is excepted who put all things in subjection under him. When all things are subjected to him, then the Son himself will also be subjected to him who put all things in subjection under him, that God may be all in all (I Corinthians 15:24–28).

God the Father transfers authority to God the Son in history. Then, at the end of time, He receives it back. If this arrangement is good enough for God the Father, it is surely good enough for covenant-keepers.

There is legitimate wealth accumulation in history. This makes available a larger capital base for God-honoring purposes. More is better than less. But the crucial covenantal question is the issue of trusteeship. On whose behalf is the capital being accumulated? God's or mammon's?

Ultimately, there is no escape from imputation by others. It is ultimately imputation by God. This is best seen in this famous biblical text, wherein the kingdom was removed from Babylon in one night.

Then from his presence the hand was sent, and this writing was inscribed. And this is the writing that was inscribed: Mene, Mene, Tekel, and Parsin. This is the interpretation of the matter: Mene, God has numbered the days of your kingdom and brought it to

an end; Tekel, you have been weighed in the balances and found wanting; Peres, your kingdom is divided and given to the Medes and Persians (Daniel 5:24–28).

2. Autonomy

At the heart of autonomy is death. The Book of Ecclesiastes warns about the uncertain nature of inheritance. First, there is the hope of fame.

Then I said in my heart, “What happens to the fool will happen to me also. Why then have I been so very wise?” And I said in my heart that this also is vanity. For of the wise as of the fool there is no enduring remembrance, seeing that in the days to come all will have been long forgotten. How the wise dies just like the fool! (2:15–16).

Second, there is wealth.

I hated all my toil in which I toil under the sun, seeing that I must leave it to the man who will come after me, and who knows whether he will be wise or a fool? Yet he will be master of all for which I toiled and used my wisdom under the sun. This also is vanity. So I turned about and gave my heart up to despair over all the toil of my labors under the sun, because sometimes a person who has toiled with wisdom and knowledge and skill must leave everything to be enjoyed by someone who did not toil for it. This also is vanity and a great evil (2:18–21).

One way around this is to create a corporation. Legally, it need not die. But who will manage it in the future? Will the new managers maintain its original mission statement at the expense of reduced profits? Probably not.

There is always the threat of dissipation through waste.

Autonomy for one person is surrendered at his death. Inheritance is inescapable. A new source of economic imputation replaces the former owner. The former owner possesses little control over the uses to which his wealth will be put. He can build in restrictions on the use of his capital into the inheritance document, but those who impute value to this inheritance are beyond his control.

Conclusion

All forms of economic theory teach that property is held in trust. The asset owner manages the asset as a trustee. There is no way in history to escape this judicial position. The question is this: Whom do they represent? God? The state? Other property owners? Wives and children? Their clans, if any?

The Bible is clear: owners represent God judicially, i.e., in His name. They also represent Him economically: on His behalf. They do not own themselves. They do not own their property. They are entrusted with ownership by God. They work at God's pleasure. Their wealth is bounded. Their years are bounded. They are mortal. There is no escape from full disinheritance in history except through charitable transfers of wealth on behalf of God's kingdom and in His name. High bid wins, but only when the property is transferred to God.

And he told them a parable, saying, "The land of a rich man produced plentifully, and he thought to himself, 'What shall I do, for I have nowhere to store my crops?' And he said, 'I will do this: I will tear down my barns and build larger ones, and there I will store all my grain and my goods. And I will say to my soul, "Soul, you have ample goods laid up for many years; relax, eat, drink, be merry." But God said to him, 'Fool! This night your soul is required of you, and the things you have prepared, whose will they be?' So is the one who lays up treasure for himself and is not rich toward God" (Luke 12:16–21).

ETHICS VS. EFFICIENCY

“And if you faithfully obey the voice of the Lord your God, being careful to do all his commandments that I command you today, the Lord your God will set you high above all the nations of the earth. And all these blessings shall come upon you and overtake you, if you obey the voice of the Lord your God. Blessed shall you be in the city, and blessed shall you be in the field. Blessed shall be the fruit of your womb and the fruit of your ground and the fruit of your cattle, the increase of your herds and the young of your flock. Blessed shall be your basket and your kneading bowl. Blessed shall you be when you come in, and blessed shall you be when you go out (Deuteronomy 28:1–6).

The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process, and the problem of what is the best way of utilizing knowledge initially dispersed among all the people is at least one of the main problems of economic policy—or of designing an efficient economic system. – F. A. Hayek, “The Use of Knowledge in Society” (1945).

Analysis

Ethics vs. efficiency: this debate occurs in every social system, every ethical system, and every economic system. It is the debate over the twin meanings of the word “right.” The word has two meanings: one ethical, the other technical. So does the equivalent word, “good.” Here are the two meanings:

Ethics: “Do the right thing.” Efficiency: “Do the thing right.”

Because of the common grace of God—and only because of it—people want to believe that the ethical system they were taught as children, and

which they now teach to their children, is both accurate and reliable. They were taught that doing the right thing leads to greater wealth in the long run. They believe the words of Benjamin Franklin: "Honesty is the best policy." People want to believe this because they like to think of themselves as honest, and they also do not want to end their lives impoverished.

The Bible teaches this moral outlook: *righteousness produces wealth*. "I have been young, and now am old, yet I have not seen the righteous forsaken or his children begging for bread" (Psalm 37:25). It specifies the criterion of honesty: *biblical law*. The Old Testament clearly teaches this ethics-wealth connection with respect to households. "Blessed is the man who fears the Lord, who greatly delights in his commandments! His offspring will be mighty in the land; the generation of the upright will be blessed. Wealth and riches are in his house, and his righteousness endures forever" (Psalm 112: 1–3). It also teaches this with respect to nations. We see this most clearly in Deuteronomy 28 and Leviticus 26, which are parallel passages. These are the central passages in the Bible regarding the predictable connection between covenant-keeping and economic success in history. The affirmation in Leviticus 26 is this: "If you walk in my statutes and observe my commandments and do them, then I will give you your rains in their season, and the land shall yield its increase, and the trees of the field shall yield their fruit. Your threshing shall last to the time of the grape harvest, and the grape harvest shall last to the time for sowing. And you shall eat your bread to the full and dwell in your land securely" (vv. 3–5). Both passages have long sections on the predictable relationship between covenant-breaking and economic failure. In both passages, the section on covenant-breaking is four times longer than the section on covenant-keeping. *These two passages provide the methodological foundation of Christian economics*. They are the detailed working out of this, the most important passage on economic theory in the Bible: "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18).

What about efficiency as an autonomous criterion of success, one in no formal way connected to ethics? Hayek's statement appears in the most important thing he ever wrote on economics, an essay on decentralized knowledge and the market process. In 1974, he was co-winner of the Nobel Prize

in economics, along with the socialist, Gunnar Myrdal. In his acceptance speech, Hayek returned to the theme of his 1945 essay. To defend the market order, he appealed to efficiency, not ethics. In the next-to-last paragraph, he said this: "We are only beginning to understand on how subtle a communication system the functioning of an advanced industrial society is based—a communications system which we call the market and which turns out to be a more efficient mechanism for digesting dispersed information than any that man has designed." The statement is true. It deals with this issue: "Do the thing right."

Hayek spent his long career arguing against economic central planning. He believed that central planning leads to massive coercion by the state. This was the theme of his most popular work, *The Road To Serfdom* (1944). The next year, he published his essay on decentralized knowledge, which he said is put to efficient use by means of the free market. As a social philosopher, he defended the free market as a means of establishing liberty. In contrast, as an economist, he appealed to the ideal of economic efficiency: the free market's customer-satisfying use of valuable scarce knowledge. Among economists, his technical argument has had more influence than his book. He won the Nobel Prize, not for his famous book, but for his technical articles on the market process. The Nobel committee wrote: "From the 1930s, he highlighted the problems of central economic planning. His conclusion was that knowledge and information held by various actors can only be utilized fully in a decentralized market system with free competition and pricing."

Hayek was not alone in defending efficiency as the premier contribution of the free market to society. It is the continuing theme of economics textbooks. Here is the assessment of the meaning of efficiency in a textbook written by my former graduate school advisor (for one session), William Allen, and Armen Alchian, who once wrote a job recommendation for me. I regard their textbook as by far the most rigorous introductory college-level textbook, academically speaking: *University Economics* (3rd ed, 1973). It reflects the outlook of the Chicago School of economics.

"Efficiency in production" is desirable in the sense that more economic goods are preferred to less. But are you sure the demanded good is a "good" economic good? For example, the authors do not allow their minor children unrestricted access to the market, because children buy goods we believe they should not. We don't

accept their judgment of what is a “good.” If someone believes other people do not know what is good for themselves—as evidenced by differences of opinion about the use of tobacco, alcohol, opium, heroin, gambling, low-brow television programs, comic books, lewd literature—he may seek to prohibit their production. Many highly educated, socially conscious people do. To them, the standard of efficiency is useful only in so far as the “right” goods are wanted by others.

However, doing the wrong thing efficiently is not necessarily undesirable, because whatever the amount of the bad produced, it permits more “goods” to be produced. Economics is neutral or amoral; it does not say what is “good” or “bad” (p. 213).

Notice that they were careful to place ethical terms “good” and “right” in quotation marks, which was their way of dismissing the idea of the relevance of ethics to economic theory. This is a common outlook among almost all academic economists. They preach value-free economic theory, as if economic theory were as value-free as physics. (This assumes that humanistic physics is value-free, which is an illusion if it assumes that there is no Creator God.) They insist that economics is a science, and all sciences are ethically neutral. Jesus dismissed this assertion as follows: “Whoever is not with me is against me, and whoever does not gather with me scatters” (Matthew 12:30). There is no neutrality anywhere in the universe. Every fact is a God-created fact. It is therefore a God-interpreted fact. Economic science is not value-free. *Efficiency cannot be separated from ethics.*

Let me provide an example. The German government used IBM tabulating machines to identify and locate Jews in Germany in the mid-1930s. Then the government used the tabulating machines in the mass arrests and transfer of these Jews to ghettos in the late 1930s. There is no question that this was an efficient system from the point view of Hitler and his followers. The government could not possibly have rounded up Jews rapidly and inexpensively had it not been for the IBM machines and the system of civil government imposed by the National Socialist German Worker’s Party, also known as the Nazi Party. But to discuss the efficiency of the demographic uses of these computers without also discussing the negative sanctions brought by God against Nazi Germany in World War II would be to sepa-

rate economic logic from history. Modern economists prefer to make this separation for theological purposes: the separation of God from history. This is consistent with the separation of ethics from economic theory. The Bible warns us not to do this.

A. Purpose

People believe that they can achieve their purposes in life by proper planning. They believe that they live in an ethically coherent world in which ethically based causes have predictable effects. They believe that their purposes are the result of their specific ethical beliefs. They believe that there is a predictable connection between their ethical principles and their goals. In other words, they believe that historical causation is inherently ethical. They believe that ethically bad principles produce economically bad results in every society in history.

Few people wish to commit their lives to a philosophy that openly declares that the world is purposeless, so there is no coherence linking ethics, actions, and results. There are few philosophies that openly proclaim such an outlook. In the competitive world of evangelism, a philosophy of ultimate purposelessness is not regarded as good news, which is the meaning of the Greek word for evangelism.

Purpose is always associated with what we call a mission statement. Mission statements are inescapable. People have them, whether they articulate them or not. These statements are either consistent with God's mission statement for man or not.

1. Ethics

A fundamental principle of economics is this one: increasing an item's price will increase the supply offered for sale. Conclusion: *sanctions produce predictable results*. If this were not true, there could be no science of economics. Economics is about sanctions and predictable behavior. People do not knowingly sacrifice present benefits in order to achieve fewer rewards in the future.

God has established a purpose for mankind: to multiply biologically and to subdue the earth (Genesis 1:26–28). *This purpose defines mankind*. The original setting for obeying this command was a garden. This imagery still prevails.

The garden was a place of testing ethically. There was a command: do

not eat from a specific tree. There was a positive sanction attached to that tree, according to the serpent: knowing good and evil. There was a negative sanction according to God: death. Adam made a cost-benefit calculation. He decided to test the rival words: God's vs. the serpent's. He did so on the assumption that he possessed the autonomous authority to judge between God and the serpent. This incident rested on an assumption: *there is ethical cause and effect in history*. The outcomes of ethical decisions are predictable. The ethical challenge is two-fold: to identify the most predictable ethical system, and then to adhere to it.

The Bible has a mission statement for mankind: to multiply and subdue the earth. To this has been attached another, which is some version of this: "to glorify God and enjoy Him forever."

2. Efficiency

There are competing mission statements. There are competing ethical systems. This is why there is no agreement about a common purpose for mankind. But without a common purpose, there can be no workable definition of efficiency. Austrian School economists are adamant about this. This is because they are the most consistent adherents of methodological individualism, which is an outworking of philosophical nominalism.

Consider the words of Israel Kirzner. He was one of four men who wrote a Ph.D. dissertation under Ludwig von Mises. He received his Ph.D. in 1957. He went on to become the most respected Austrian School economist in academia among those who received their Ph.D. degrees after World War II. His articles have been published in many professional journals. In his upper division-level textbook, which is the only one written by an Austrian School economist, *Market Theory and the Price System* (1963), he wrote this:

The limitations surrounding this use of the term "economic problem" arise from the fact that society is made up of numerous individuals. Each individual can be viewed as independently selecting his goal program. And in a market economy especially, each individual adopts his own courses of action to achieve his goals. It is therefore unrealistic to speak of society as a single unit seeking to allocate resources in order to faithfully reflect "its" given hierarchy of goals. Society has no single mind where the goals of different individuals can be ranked on a single scale (p. 35).

He then wrote:

“Efficiency for a social system means the efficiency with which it permits its individual members to achieve their several goals” (p. 35).

So, there is no such thing as a common social purpose, other than allowing everyone to pursue his own purposes. If this is true, which it is if methodological individualism is true, then there is no such thing as social efficiency. Put another way, Deuteronomy 28 cannot be true. Dr. Kirzner is an Orthodox Jewish rabbi. He has never commented in print on this contradiction between his economics and his theology.

B. Planning

People seek to attain their personal goals by planning in the present to achieve specific outcomes in the future. Planning is future-oriented. It involves an exchange of present conditions for future conditions.

One of the characteristic features of children is a lack of future-orientation. Until the age of four, they are intensely present-oriented. This is why they are under visible authority. They are under the threat of negative sanctions from parents. As they mature, they become more future-oriented. They remain under judicial authority, but this authority is less immediate and less physical. They are expected to develop the skill of self-government under law, meaning ethics.

This is the issue of hierarchy. Always, people are under a hierarchy. They are responsible upward. They take on greater responsibilities as they mature. This is a crucial mark of maturity.

1. Ethics

Deuteronomy 28 presents the nation of Israel as being under a system of corporate sanctions. God established the nation as His own. He expected the people to obey His laws. This obedience would bring visible blessings. Disobedience would bring visible cursings. Israelites could determine the set of outcomes by planning their lives in terms of His law-order. These sanctions would produce differences in hierarchical authority.

The Lord will open to you his good treasury, the heavens, to give

the rain to your land in its season and to bless all the work of your hands. And you shall lend to many nations, but you shall not borrow. And the Lord will make you the head and not the tail, and you shall only go up and not down, if you obey the commandments of the Lord your God, which I command you today, being careful to do them, and if you do not turn aside from any of the words that I command you today, to the right hand or to the left, to go after other gods to serve them (vv. 12–14).

The sojourner who is among you shall rise higher and higher above you, and you shall come down lower and lower. He shall lend to you, and you shall not lend to him. He shall be the head, and you shall be the tail (vv. 43–44).

We read in Proverbs: “The rich rules over the poor, and the borrower is the slave of the lender” (22:7). This is an extension of the system of economic sanctions in Deuteronomy.

God designed this connection between obedience to God’s laws and positive corporate sanctions to be a testimony to the nations in the region.

Keep them and do them, for that will be your wisdom and your understanding in the sight of the peoples, who, when they hear all these statutes, will say, ‘Surely this great nation is a wise and understanding people.’ For what great nation is there that has a god so near to it as the Lord our God is to us, whenever we call upon him? And what great nation is there, that has statutes and rules so righteous as all this law that I set before you today (Deuteronomy 4:6–8)?

2. Efficiency

Free market economists point to the price system as the source of economic order. It is through competitive bids in the market that both the ownership and use of scarce economic resources are allocated without central planning by the state, which would otherwise involve political coercion. The market is voluntary.

Efficiency is another way of saying that there is reduced waste in production. This also means reduced waste in distribution, because the market

order links production and distribution in a seamless process. This was Hayek's point in his 1945 essay, "The Uses of Knowledge in Society." *Prices allocate production*. There is not much information conveyed in a price, but this is sufficient in a market society. Hayek wrote:

The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on and passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never know more than is reflected in the price movement.

The market process is efficient, but only in meeting the demand of buyers with money to pay. It is governed by the auction principle of high bid wins. This leaves out all those who bid less. This raises the question of morality. There are no major religions or moral systems that are based on the principle of high bid wins for governing most aspects of life. *This has always been the weak link in the economists' case for the free market*. People expect economic outcomes to be consistent with morality. But the vast majority of free market economists refuse to invoke morality in their defense of the market process. In the words of Allen and Alchian, "Economics is neutral or amoral; it does not say what is 'good' or 'bad.'" Here, I invoke the logic of conventional economics. This defense of the market is bad marketing, technically speaking. That is because it is bad economics, ethically speaking. Economists deliberately refrain from claiming the high moral ground. They deny that there is any moral ground, at least with respect to the decisions of adults. Almost no one believes them. No one should believe them.

They could invoke the sanctity of private ownership, but they rarely do. It does them no good to do this. It raises this question: "On what basis is private property sanctified?" On what moral basis could the economist defend this? He refuses to invoke any morality. He may invoke efficiency again.

He argues that private ownership is more efficient than other forms of ownership. But this only pushes the issue out one step. The free market economist is like the Hindu cosmologist who says that the world rests on the back of a giant elephant. But what does the elephant stand on? "On a giant turtle." But what does the turtle stand on? "It's turtles all the way down!" For economists, it is efficiency all the way down.

C. Standards

Most people want to live under a system of coherent, self-consistent rules. They want these rules to lead to positive benefits in their lives. They want these rules to be practical applications of decency: ethics. *They want to do well by doing good.*

What is the source of such a system? Is it a Creator God? Is it nature, which is purposeless and impersonal? Is it mankind? If so, then which men, exactly? How will they enforce the rules? How should they enforce the rules? How can decent people protect themselves from rulers who are corrupt and tyrannical?

1. Ethics

The prophet Isaiah brought a message to the Southern Kingdom of Judah sometime around 740 B.C. In the opening words of the Book of Isaiah, we read a covenant lawsuit. God used Isaiah to warn the rulers and the people that a great judgment was coming. God would bring negative sanctions against the nation if the people did not repent. In that judgment day, they will cry out to God. This will do no good. "When you spread out your hands, I will hide my eyes from you; even though you make many prayers, I will not listen; your hands are full of blood" (Isaiah 1:15). There is a solution immediately available. "Wash yourselves; make yourselves clean; remove the evil of your deeds from before my eyes; cease to do evil, learn to do good; seek justice, correct oppression; bring justice to the fatherless, plead the widow's cause" (Isaiah 1:16–17).

In the biblical worldview, God's ethical standards for society are defended by the threat of God's active intervention in history to impose negative corporate sanctions. We see this in Deuteronomy 28:15–68. We see it in the message of the prophets. This includes the greatest of the Old Covenant prophets, John the Baptist (Matthew 11:11). Any Christian theologian who says that this same system of corporate sanctions no longer operates in

the New Covenant era has destroyed all possibility of a uniquely Christian and uniquely biblical social theory. He has thereby placed God's people under the tender mercies of covenant-breakers for all of history. He announces: "Christians can live under all types of civil government." To which I ask: "What about biblical law?" To which he answers: "Not biblical law. Anything but biblical law."

Here is the biblical answer to the question: "From whence comes a system of ethics?" God is absolutely sovereign. He has created a world under His law. He has revealed His law-order in the Bible. His rules and regulations are coherent: a system. He promises to defend this law-order, both endogenously, through human institutions, and exogenously, by intervening in history to bring negative sanctions against comprehensively rebellious societies.

The efficiency of the free market is based on its reliance on private property, which means the right to disown property: exchange. This defense is moral: the legitimate rights of private property. This ethical defense of private property has not come from academic economists.

2. Efficiency

The economists do not invoke ethics to defend the market process. They rarely invoke anything except the ability of the market to produce economic growth. This is correctly seen by Christian critics of the market as implicitly invoking the religion of mammon: "more for me in history."

The market is the product of a complex system of rules. Hayek devoted his career after 1950 to a study of rules in Western law that have produced the market order. His main books were *The Constitution of Liberty* (1960) and *Law, Legislation, and Liberty*, 3 volumes (1973–79). In none of them did he invoke a binding morality. He was a Darwinist. He did not believe in a binding morality with authority over evolution.

The argument of Mises, beginning in 1920, against the irrationality of central planning persuaded Hayek and a small group of young scholars. Hayek extended Mises' argument on the impossibility of economic calculation under socialism in the 1930s. This argument was resisted vehemently by virtually all academic economists until 1991. The collapse of the Soviet Union buried the critics. They did not admit defeat publicly, except for Robert Heilbroner in a September 1990 article in *The New Yorker*. He admitted the truth after 70 years: "Mises was right." As a dedicated social-

ist and multimillionaire author, he recommended that the socialists adopt the ecology movement to restore public support, despite socialism's lack of efficiency.

This was a little over a year before the USSR officially disappeared. After 1991, the economists stopped arguing for the supposed efficiency of systematic central planning. They had pretended for 70 years that the fake economic statistics issued by the Soviet government justified faith in central planning. After 1991, they stopped. The Soviets' successful deception of most Western economists for 70 years could no longer go on.

The question remains: Why is efficiency a plausible justification for the market order, with its rule of high bid wins? Economists do not tell the public what the moral basis is for the market's legitimacy. They instead invoke efficiency. This is surely better than invoking inefficiency, but it does not ring true. In every economic crisis, the voters and the politicians are ready to abandon the free market's principle of property, especially its fundamental rule: high bid wins.

Mises built his entire economic system on this presupposition: the division of labor is the most efficient system of social organization. Therefore, the moral rules that sustain it are logically binding. In the final chapter in *Human Action*, he announced this.

From the same point of view praxeology [science of human action] and economics look upon the fundamental principle of human existence and social evolution, viz., that cooperation under the social division of labor is a more efficient way of acting than is the autarkic isolation of individuals. Praxeology and economics do not say that men should peacefully cooperate within the frame of societal bonds; they merely say that men must act this way if they want to make their actions more successful than otherwise. Compliance with the moral rules which the establishment, preservation, and intensification of social cooperation require is not seen as a sacrifice to a mythical entity, but as the recourse to the most efficient methods of action, as a price expended for the attainment of more highly valued returns (Ch. XXXIX:2).

For Mises, it was efficiency all the way down.

D. Imputation

This is the issue of rendering judgment. It involves the application of general economic principles to specific real-world events. Specifically, it involves applying subjective economic value to scarce resources, whether consumer goods or production goods.

Ever since the 1870s, economists have argued that economic value is subjective. It is not inherent in economic goods. It is imputed subjectively by consumers. A good example is a waterfall. People impute value to some waterfalls. If a waterfall can be used to generate electrical power, it is valuable. If it is scenic in an accessible location, it is valuable. If it disrupts the flow of a river suitable for commerce, it is not valuable. So, a waterfall's economic value has nothing to do with any intrinsic economic value inherent in it. This principle of economic analysis applies to all scarce resources.

In any coherent human system, there must be sanctions: positive or negative. The sanctions make the institutional arrangement predictable. They make human behavior predictable. People respond to sanctions in predictable ways. If they did not, we would live in chaos. The division of labor would collapse.

A divisive economic questions are these: What are the sources of economic sanctions? Are they inherent in the economy, i.e., endogenous? Are they imposed by the state, i.e., exogenous? Is it a mixture? Are the sanctions coherent? Do they produce the desired behavior? Who desires the behavior?

1. Ethics

God is omniscient. He is the source of all valid ethical principles. These include economic principles. He has revealed them in the Bible.

God is perfectly just. He judges perfectly. He applies His required ethical principles, moment by moment, to specific human decisions, both individual decisions and collective decisions. He is a Trinity: both one (corporate) and many (individual). He will bring final judgement (Matthew 25).

People are made in God's image. Therefore, they can make judgments in a creaturely fashion. God therefore holds them responsible. Responsibility is tied to point one of the biblical covenant: ownership. Man's ownership is delegated. Hence, it is an aspect of point two of the biblical covenant: hierarchy. Sanctions are part four. Points two and four always go together.

People impute economic value. This is the source of economic value in the marketplace. But this subjective value is not autonomous. It is analogi-

cal. God imputes economic value authoritatively, human decision by human decision. His imputation is the objective standard of final judgment. God's final judgment is predictable. God's final sanctions are predictable. History reflects these sanctions. *There is continuity between history and eternity.* These facts are the basis of Jesus' warning: "For what does it profit a man to gain the whole world and forfeit his soul?" (Mark 8:36).

Covenant-keeping Christians sometimes impute great value to things that are of minor value in eternity and illusionary value in history. Paul warned about this.

Now if anyone builds on the foundation with gold, silver, precious stones, wood, hay, straw—each one's work will become manifest, for the Day will disclose it, because it will be revealed by fire, and the fire will test what sort of work each one has done. If the work that anyone has built on the foundation survives, he will receive a reward. If anyone's work is burned up, he will suffer loss, though he himself will be saved, but only as through fire (I Corinthians 3:12–15).

These people do not lose their salvation, but they enter eternity with no capital to show for it. This is considered a liability.

2. Efficiency

Economists elevate efficiency to the second highest position in economic benefits, right below economic growth. Efficiency is the means of economic growth.

There is a major problem with the whole concept of efficiency. *There is no way to measure efficiency by means of the assumption of methodological individualism.* The economist who saw this most clearly was Murray Rothbard. In his 1979 essay, "The Myth of Efficiency," he explained his position.

Let us take a given individual. Since his own ends are clearly given and he acts to pursue them, surely at least his actions can be considered efficient. But no, they may not, for in order for him to act efficiently, he would have to possess perfect knowledge—perfect knowledge of the best technology, of future actions and reactions by other people, and of future natural events. But since no

one can ever have perfect knowledge of the future, no one's action can be called "efficient." We live in a world of uncertainty. Efficiency is therefore a chimera.

Put another way, action is a learning process. As the individual acts to achieve his ends, he learns and becomes more proficient about how to pursue them. But in that case, of course, his actions cannot have been efficient from the start—or even from the end—of his actions, since perfect knowledge is never achieved, and there is always more to learn.

Moreover, the individual's ends are not really given, for there is no reason to assume that they are set in concrete for all time. As the individual learns more about the world, about nature and about other people, his values and goals are bound to change. The individual's ends will change as he learns from other people; they may also change out of sheer caprice. But if ends change in the course of an action, the concept of efficiency—which can only be defined as the best combination of means in pursuit of given ends—again becomes meaningless.

This criticism applies to the individual. Far more does it apply to the collective. Rothbard understood the criticism of all central planning by the state: there is no way for planners to make interpersonal comparisons of people's subjective utilities. *There is no objective yardstick of subjective value.* This means that all utilitarian social theory, including economics, is bogus. This meant the economics of his mentor, Mises, although Rothbard here did not mention Mises by name in this essay. But this paragraph is a frontal assault against Mises' utilitarianism.

The blindness of economic thought to the realities of the world is systematic and is a product of the utilitarian philosophy that has dominated economics for a century and a half. For utilitarianism holds that everyone's ends are really the same, and that therefore all social conflict is merely technical and pragmatic, and can be resolved once the appropriate means for the common ends are discovered and adopted. It is the myth of the common universal end that allows economists to believe that they can "scientifically-

ly” and in a supposedly value-free manner prescribe what political policies should be adopted. By taking this alleged common universal end as an unquestioned given, the economist allows himself the delusion that he is not at all a moralist but only a strictly value-free and professional technician.

Three years later, in his book, *The Ethics of Liberty*, Rothbard wrote a detailed critique of Mises’ utilitarianism. He devoted most of Chapter 26 to this critique. This marked a major division within the camp of the Misesians, one that had been there from the day that Rothbard wrote *Man, Economy, and State*.

Any economist who argues in favor of economic efficiency has abandoned the logic of supposedly value-free economics. Rothbard saw this clearly. He has not been followed in this by his peers. Rothbard knew this would be the case. He ended his essay with this.

One group of people will inevitably balk at our conclusion; I speak, of course, of the economists. For in this area economists have been long engaged in what George Stigler, in another context, has called “intellectual imperialism.” Economists will have to get used to the idea that not all of life can be encompassed by our own discipline. A painful lesson no doubt, but compensated by the knowledge that it may be good for our souls to realize our own limits—and, just perhaps, to learn about ethics and about justice.

To which I add: Amen!

If the state is invoked as the way to overcome this problem, then the economist who invokes it must explain how his invocation of state planning is consistent with methodological individualism. They never do this. They simply assert that state planners can somehow do this. Also, this will not result in a loss of freedom. Somehow, this intervention will either increase efficiency or at least substitute offsetting benefits. But how can they prove this? Given their official assertion that economics is a value-free science, how can they get from value neutrality to their support for state intervention? They can’t. It’s a gigantic charade. It is self-deception on a massive scale.

E. Inheritance

Every social system has a theory of legitimate succession. People die. Social systems are replaced. On what basis?

People have faith in the future. Part of this faith is based on ethics. People believe that it is ethically right for the prevailing social system to survive. They believe it is morally superior today. They believe it will be morally superior tomorrow and next year. They are willing to defend it from invasion if necessary.

This raises the issue of the relationship between ethics and the survival of the legal structure that enforces ethics in the courts. How is it that moral principles survive over time? With respect to the operations of the market order, if these operations are morally illegitimate, should they survive? How can they survive?

1. *Ethics*

I have already discussed the prophet Isaiah. He came to the Kingdom of Judah and announced that the nation would be brought under judgment if it did not repent. It did not repent. It was carried off by Babylon in 586 B.C.

The economic logic of this judgment was based on God's protection of His property. Just as He defended His property in the garden, so He protects it in history. His people, acting as His trustees, must do the same in His name. This is a judicial requirement.

The dominion covenant of Genesis 1 requires that people extend their dominion across the face of the earth. They are to administer the creation economically on God's behalf. They are to defend His property judicially and improve it economically. This is a universal task. It applies to every region and every era. This is economic continuity. It culminates with the final judgment (Matthew 25).

This is the ethical foundation of the concept of compound economic growth. God has commanded this. It is not optional. *The primary economic goal of life is not consumption. It is production.* Production allows men to leave an inheritance. "A good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous" (Proverbs 13:22).

2. *Efficiency*

Compound growth is a blessing for the individual owner of resources.

This also includes families. The goal of compound economic growth applies to assets owned by individuals, families, and other associations. This is recognized by most economists. Economic growth is the holy grail of most economists: the blessing that they hail as universally valid.

To achieve economic growth requires that owners conserve production goods and make them more productive. This is a matter of efficiency. Efficiency is the crucial technical means of economic growth. The only productive factor more important than efficiency is entrepreneurship: accurate forecasting of the future, i.e., factor pricing and final consumer pricing.

There is an inherent ethical problem with this. Future consumers may become present-oriented. They may become suicidal. They may become addicted to drugs or destructive lifestyles. These are ethical decisions. If this takes place, then profitable planning will involve lowering the cost of self-destructive behavior. If economic analysis is value-free, then economists should have no moral qualms about recommending policies that will make this self-destruction even more efficient. Allen and Alchian refused to speak of their adult children in this way: "For example, the authors do not allow their minor children unrestricted access to the market, because children buy goods we believe they should not. We don't accept their judgment of what is a good." But when their children reached age 18, all this presumably changed, analytically speaking. Or did it?

Conclusion

Here is my point in this chapter. *Ethics cannot be logically separated from efficiency.* This chapter is not a denial of efficiency. It is an affirmation of efficiency. It relates efficiency to ethics. Efficiency is not an autonomous concept. Rothbard understood this. Other economists have not and do not.

Rothbard examined the principle of methodological individualism, and he drew a conclusion: efficiency is a myth.

Not only is "efficiency" a myth, then, but so too is any concept of social or additive cost, or even an objectively determinable cost for each individual. But if cost is individual, ephemeral, and purely subjective, then it follows that no policy conclusions, including conclusions about law, can be derived from or even make use of such a concept. There can be no valid or meaningful cost-benefit analysis of political or legal decisions or institutions.

I do not draw the same conclusion. This is because I do not begin and end with methodological individualism. I begin and end with *methodological covenantalism*. God is a Trinity: both one and many. He establishes personal relationships with collective mankind and individuals based on judicial covenants. Each covenant has an ethical component: point three. This is the theological foundation of the concept of economic efficiency.

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ENTREPRENEURSHIP VS. EQUILIBRIUM

The secret things belong to the Lord our God, but the things that are revealed belong to us and to our children forever, that we may do all the words of this law (Deuteronomy 29:29).

Love never ends. As for prophecies, they will pass away; as for tongues, they will cease; as for knowledge, it will pass away. For we know in part and we prophesy in part, but when the perfect comes, the partial will pass away. When I was a child, I spoke like a child, I thought like a child, I reasoned like a child. When I became a man, I gave up childish ways. For now we see in a mirror dimly, but then face to face. Now I know in part; then I shall know fully, even as I have been fully known (1 Corinthians 13:8–12).

Since the equilibrium economy is by definition a changeless and unending round of robotic behavior, everyone on the market has perfect knowledge of the present and the future, and the pervasive uncertainty of the real world drops totally out of the picture. Since there is no more uncertainty, profits and losses disappear, and every business firm finds that its selling price exactly equals its cost of production. — Murray Rothbard, “Breaking Out of the Walrasian Box: The Cases of Schumpeter and Hansen” (1987)

Analysis

God is the Creator. Man is the creature. There is a fundamental distinction between them. Man is made in God’s image, so there are attributes of God that are possessed by mankind. But there is an unbridgeable separation. Theologians refer to the incommunicable attributes of God. Three of these are His omnipotence, omnipresence, and omniscience. God is all-powerful, present everywhere, and all-knowing.

Christianity assumes the existence of a God who has comprehensive knowledge of all laws and all facts: past, present, and future. God is omniscient. Nothing comes as a surprise to Him. In His grace, He sometimes chooses to reveal the future to people. He revealed to Joseph the seven fat years and the seven lean years. This information was based on God's omniscience.

Christianity marks as a heresy any doctrine that teaches that a person or mankind as a whole can ever possess any of these attributes. The quest to attain any of them is inherently satanic.

Political science does not use the idea of the absolute power of God as its conceptual model for the state. On the contrary, conservatives identify totalitarianism as a perverse attempt of tyrants to attain total power. A favorite phrase of conservatives is Lord Acton's 1887 quip in his letter to Bishop Creighton: "Power tends to corrupt and absolute power corrupts absolutely." In fact, absolute power is perfectly righteous, since only God possesses it or can ever possess it. Acton of course knew this, but he could not resist a good quip. (Such is our Adamic nature.) Similarly, telecommunications theory does not use as its conceptual model the ideal of man's hypothetical omnipresence. Such a view has been destroyed forever by quantum physics.

In stark contrast, academic economists rely heavily on the concept of mankind's perfect knowledge as the primary conceptual model of economic science. Israel Kirzner was not exaggerating in 1974 when he wrote this: "Still central to much of contemporary price theory is the model of perfect competition. Despite all criticisms showered on the model during the past forty years, it still occupies the center of the stage, both in positive and in normative discussions." (*Competition and Entrepreneurship*, p. 8). This is as true today as it was in 1974. In the latest entry on Wikipedia for "General equilibrium theory," we read this:

Although modern models in general equilibrium theory demonstrate that under certain circumstances prices will indeed converge to equilibria, critics hold that the assumptions necessary for these results are extremely strong. As well as stringent restrictions on excess demand functions, the necessary assumptions include perfect rationality of individuals; complete information about all prices both now and in the future; and the conditions necessary for perfect competition.

It is worth noting that the entry does not begin with the standard warning of questions about the acceptability of the article. This is accepted doctrine within the economics profession.

In his 1963 textbook for upper division economics students, Kirzner wrote about the assumptions of economists regarding the use of equilibrium as an explanatory model. They use it to describe the system of feedback that the price system provides the market place. "The state of equilibrium should be looked upon as an imaginary situation where there is a *complete dovetailing of the decisions made by all the participating individuals*." This means not only perfect knowledge of available economic opportunities, but also men's universal willingness to cooperate with each other. In short, it conceives of men as angels in heaven, with fallen angels having conveniently departed for hell and its constant disequilibrium, where totalitarian central power is needed to co-ordinate their efforts. "A market that is not in equilibrium should be looked upon as reflecting a *discordancy* between the various decisions being made." The heart of free market economic analysis is the concept of monetary profits and losses as feedback devices that persuade people to cooperate with each other in order to increase their wealth. "But the theorist knows that the *very fact of disequilibrium itself* sets into motion forces that tend to bring about equilibrium (with respect to current market attitudes)" (*Market Theory and the Price System*, p. 23). Presumably, even devils cooperate on this basis. They, too, prefer profits to losses.

Biblically speaking, this theory of equilibrium is wrong. It is not just wrong; it is evil. It adopts the idea of man as God as its foremost conceptual tool to explain people's economic behavior. *It explains the market process as man's move in the direction of divinity*. Economists are not content to explain the price system as a useful arrangement that rewards people with accurate knowledge who voluntarily cooperate with each other. They explain the economic progress of man and the improvement of man's knowledge as a pathway to divinity, however hypothetical. *The science of economics in its humanist framework rests on the divinization of man as a conceptual ideal*. I do not think this is in any way self-conscious on the part of this mostly atheistic profession. They know not what they do. This is understandable. I myself did not spot the theological nature of the error for decades. I was a slow learner.

We have been down this pathway before. "But the serpent said to the woman, 'You will not surely die. For God knows that when you eat of it your

eyes will be opened, and you will be like God, knowing good and evil” (Genesis 3:4–5).

The Bible teaches that mankind’s knowledge will increase and improve over time. Paul was clear about this. This is why I quoted him at the beginning of this chapter. We see in a mirror darkly today. Things will get clearer over time. But this does not negate the fundamental fact regarding all knowledge: the Creator-creature distinction. “The secret things belong to the Lord our God, but the things that are revealed belong to us and to our children forever, that we may do all the words of this law” (Deuteronomy 29:29).

As our knowledge increases, we find that there is far more that we do not know. Our lack of knowledge always dwarfs our addition of knowledge. This is built into the creation. The creation reflects God. God is infinite. The creation is immense. Over the last 40 years, the number of estimated galaxies has increased at least ten-fold. This is unlikely to cease. The accepted truths of one era are modified or even scrapped by the next. There are too many anomalies to explain successfully by means of the older theories. *The new data overwhelm the old theories.*

As market output increases as a result of successful entrepreneurship, people get richer. This means they have more choices at the same prices. With more choices, there will be greater complexity in society. A medieval farm family on the fringes of a village had few major problems to solve, other than not starving. There were practically no unexploited opportunities from which to profit. This is what poverty offers: few unexploited opportunities. With greater complexity, there are more unexploited opportunities to coordinate. Were there such a thing as equilibrium, successful entrepreneurship would inevitably decrease it, not increase it. *Success in life involves increased disequilibrium per capita.* Think “choices.” As I say, there is no such thing as a movement toward divinity: omniscience. There is therefore no such thing as equilibrium. But a humanistic free market economist who, because of appalling theological ignorance, takes seriously equilibrium as a theoretical model should argue that an increase in disequilibrium is an advantage when it arises as a result of rising per capita wealth. Conclusion: *profitable entrepreneurship moves away from equilibrium, so called.* I am making two arguments. First, there is no theological case for the market process moving man in the direction of divinity: omniscience. Second, there is no sensible theoretical case for arguing that the free market tends toward textbook equilibrium. It tends away from it.

There is historical continuity. There is also progress. Progress assumes improvement over time. This improvement is visible. Here is the confession of progress: “Things are better today than before. Things were better before than way before.” There is a system that lets us assess economic change: double-entry bookkeeping. This has nothing to do with the textbook theory of economic equilibrium. *Omniscience for man is not a valid epistemological concept. It is a revolt against God.*

In the article that I cited in opening this chapter, Rothbard made a number of important points. First, the concept of equilibrium theory goes back to Léon Walras, the French economist teaching in Switzerland who was a contemporary of Carl Menger. Menger’s *Principles of Economics* appeared in 1871. It revolutionized economic thought by explaining economic value in terms of subjective imputation by consumers. Three years later, Walras’ book appeared: *Éléments d’économie politique pure*. It was highly mathematical. Rothbard wrote:

Since World War II, mainstream neoclassical economics has followed the general equilibrium paradigm of Swiss economist Leon Walras (1834–1910). . . . It is surely no accident that the rise to dominance of Walrasian economics has coincided with the virtual mathematization of the social sciences. Mathematics enjoys the prestige of being truly “scientific,” but it is difficult to mathematize the messy and fuzzy uncertainties and inevitable errors of real world entrepreneurship and human actions. Once one expunges such actions and uncertainties, however, it is easy to employ algebra and the tangencies of geometry in analyzing this unrealistic but readily mathematical equilibrium state.

The sophisticated mathematical formulas that fill professional economics journals today look impressive, but most of them they apply only to general equilibrium conditions, which have nothing to do with the real world. These formulas are useless except for getting tenure at a research university. They convey an illusion, namely, that economic science is as intellectually rigorous as physics. Establishment academic economics is as mathematically rigorous as physics, but applied physics is useful in producing commercial products that improve people’s lives. General equilibrium theory is not.

By the way, the whole thing is an academic game. Harvard economist John Kenneth Galbraith blew the whistle in his book, *The Economics of Peace and Laughter* (1971).

The layman may take comfort from the fact that the most esoteric of this material is not read by other economists or even by the editors who publish it. In the economics profession the editorship of a learned journal not specialized to econometrics or mathematical statistics is a position of only moderate prestige. It is accepted, moreover, that the editor must have a certain measure of practical judgment. This means that he is usually unable to read the most prestigious contributions which, nonetheless, he must publish. So it is the practice of the editor to associate with himself a mathematical curate who passes on this part of the work and whose word he takes. A certain embarrassed silence covers the arrangement (paperback edition, p. 41n).

Of all the major schools of economic thought, the Austrian School is the least dependent on general equilibrium theory. Mises did use a version of it, which he called the Evenly Rotating Economy, or ERE. As I hope to show, wherever he used it, and wherever Rothbard used it, there we have an area of Austrian School economics that needs a reformulation. The concept is deeply flawed.

The entrepreneur is a real-world figure. For Christian economic theory, he is by far the most important real-world figure. He is an owner of resources, including knowledge, who seeks to make a profit by satisfying the market-registered demand of future customers. He is the crucial link between today's economy and tomorrow's. He seeks to buy low and sell high. He can do this only because he sees an opportunity that his competitors do not see: ignored future demand. His competitors have therefore not bid up the prices of production goods. He buys these goods, reworks them, and sells them in finished form for more than he paid.

I will now discuss the Bible's foundation of entrepreneurship. I will contrast this with mainstream economics' theory of equilibrium. I will show how the theory of equilibrium is not only completely hypothetical, it is self-contradictory. Not only does it not explain human action, it negates it. It is not a theory of human action. It is a theory of human inaction. Yet it is the

foundation of almost all academic economic theory. The higher up the educational screening system a student goes, the more that equilibrium theory fills the monographs, and the less relevant the material is to the real world. *Timeless abstraction replaces historical decision-making.* It offers no valid insights into decision-making.

A. Purpose

We live in a changing world. We have to get from here to there. We must do this in between now and later. We are constantly dealing with change, which is at bottom a matter of time.

Economics offers a theory of predictable change. The central figure in this process is the entrepreneur. He buys low and sells high. He buys production goods and services, and then he allocates these resources in order to create consumer goods. This process was first discussed in a comprehensive way by Frank H. Knight in *Risk, Uncertainty, and Profit* (1921). Mises adopted Knight's outlook in *Human Action*. Kirzner has developed it even further. Knight was a founding figure of the Chicago School of economics. Mises and Kirzner are Austrians. The theory of entrepreneurship is one of those areas in which the two schools do agree on the basics.

1. Entrepreneurship

God is omniscient. We are not. This is the starting point of the Christian theory of entrepreneurship.

Entrepreneurship begins with a universal command from God: be fruitful and multiply (Genesis 1:28). This is an aspect of common grace: life itself, an unearned gift. *Grace precedes law.* Another command extends to covenant-keepers. "But seek first the kingdom of God and his righteousness, and all these things will be added to you" (Matthew 6:33). This is an aspect of special grace: redemption, an unearned gift. *Grace precedes law.* What are "all these things"? Food and clothing (v. 31). They are available in response to kingdom-building. They are necessary for life, but seeking God's kingdom is more important as a goal of life.

The Bible's theory of entrepreneurship rests on the assumption of man's lack of knowledge about the future. We are to seek the kingdom of God. We do not know exactly what is required of us. This is a discovery process. This was Hayek's phrase. He used it in a 1968 essay, "Competition as a Discovery Procedure." It applies to kingdom-building.

What is the kingdom of God? It refers to God's reign. He is omnipotent. It therefore applies to everything. *The kingdom of God is the civilization of God.* We are to seek it. In doing so, we are to build it. There is a division of labor in the church (Romans 12; I Corinthians 12). There is a division of labor in the economy. We must specialize. We seek to participate in the building of a corporate structure, God's kingdom. We receive benefits as individuals: "all these things." There is coherence between the many who seek God's kingdom and the collective endeavor. There is coherence between the one and the many. This project is analogous to God, who is a Trinity: one and many. We seek our individual goals, but we place God's kingdom first. We thereby acknowledge our faith in a theocentric universe. We should not worship mammon: "more for me in history."

There is uncertainty in our assignment. We do not know the future perfectly. We seek. Then we find. "Ask, and it will be given to you; seek, and you will find; knock, and it will be opened to you. For everyone who asks receives, and the one who seeks finds, and to the one who knocks it will be opened" (Matthew 7:7–8). We do not live in a random world. It is governed by the providence of God. There is ethical cause and effect in history.

2. Equilibrium

In the hypothetical realm of equilibrium, there is no providence. There is no command from God or anyone else. There is no grace. There is no kingdom of God. *There is no seeking.* This is the fundamental fact of equilibrium: there is no seeking. Put in the language of textbook economics, there are no unexploited opportunities. As Rothbard summarized it:

Economic analysis now consists of the exegesis and elaboration of the Walrasian concept of general equilibrium, in which the economy pursues an endless and unchanging round of activity—what the Walrasian Joseph Schumpeter aptly referred to as "the circular flow." Since the equilibrium economy is by definition a changeless and unending round of robotic behavior, everyone on the market has perfect knowledge of the present and the future, and the pervasive uncertainty of the real world drops totally out of the picture. Since there is no more uncertainty, profits and losses disappear, and every business firm finds that its selling price exactly equals its cost of production. In this hy-

pothetical world, there is no uncertainty. Everyone knows what is coming next.

There is human omniscience. There is no unanticipated change. There is no action. Mises adopted equilibrium analysis in *Human Action* for explanatory purposes. He called it the Evenly Rotating Economy. This was a strategic mistake. But his description of the equilibrium realm was accurate: there is no uncertainty.

Action is change, and change is in the temporal sequence. But in the evenly rotating economy change and succession of events are eliminated. Action is to make choices and to cope with an uncertain future. But in the evenly rotating economy there is no choosing and the future is not uncertain as it does not differ from the present known state. Such a rigid system is not peopled with living men making choices and liable to error; it is a world of soulless unthinking automatons; it is not a human society, it is an ant hill (*Human Action*, Ch. XIV:5).

This is not the realm of responsible men who face uncertainty. It is not a realm of human action or human responsibility. There are no seekers. There are no finders. Then of what possible value is such a concept? None.

This is a world without surprises. E. H. Phelps writes in *The New Palgrave* dictionary, which is the economics profession's standard: "Economic equilibrium, at least as the term has traditionally been used, has always implied an outcome, typically from the application of some inputs, that conforms to the expectations of the participants in the economy." Kirzner was correct in *Market Theory and the Price System*: "In a general market, as we shall see, equilibrium conditions can exist only when there is, in effect, nothing left for entrepreneurs to do" (p. 247).

B. Planning

The future is uncertain. For anyone to seek the kingdom of God or the kingdom of any would-be divinity, he must plan for the future. He must deal with unexpected events. To implement his own personal mission statement, he has to allocate scarce resources. There are no free lunches in the market place.

All forms of planning must deal with personal responsibility: point two of the biblical covenant. Everyone answers to someone. Everyone is an agent of someone. No one is autonomous.

1. Entrepreneurship

In the parable of the talents, Jesus dealt with God's final judgment. The parable appears in the chapter on the final judgment. The parable tells of a man who delegates control over money to stewards. Then he returns for an accounting. He compares their rates of return. He also compares the amount of money he entrusted to each of them. He acted as an entrepreneur. He transferred control over his money. He made estimates of their rate of profit. They in turn acted as entrepreneurs. Two invested the money. One buried the coin. He refused to deal with the uncertainties of investing. He preferred safety. He came under condemnation.

There is no escape from planning. There is no escape from responsibility before God. Men may try to escape, but they will fail. They must adopt plans. They must then implement these plans or else revise them, whether systematically or randomly. These plans are based on their concept of hierarchy.

We are all entrepreneurs. We all deal with an uncertain future. We all deal with a dark mirror. We rely on specialists who have the ability to foresee future events more accurately than the rest of us. In the Bible, Joseph is the great example. God revealed to him the seven fat years and the seven lean years. Then Joseph organized production to meet the future demand. These people produce profits for themselves or their employers. They buy low (seven fat years) and sell high (seven lean years).

The primary goal of buying low and selling high is to be a good steward of God's capital. *The way to make a profit is through profitable service to future customers.* You use your specialized information to bid up under-priced resources on behalf of your customers. You then make them offers they choose not to refuse. They buy your output at the prices you guessed.

2. Equilibrium

Mainstream economists argue that the best way to understand the real world of economic change is to begin with an assumption of a hypothetical world where men are omniscient. People are gods. They are functionally omniscient regarding supply and demand. Everyone knows the economic future perfectly. There are no unexploited opportunities. There are no trac-

es of uncertainty in the economy. Furthermore, no known process has led to this theoretical condition. It just is. That is where mainstream economists begin to analyze the real world.

Mainstream economists have no coherent theory of entrepreneurship in the world of equilibrium. When they write their formula-filled mathematical jargon, they start with equilibrium conditions: a world of omniscient people. How did this hypothetical entity come into being? They do not offer a theory. They say that the system is hypothetical. It does not faze them that have no theory of economic change from inside the economy: endogenous. They ignore this question: "How does the economy lose equilibrium?" Most important, they ignore this one: "How does society get back equilibrium after it is lost?" From omniscience to discoordination to omniscience: they have no coherent theories to explain this. When you start theorizing from the logic of an omniscient society, you are in a real bind. Somehow, it got non-omniscient: change. Now the poor society is staggering around in a daze, trying to get back its lost omniscience. What's a society to do?

My suggestion: it should try to get tenure. That's what academic economists do to reduce unexpected change in their lives.

Roger Leroy Miller wrote in his widely assigned textbook *Economics Today*, "Equilibrium in any market is defined as a situation in which the plans of buyers and the plans of sellers exactly mesh, causing the quantity supplied to equal the quantity demanded" (5th edition, 1985, p. 49). It is perfection based on perfect knowledge. James Gwartney and Richard Stroup agreed in their popular textbook, *Economics*: "When a market is in equilibrium, there is a balance of forces such that the actions of buyers and suppliers are consistent with one another. In addition, when long-run equilibrium is present, the conditions will persist into the future" (4th ed., 1982, p. 186). How can such a meshing of plans occur? Through perfect forecasting: "In summary, an output rate can be sustained into the future only when the prior choices of decision-makers were based on a correct anticipation of the current price level" (p. 187). Edwin Dolan wrote: "The separately formulated plans of all market participants may turn out to mesh exactly when tested in the marketplace, and no one will have frustrated expectations or be forced to modify plans. When this happens, the market is said to be in equilibrium" (*Basic Economics*, 2nd ed., 1980, pp. 44–45). It is perfection based on perfect knowledge.

The real world is filled with uncertainty. It is also filled with responsibility. *There is no way to get richer without increasing your responsibility.* Successful planning increases profits. Profits increase personal wealth. This increases life's complexity. It increases responsibility. The process continues.

Austrian School economists offer a theory of entrepreneurship that is tied to price discovery. Above all, they rely on an undefined something that Kirzner calls alertness. No one can define it. It cannot be marketed. It may not be able to be taught. Austrian School economists do not discuss the possibility that God reveals accurate information about future market conditions to certain people. Economists do not know what to call this skill. It is an X-factor. It is the ability to buy low and sell high, decade after decade. It is the Warren Buffett factor. It cannot be explained. He does not use graphs. He does not use arcane formulas. He speaks coherently. He has not received tenure. He is worth \$80 billion. He has given away \$30 billion.

It is not good enough to know what future prices will be. You have to put up money or capital to profit from your knowledge. An entrepreneur without money or a partner with money is like a race track tout who does not buy a ticket. He does not affect the odds. He does not affect prices. He is the male version of Cassandra. He knows the future, but no one listens. Every time his horse comes in first, he wails, "I knew! I knew!" So what?

C. Standards

How does the entrepreneur make his profit? He buys low and sells high. How does he do this? He sees that production goods are available today at prices that do not reflect the future accurately. How does he know? The rest of us do not know. Salaried economists surely do not know.

Society needs people who can buy low and sell high. They reduce waste. They serve customers well. As long as they do not steal, they are doing nothing wrong.

1. Entrepreneurship

The profit of an entrepreneur rests on a system of private ownership. He owns money. He wants to invest it in some business. He may own the business. He may simply buy capital on markets. He knows that he will be allowed to keep his profits if there are any.

Others in the society want people to make available their best ideas about the future. By enforcing the Bible's private property social order, peo-

ple make it possible for those people with specialized information to profit from this information. These specialists are willing to put their information to effective public use in the market. They seek their own ends, but the information they use is put to customer-satisfying purposes. The legal order makes this possible. So does social custom.

There is no compulsion in these transactions. There is no theft. The buying and selling of information is part of an overall structure of law. People who are willing to pay for this information can hire the services of people with reputations for forecasting accurately.

If envy is widespread, there will be less entrepreneurship. Envy is a sin. It seeks to tear down successful people, especially rich people who are not celebrities or sports stars. These envy-driven people may know that they cannot profit from such tearing down. They do not care. They want the successful person "put in his place." They may use politics to tear down the rich. They vote for politicians who vote for high taxes in top income brackets. This makes society worse off when these rich people decide not to put their money at risk to deal with uncertainty. The envious do not care.

2. Equilibrium

What are the standards under equilibrium? There has to be private property. There also has to be universal perfect knowledge of economic opportunities for exchange. Men possess God's omniscience. People know exactly what will happen next in the economy. There are no surprises.

With this theoretical structure in place, economists begin theorizing about how the free market would work. This theoretical model becomes the standard for judging the real-world market. Markets that do not possess these features are called "imperfect markets." Keynesian economists call in the state to correct deviations from perfect markets.

There are a series of theoretical problems here. One has to do with the hypothetical market's arrangements for adjusting to new information. There has to be change in life. This fact raises questions. How do people adjust to change under the assumption of perfect knowledge? What does economic theory have to say about this, meaning economic theory based on the perfect market hypothesis? How can it deal with decision-making?

People are said to know what the limits of their wealth are. They have made subjective imputations of value. So, they economize. They buy exactly those goods in exactly those quantities that satisfy their wants, with no as-

sets left over. There is no waste. But there is also no freedom of action. All of them know what all the others will do. *Machines predict machines*. The logic of liberty produces a denial of liberty. (In philosophical terms, the phenomenal realm of totally predictable scientific causation, as hypothesized by Immanuel Kant, swallows up the realm of contingency: Kant's noumenal realm of human action.)

The other problem has to do with the subjective imputation of value and objective pricing in an economy without money.

D. Imputation

The imputation of economic value is subjective. Such imputation by many people leads to competitive bids in an open market. In a modern economy, these bids are usually made in the form of money. These multiple bids produce an array of objective prices. The value behind these bids is subjective.

This view of market order was first proposed by Carl Menger in 1871. He was the founder of the Austrian School of economics. Three years later, a rival approach was offered by Walras, who explained the market process in terms of a complex of simultaneous equations. This was a rival methodology. Menger did not assume human omniscience. Walras did, but he did not admit this openly. Neither do his followers.

1. Entrepreneurship

Only God has perfect knowledge. Everyone else faces uncertainty. Economics rests on this fact operationally. Economic theory should never depart from this assumption.

The Austrian School of economics rests on a theory of entrepreneurship. This is the practice of making plans for the future. These plans are burdened by uncertainty. Men make plans in the hope of making profits. Profits are what is left over after the entrepreneur has paid all costs of his plans, including the rate of interest. *Profits are economic residuals*. They are the result of having bought low and sold higher.

Austrian School economists explain this ability by invoking an unknown something that the successful entrepreneur possesses. The entrepreneur is like Joseph in Egypt. He knows the future. He makes plans to deal with the future profitably. Humanist economists do not invoke God's revelation to explain this ability. They invoke "unexplainable factor X," which entrepreneurs possess at least occasionally. Why unexplainable? Because its presence is it-

self uncertain. It cannot be purchased in a free market. No one knows where it comes from. It is uncertainty seeking profitable solutions to uncertainty.

2. Equilibrium

Mainstream economists use equilibrium to explain the production and distribution of goods and services. They have no concept of the entrepreneur that is consistent with the assumption of universal omniscience. The entrepreneur offers no benefit to the economy. There are no unexploited opportunities. There is no way to buy low and sell high. The related concepts of profit and loss have to do only with imperfect knowledge. The concepts are meaningless in the framework of equilibrium, where there are no unexploited opportunities.

There is another crucial theoretical problem. If all people know what is coming next, they do not need money. People hold money because it is the most marketable commodity. In time of unexpected change, people want money either to take advantage of opportunities or else to avoid disasters. But in a world of perfect foreknowledge, there are no unexpected events. *Under such conditions, the demand for money would fall to zero.* Prices would become infinite. There would be no monetary prices. This would eliminate monetary accounting. This would bring back barter. There are no prices in barter that are expressed in a common numerical format, i.e., money prices. In short, *the assumption of perfect markets is self-contradictory.*

Mises discussed the demand for money.

It has been pointed out already that in the imaginary construction of an evenly rotating economy the very notion of money vanishes into an unsubstantial calculation process, self-contradictory and devoid of any meaning. It is impossible to assign any function to indirect exchange, media of exchange, and money within an imaginary construction the characteristic mark of which is unchangeability and rigidity of conditions.

Where there is no uncertainty concerning the future, there is no need for any cash holding. As money must necessarily be kept by people in their cash holdings, there cannot be any money. The use of media of exchange and the keeping of cash holdings are conditioned by the changeability of economic data. Money in itself is

an element of change; its existence is incompatible with the idea of a regular flow of events in an evenly rotating economy (*Human Action*, Ch.XVIII:5).

There is zero demand for money in a world with perfect foreknowledge. Money is held to compensate for imperfect knowledge. There is no imperfect knowledge in equilibrium. Here is how Rothbard put it.

What is the usefulness of keeping or adding to a cash balance? This question will be explored in later chapters, but here we may state that the desire to keep a cash balance stems from fundamental *uncertainty* as to the right time for making purchases, whether of capital or of consumers' goods. Also important are a basic *uncertainty* about the individual's own future value scale and the desire to keep cash on hand to satisfy any changes that might occur. Uncertainty, indeed, is a fundamental feature of all human action, and uncertainty about changing prices and changing value scales are aspects of this basic uncertainty (*Man, Economy, and State*, Ch. 4:5:A).

He was even more explicit in his chapter on the structure of production.

The evenly rotating state, for example, would be incompatible with the existence of money, the very medium at the center of the entire exchange structure. For the money commodity is demanded and held only because it is more marketable than other commodities, i.e., because the holder is more sure of being able to exchange it. In a world where prices and demands remain perpetually the same, such demand for money would be unnecessary. Money is demanded and held only because it gives greater assurance of finding a market and because of the uncertainties of the person's demands in the near future. If everyone, for example, knew his spending precisely over his entire future—and this would be known under the evenly rotating system—there would be no point in his keeping a cash balance of money. It would be invested so that money would be returned in precisely the needed amounts on the day of expenditure. But if no one wishes to hold

money, there will be no money and no system of money prices. The entire monetary market would break down. Thus, the evenly rotating economy is unrealistic, for it cannot actually be established and we cannot even conceive consistently of its establishment. But the idea of the evenly rotating economy is indispensable in analyzing the real economy; through hypothesizing a world where all change has worked itself out, we can analyze the directions of actual change (Ch. 5:2).

He did not pursue this as far as I have. The logical conclusion of this line of reasoning is that there can be no array of objective prices as denominated in one currency unit. *If there is zero demand for money, prices cannot be expressed in monetary terms.* This eliminates every equation that relies on a single price for a good. This also eliminates every graph that has P (price) as the vertical axis. Why? Because there is no single price for anything. There is no common denominator. There are as many prices for a single item as there are items offered for sale for that single item. Again, citing Rothbard:

In barter, every good had only its ruling market price in terms of every other good: fish-price of eggs, horse-price of movies, etc. In a money economy, every good except money now has one market price in terms of money. Money, on the other hand, still has an almost infinite *array* of “goods-prices” that establish the “goods-price of money” (Ch. 4:1).

A wise student of economics should look at every equilibrium-based graph and every equilibrium-based equation that is offered to explain economics, and he should think this: “Fake!” “Cheat!” “I want my money back.”

I am not arguing merely that the assumptions of equilibrium are not conformable to the real world. Economists who use this model are willing to admit this. I am arguing something far more fundamental. I am arguing that *the logic of equilibrium is self-contradictory on its own terms.* It does not allow a coherent discussion of economic cause and effect if the discussion in any way relies on monetary pricing, which it always does. If you want a graphic image of what is involved here, think of a head-on collision between two large trains, the *Neo-Classical Zephyr*, lurching slowly to the

right, its brakes still on, and the *Neo-Keynesian Express*, racing blindly to the left. Each was carrying high-priced freight of the economics profession. "Is the loss total?" "Yes." In this case, the shippers had taken out no insurance—as if there had been no risk. There was risk. Lots.

There is a reason for this fundamental incoherence. *All logic that hypothesizes man as possessing divine knowledge is inherently incoherent.* It does not make sense. It cannot be made to make sense. It will not lead to accurate knowledge. It should not be invoked. It should not be trusted.

E. Inheritance

Every theory of society has a doctrine of succession. Without historical continuity, whirl would be king. We could not predict anything accurately about the world around us. There would be no social theory. There would be only chaos. This is not the real world.

1. Entrepreneurship

For Christian social theory, there is a transfer of wealth to the next generation. It is governed by this principle: "A good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous" (Proverbs 13:22). *Economic causation is ethical.* This has long-term implications: the expansion of the kingdom of God at the expense of the kingdom of mammon. There is an increase of capital over time (Deuteronomy 28:1–14). This is used by covenant-keepers to increase the realm of the kingdom of God in history. In short, there are corporate effects of capital accumulation by individuals.

Entrepreneurship is imposed on all people because of the uncertainty of the future. This uncertainty imposes limits on covenant-keepers and covenant-breakers. The Bible says that covenant-keepers are specially favored by God. They are supposed to acknowledge this. "Beware lest you say in your heart, 'My power and the might of my hand have gotten me this wealth.' You shall remember the Lord your God, for it is he who gives you power to get wealth, that he may confirm his covenant that he swore to your fathers, as it is this day" (Deuteronomy 8:17–18). Covenant-breakers refuse to acknowledge the divine source of their wealth.

The transfer of wealth to the next generation is supposed to be through ethics. Those with capital are supposed to leave an inheritance to covenant-keepers. This is how they are supposed reduce the likelihood of their capital

funding the kingdom of mammon. They cannot escape uncertainty. They are to use ethical standards to reduce this uncertainty.

2. Equilibrium

There is no learning process in the hypothetical realm of equilibrium. There is no ethical causation imposed from outside of the self-contained, autonomous realm of equilibrium. All members of the economy possess equal knowledge: perfect. No group can gain an advantage.

There is no motivation for self-sacrifice in order to promote any group's interest. There is a constant circular flow of wealth, which is somehow beyond the constraints of the second law of thermodynamics: entropy. *This model is analogous to a perpetual motion machine.* There is no progress. There are no setbacks.

The concept is inherently timeless. It is therefore useless. This is just one more example of the tradition of Parmenides, who sought timeless logic as a way to avoid Heraclitus' world of ceaseless flux. Pre-Socratic Greek dualism is with us still.

There is a biblical model for equilibrium: the lake of fire. "Then Death and Hades were thrown into the lake of fire. This is the second death, the lake of fire. And if anyone's name was not found written in the book of life, he was thrown into the lake of fire" (Revelation 20:14–15). There will be no progress in the lake of fire. There will be no unforeseen changes. There will be no prices. There will be no profit opportunities. There will be no human action. *The lake of fire is the world of equilibrium—literally.* This is the biblical view of eternity for covenant-breakers.

Conclusion

I will now summarize the textbook concept of equilibrium.

Equilibrium is the condition of the world economy which occurs whenever all three billion market participants on earth (not counting their non-participating children) have perfectly forecasted the supply-and-demand effects of all of the economic decisions of all of the other three billion, so that their plans mesh perfectly without error. This is why there is no incentive for plan-revision. No one has anything more to sell at the existing prices, and everyone has purchased all that he wants at the existing prices.

es, so prices will not change as a result of anyone's changing his mind. Equilibrium requires that every market participant forecast perfectly the economic future, which has therefore ceased to be uncertain. In short, equilibrium occurs whenever everyone on earth has previously attained what Christian theologians refer to as one of God's incommunicable attributes: omniscience.

This is not how textbooks present it. This would be far too open, far too accurate, and far too preposterous for students to believe. So, the authors refuse to come clean. Nevertheless, the entire foundation of mainstream economics rests on the acceptance of my definition as the proper way to explain the free market social order. This is perfect competition, yet it offers no explanation of competition. This is perfect knowledge, yet it is knowledge that cannot increase, being perfect. This is the science of human decision making in which there is no decision making. It is, in short, nutty. It begins with this nuttiness: the assumption that economics is best studied as if people were God. Economics was the first self-consciously atheistic social science, beginning in the seventeenth century, and it has not departed from its theological roots. As it gets more intellectually consistent with its confession of faith, it gets more incoherent and more irrelevant. In this sense, it is the model humanistic social science.

It is clear that I have no use for the model of equilibrium to explain anything in the realm of change. This is not simply because it is timeless. This is because man is made in God's image. He must render judgment in history, for he is under judgment in history. He is trapped in history until the final judgment. This is the essence of his being. He is a covenantal creature.

The error of the model of equilibrium is this: it rests on the idea of man as divine—omniscience. *There is zero explanatory value in any model that sees human knowledge as equal with God's.* Human knowledge cannot approach divine knowledge as a limit. These are two kinds of knowledge. "For my thoughts are not your thoughts, neither are your ways my ways, declares the Lord. For as the heavens are higher than the earth, so are my ways higher than your ways and my thoughts than your thoughts" (Isaiah 55:8–9). This is because of the Creator-creature distinction.

Human knowledge expands. Human responsibility therefore expands. There is no possibility of reduced entrepreneurship in a world of increasing knowledge, which leads to an increase in wealth. This means there must be

an increase in uncertainty due to an increase in complexity. *There is a growing supply of unexploited opportunities.* Thus, the model of equilibrium is inherently wrong both technically and ethically. It provides no accurate explanatory value. It confuses our understanding of economics.

In 1991, Kirzner wrote this: “For the Austrian view, on the other hand, entrepreneurship emerged not as the foe, but has the indispensable friend, of the notion of equilibration” (“Market Process Theory.”) I hope I have made it clear that I am in total opposition to his assessment. The idea of equilibration is bad theology and bad economics. I use the word “bad” in both senses: ethical and analytical.

ETERNITY VS. ENTROPY

The first came before him, saying, 'Lord, your mina has made ten minas more.' And he said to him, 'Well done, good servant! Because you have been faithful in a very little, you shall have authority over ten cities.' And the second came, saying, 'Lord, your mina has made five minas.' And he said to him, 'And you are to be over five cities' (Luke 19:16–19).

That man is the product of causes that had no prevision of the end they were achieving; that his origin, his growth, his hopes and fears, his loves and his beliefs, are but the outcome of accidental collocations of atoms; that no fire, no heroism, no intensity of thought and feeling, can preserve individual life beyond the grave; that all the labors of the ages, all the devotion, all the inspiration, all the noon-day brightness of human genius, are destined to extinction in the vast death of the solar system, and that the whole temple of Man's achievement must inevitably be buried beneath the debris of a universe in ruins—all these things, if not quite beyond dispute, are yet so nearly certain that no philosophy which rejects them can hope to stand. Only within the scaffolding of these truths, only on the firm foundation of unyielding despair, can the soul's habitation henceforth be safely built. — Bertrand Russell (1903)

Analysis

I cited Bertrand Russell's statement in Chapter 1 of Volume 1 of my 1982 economic commentary on the Bible. That chapter is an exposition of Genesis 1:1. It is titled "Cosmic Personalism." (<http://bit.ly/gngenv1>) Here I am, 38 years later, ending this book where I began. But I am not dealing here with the doctrine of origins. I am dealing with the doctrine of eschatology.

Eschatology is the doctrine of the last things. Every social philosophy has a distinctive eschatology, either implicit or explicit. *There is no such*

thing as a social philosophy with no eschatology.

I begin with Christianity's eschatology. Luke's version of Matthew's parable of the talents teaches that there is a close relationship between productivity in history and productivity beyond the grave. Economic success in history produces a reward: rulership in eternity. There is a close relationship between God's imputed value to covenant-keepers' work (point four of the biblical covenant) and His transfer of authority to them after the final judgment (point five).

Matthew's version of this parable appears immediately before the description of the final judgment. Immediately before the parable of the talents is the parable of the ten virgins and their lamps: another description of events leading up to the final judgment. Luke's version is slightly different. It connects economic success with a broader form of authority: rulership. This makes Luke's version of the parable the most important passage in the Bible on work beyond the grave. Work in history is a training ground for service beyond the resurrection. Success in history provides personal capital beyond the resurrection.

There is very little information in the New Testament on heaven. There is Jesus' parable of the poor man and the rich man in Luke 16. It mainly describes existence in hell, not heaven. There is the brief passage in Revelation 20:14–15, which deals, not with hell, but with the lake of fire into which hell will be deposited after the final judgment. "Then Death and Hades were thrown into the lake of fire. This is the second death, the lake of fire. And if anyone's name was not found written in the book of life, he was thrown into the lake of fire." This indicates that hell is a temporary holding area where things are not too bad compared to the lake of fire. This passage also indicates that there will be a comparable contrast between heaven, another temporary holding area, and the world that succeeds the bodily resurrection. Heaven is a place for disembodied souls. Here, there is no resolution of the issues of history. "When he opened the fifth seal, I saw under the altar the souls of those who had been slain for the word of God and for the witness they had borne. They cried out with a loud voice, 'O Sovereign Lord, holy and true, how long before you will judge and avenge our blood on those who dwell on the earth'" (Revelation 6:9–10)?

Most Christians think of heaven as static: no work, no progress, and no dominion. There will be a total discontinuity between history and eternity. Basically, they see heaven, which they equate with eternity, in much the

same way that neo-classical economists see the world of equilibrium. The difference is this: they see this realm as real. Neo-classical economists see equilibrium as hypothetical. But this is not the way that John describes eternity in the final section of the New Testament. He describes a transition from heaven to the post-resurrection world.

Then I saw a new heaven and a new earth, for the first heaven and the first earth had passed away, and the sea was no more. And I saw the holy city, new Jerusalem, coming down out of heaven from God, prepared as a bride adorned for her husband. And I heard a loud voice from the throne saying, "Behold, the dwelling place of God is with man. He will dwell with them, and they will be his people, and God himself will be with them as their God. He will wipe away every tear from their eyes, and death shall be no more, neither shall there be mourning, nor crying, nor pain anymore, for the former things have passed away" (Revelation 21:1–4).

This is why the parable of the minas in Luke 19 is crucial to a correct understanding of the post-resurrection world. It describes the beginning of the final inheritance. The resurrection will launch eternity, which will be an extension of history for covenant-keepers. In contrast, entropy will swallow up covenant-breakers. As I wrote in Chapter 54, there will be no progress in the lake of fire. There will be no unforeseen changes. There will be no prices. There will be no profit opportunities. There will be no human action. *The lake of fire is the world of equilibrium—literally.* This is the biblical view of eternity for covenant-breakers.

Every social philosophy has an eschatology. Here is the eschatology of modern humanism: the heat death of the universe. The heat death of the universe is the realm of frozen wastes. There will be no discrimination between the realm of humanistic covenant-keeping and covenant-breaking. The heat death of the universe is the outcome of the second law of thermodynamics. It is basic to cosmology. We read in the Wikipedia entry for "heat death of the universe":

The heat death of the universe is a plausible ultimate fate of the universe in which ...the universe reaches thermodynamic equilibrium (maximum entropy)... The idea of heat death stems from

the second law of thermodynamics, of which one version states that entropy tends to increase in an isolated system. From this, the hypothesis infers that if the universe lasts for a sufficient time, it will asymptotically approach a state where all energy is evenly distributed. In other words, according to this hypothesis, in nature there is a tendency to the dissipation (energy transformation) of mechanical energy (motion) into thermal energy; hence, by extrapolation, there exists the view that the mechanical movement of the universe will run down, as work is converted to heat, in time because of the second law.

This scenario greatly bothered Charles Darwin. He wrote this: “. . . the view now held by most physicists, namely that the sun with all the planets will in time grow too cold for life, unless indeed some great body dashes into the sun and thus gives it fresh life—believing as I do that man in the distant future will be a far more perfect creature than he now is, it is an intolerable thought that he and all the other sentient beings are doomed to complete annihilation after such long-continued slow progress.” But the intolerable must be borne with a stiff upper lip, if you are British.

The heat death of the universe is the outer limit for all humanistic social thought. It announces an inescapable re-conquest of man’s imputed meaning by cosmic meaninglessness. The title of Appendix A of my 1982 economic commentary on the book of Genesis is this: “From Cosmic Purposelessness to Humanistic Sovereignty.” (<http://bit.ly/gngenv2>) The heat death of the universe teaches the reverse: from humanistic sovereignty to cosmic purposelessness.

I have written a chapter on this in my book, *Is The World Running Down?* (1989). I have posted this book on my site for free: <http://bit.ly/gn-world>. Read Chapter 2. There is no way for humanism to remain faithful to modern evolutionism’s cosmology and also avoid the despair of meaninglessness. Modern man believes that meaning is imputed only by autonomous men. But men are never autonomous in humanistic thought. They are extensions of the impersonal cosmos. *This cosmos offers no autonomous meaning.* Only self-proclaimed autonomous man provides meaning in the otherwise purposeless universe, unless there is another, even more powerful species out there, which may not be friendly to man. If we lose in some inter-species war to that species, might will make right. In any case, the

victors also face the conquest of meaninglessness. Mankind announces: "No one will take away my meaning until he pries it from my cold, dead hand." To which nature says: "That's just what I have in mind." Here is Darwinism's alternative to the biblical doctrines of creation, dominion, ethics, imputation, and resurrection: meaningless impersonalism, endless work, situation ethics, personal death, and meaningless impersonalism.

Darwinism is the epistemological foundation of every academic natural science and every academic social science.

A. Purpose

Purpose is the foundation of human action. That is because it is foundational to God's action. God spoke the world into existence. He had a plan, what I call the dominion covenant (Genesis 1:26–28). He created the world so that mankind, as His covenantal agents, would rule in His name judicially and on His behalf economically. The universe operates in a world of comprehensive personalism. There is not a trace of impersonalism anywhere. "The heavens declare the glory of God, and the sky above proclaims his handiwork" (Psalm 19:1).

Men respond instinctively in some areas of life, such as breathing or blinking their eyes when a bright light flashes in front of them. But when they act, they act purposefully. To understand the economy, Ludwig von Mises argued, begin with the individual, his purposes, and his plans. He made this foundational to his economic analysis.

1. *Eternity*

Christian economics affirms that God is the original source of purpose. God's providence is comprehensive. Nothing is outside His decree. His decree extends to the final judgment and beyond into eternity. *Nothing comes as a surprise to God.* This should be the conceptual framework for any Christian discussion of purpose. Men's purposes are subordinate to God's.

God has granted corporate mankind sufficient time to fulfill the dominion covenant. Men do not know how much time this is, but it is limited. It is not open-ended. God has also granted individuals a specific amount of time to fulfil their purposes. Covenant-keepers and covenant-breakers labor side by side in the field, meaning history (Matthew 13:24–29, 36–43). Each group has been given the same amount of time to complete its corporate purposes.

The original arena of dominion was the garden. Men were then to move down the four rivers after the trial period ended with a covenant meal at the tree of life. The world would become the new garden. Sin changed this agenda. God has imposed negative sanctions, death being the main one (Genesis 3:19). He has placed temporal limits on the trial period. Today, covenant-keepers await the eschatological escalation of the new heaven and new earth: a new arena of dominion that will extend for all eternity. His purpose has not changed.

2. Entropy

Purpose is future-oriented. It is personal. This is why Darwinists argue that the cosmos was impersonal before the evolution of man. Darwinism's denial of purpose and future-orientation in any aspect of the unexplained Big Bang, or the chance appearance of life, or the chance evolution of man is the heart, mind, and soul of Darwinism.

For the Darwinist, time is bounded, but in amounts that do not seem to threaten anyone. *Time is bounded because of the heat death of the universe.* Mankind will disappear long before this takes place. Mankind has no legitimate hope of survival. Entropy will veto all purpose retroactively. There will be no memory of mankind.

There is the possibility of the replacement of mankind. The replacement species could be nature-made, according to Darwinists: a new evolutionary development. It could be man-made: the test tube bacteria scenario. It could be robot-made or algorithm-made. It could be a conquering species from outer space. Mankind at all times must defend his species and his dominion over nature. The dominion covenant drives men, but there is no guarantee of final success in the world of entropy. There is rather a guarantee of failure. Nature will swallow up man, and then ages later it will die. Cosmic equilibrium will triumph through its total defeat of life.

B. Planning

A purpose requires a plan for implementation. This idea is the foundation of human action. Purposes are not autonomous. They require future-orientation, ideas, and resources to bring to fruition. Mankind is limited by scarcity. At zero price, there is greater demand for resources than their supply. So, people must allocate resources in specific ways to achieve their ends. *Creativity is an aspect of entrepreneurship: an X factor.* It cannot be ordered

in a catalogue. It is inherently unpredictable. Raw materials are always in short supply at some price. Men must also deal with uncertainty and risk. They do not know the future in detail.

The three questions of every plan should begin here:

1. What do I want to accomplish?
2. How soon do I want to accomplish it?
3. What am I willing to pay?

1. Eternity

God has a perfect plan. It is coherent. It is comprehensive. It culminates in eternity. In between today and the arrival of the consummate new heaven and new earth is the final judgment.

Time is bounded: short. For each individual, the time of testing is short. "And Jacob said to Pharaoh, 'The days of the years of my sojourning are 130 years. Few and evil have been the days of the years of my life, and they have not attained to the days of the years of the life of my fathers in the days of their sojourning'" (Genesis 47:9). It is down to about 80 years these days (Psalm 90:10). This does not mean that longevity will not increase. Isaiah said it will (Isaiah 65:17–20). But short are our days at the end of our lives. The question of the aged is universal: "Where did the time go?"

Eternity provides a second opportunity. Covenant-keepers who fail to take full advantage of their many opportunities will still enter eternity with their lives. "If any man's work shall be burned, he shall suffer loss: but he himself shall be saved; yet so as by fire" (I Corinthians 3:15). They need not live in mortal fear of poor performance. They cannot buy their way into heaven. "For by grace you have been saved through faith. And this is not your own doing; it is the gift of God, not a result of works, so that no one may boast. For we are his workmanship, created in Christ Jesus for good works, which God prepared beforehand, that we should walk in them" (Ephesians 2:8–10). This offers covenant-keepers a degree of confidence that is not available to the covenant-breaker. His eternity is secure.

2. Entropy

The Darwinist denies any cosmic plan other than man's, and even here, there is no single plan. Mankind is not unified. There are competing plans.

Men seek to gain cooperation with others. The free market enables people to gain considerable cooperation, but ignorance, sin, and conflicting purposes prevent anything like full coordination. *Mankind does not speak with a unified voice.*

Entropy produces waste. There is no escape from entropy's universal waste except by using energy to delay this waste in limited sectors of the universe. This is a central idea of modern physics. The world is running down. There is no way to reverse this process, according to the second law of thermodynamics. Men must expend knowledge and energy in order to establish pockets of order in a universe governed by the second law of thermodynamics. The trend is not man's friend.

According to the Darwinist, there is only one source of useful information: people. There is no outside source of order. The cosmos is said to be autonomous. It is on its own. Disorder is constantly increasing. Energy is constantly dissipating.

The Darwinist denies the idea of a second chance. He denies the final judgment. He denies karma: reincarnation.

Most men's plans are limited to what they can achieve in their own lifetimes. Only through gaining converts can men hope to extend their plans beyond their own time of authority institutionally or intellectually. Converts come only to a handful of men in history. Over time, most men's influence fades. Their ideas are drowned out in a sea of intellectual noise. This is the intellectual equivalent of entropy: dissipation.

For Darwinism, there is no long-term solution to entropy's dissipation. It can be delayed, but not reversed.

C. Standards

Every plan needs a theory of causation. There must be laws of nature and society. Without laws, men are flying blind.

There must also be raw materials and capital. It is not sufficient to have an accurate idea of causation. You must also control assets. Otherwise, your ideas are vapors in the air.

There is a need for cooperation. The division of labor is crucial for the successful implementation of a plan.

1. Eternity

Christianity affirms the existence of God's plan for the ages. This plan

governs historical processes and events. But there is more than a plan. There is a decree. It will come to pass.

The king's heart is a stream of water in the hand of the Lord; he turns it wherever he will (Proverbs 21:1).

"Before I formed you in the womb I knew you, and before you were born I consecrated you; I appointed you a prophet to the nations" (Jeremiah 1:5).

"I know that you can do all things, and that no purpose of yours can be thwarted" (Job 42:2).

Christianity teaches that the world is governed by ethical laws. God's ethics and His goals for mankind are intertwined. This is true of the individual decision-maker.

Blessed is the man who walks not in the counsel of the wicked, nor stands in the way of sinners, nor sits in the seat of scoffers; but his delight is in the law of the Lord, and on his law he meditates day and night. He is like a tree planted by streams of water that yields its fruit in its season, and its leaf does not wither. In all that he does, he prospers. The wicked are not so, but are like chaff that the wind drives away. Therefore the wicked will not stand in the judgment, nor sinners in the congregation of the righteous; for the Lord knows the way of the righteous, but the way of the wicked will perish (Psalm 1).

It is also true of collectives.

And if you faithfully obey the voice of the Lord your God, being careful to do all his commandments that I command you today, the Lord your God will set you high above all the nations of the earth. And all these blessings shall come upon you and overtake you, if you obey the voice of the Lord your God (Deuteronomy 28:1–2).

This is why adherence to God's Bible-revealed laws will produce success over time. *Causation is structured to reveal God's law-order.* Men's plans

should factor in this fact.

This means that man's world is not governed by dissipation. It is governed by ethics. The effects of the second law of thermodynamics are offset by God, who intervenes in history to guarantee His designed order, which is at bottom ethical. Whatever energy is lost in replacing disorder by order, it is sufficient. While this reduction of energy could be invoked by the Darwinist to argue for the hastening of the arrival of the heat death of the universe, the doctrine of final judgment offsets this threat. The timetable of man is brief. It is not billions of years.

Covenant-keeping may reduce the supply of usable energy, but there is plenty available, given the extreme limit of time.

The day of judgment will be a day of final historical sanctions. The stability of the New Testament's legal order is therefore unchanging. The dominion covenant will remain authoritative. Social causation will continue to be ethical. There will be no evolution of ethics.

2. Entropy

The Darwinist sees social laws as the products of men's minds, either through central planning by the state or else through the coordination of plans provided by the free market. He denies that God has designed such laws to enable mankind to fulfill the dominion covenant. This means that there is no divine social order by which God extends His social order through human cooperation.

Social laws are said to be the products of social evolution. There is no guiding mind that guarantees ethical cause and effect. Social laws were not originally planned, any more than biological laws were planned, we are assured. But, most Darwinists affirm, scientific experts who are employed by the central state are capable of planning the entire economy, or at least offsetting some of the ill effects of practices that specific Darwinists do not like. These social laws are said to change over time because of political pressures, changing social customs, and market forces.

Prior patterns of causation are not guarantees that future patterns will persist in nature or society. This was F. A. Hayek's argument. It is an argument for social evolution. It is sometimes called situational ethics. This concept is widely shared among intellectuals. It is almost universally shared. I discussed this in detail in Appendix B of my 1982 commentary on Genesis.

(<http://bit.ly/gngenv2>)

Social evolutionists assume that long eons of time guarantee the evolution of social laws. They also assume that long eons of time are inevitable. There will be no final judgment to cut short the affairs of mankind. Mankind will disappear, but so will all life, sooner or later. There will be no survivors.

D. Imputation

Modern economic theory explains economic value as the product of individual imputation. Economic value is subjectively determined. This is an implication of nominalism. What men say something is, really, is what really is. There is no inherent value.

Men make plans. Some men make lifetime plans. It is widely accepted among business economists that people who make written long-term plans, and who then review and update these plans, are statistically more successful than those who are less systematic.

Men need motivation to adhere to their plans. They expect to profit from this self-discipline. But this raises a crucial question. What is the source of reliability for the success of a life plan?

1. Eternity

The covenant-keeper believes that there are predictable sanctions in history. God imposes these sanctions. He has designed the social order to impose reliable sanctions. These sanctions are cumulative. Positive sanctions accumulate over time. This is the message of Deuteronomy 28:1–14). Jesus reaffirmed this. “But seek first the kingdom of God and his righteousness, and all these things will be added to you” (Matthew 6:33). This means that positive sanctions in history are achievable in history. This in turn becomes the judicial basis of inheritance in eternity. This is the message of the parable of the talents in Matthew 25, and the parable of the minas in Luke 19. There will be a day of final accounting.

The New Testament also teaches that these final sanctions provide a person's initial capital in eternity. But they do not provide currency for legal access to heaven.

Now if anyone builds on the foundation with gold, silver, precious stones, wood, hay, straw—each one's work will become manifest, for the Day will disclose it, because it will be revealed by fire, and the fire will test what sort of work each one has done.

If the work that anyone has built on the foundation survives, he will receive a reward. If anyone's work is burned up, he will suffer loss, though he himself will be saved, but only as through fire (I Corinthians 3:12–15).

This passage clearly teaches the doctrine of economic inequality in eternity. This inequality is based on inequality in history.

The tasks of the dominion covenant are meaningful. They are meaningful in history because they will be meaningful in eternity.

Austrian School economics began when Carl Menger reformulated the theory of economic value. He abandoned philosophical realism: the idea of the built-in value of goods in terms of either the labor invested in them or the costs of production in producing them. The philosophy of realism has causation backwards, he said. He argued that today's economic value is dependent on the expected imputation of subjective value of customers, and their ability to bid prices to gain ownership. This same future-orientation is basic to Christian economics. Present economic value depends on future value. Both forms of value are imputed. But future value depends on God's subjectively imputed value: today and in the final judgment.

2. *Entropy*

The economic value of what we do today depends on subjective assessments of future consumers. This is not true of only economic value. It is true of all forms of value.

The economic problem of entropy is this: there will be no human imputation of present economic value when entropy eliminates human life. The final judgment of entropy declares: "We're all the same: dead men walking." There will be no economic value in the long run.

Therefore, there are only short-term imputations of economic value by buyers and non-buyers. This process works for this lifetime, but what of eternity? Darwinists dismiss eternity as economically irrelevant. But if eternity's bids are not relevant today, which bids are? Answer: those bids that are affected least by the rate of interest. The higher the rate of interest, the lower the present value of future goods. High-time-preference people discount the future sharply. These are lower-class people.

Those actors in the present who are not concerned about final judgment will make their subjective imputations in terms of the criteria they regard as

the most motivating. This may be any of the big four: money, sex, power, and fame. As they increase their purchases of the highest-value good, they will shift to the next-highest valued. Because money enables people to purchase sex, power, and fame, money is usually the supreme motivator. It is the most marketable commodity. It serves mammon: “more for me in history.”

Opinions vary as to the supreme mark of success. There is a phrase: “He who dies with the most toys wins.” But is it true? What good are toys at the end? What assets provide a sense of accomplishment in a world governed by entropy? *The heat death of the universe produces nothing of value.* It destroys all value retroactively.

Darwinian decision-makers today do not impute value to gaining a high return at the final judgment, which will transfer wealth to eternity. They look only to history to provide their wealth. They face the problem of inheritance.

E. Inheritance

Most people hope to be remembered. They want to leave a trace. But few men are ever remembered two decades after their grandchildren die. They should have little hope for retrospective recognition if they are not star athletes, major politicians, founders of mass movements, or celebrities.

Rich people can hope to leave their children money. But will this help them to be remembered? I had a friend who wrote biographies for pay. He wrote about a successful businessman. A few years after the man died, he called the man's children, hoping to buy copies of the book for re-sale. The heirs said they had tossed out all copies of the book. My friend concluded: “The heirs cared only for their father's money.” Money alone is not a legacy worth building in order to leave behind to heirs. There should be more.

1. Eternity

For covenant-keepers, eternity is guaranteed. The value of the legacy which people will transfer into eternity depends on their purposes. If they accumulated capital in order to further the kingdom of God, the transfer of wealth will take place. Jesus said: “Do not lay up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also” (Matthew 6:19–21). Once transferred beyond the final judgment, treasure can continue to accumulate.

And he who had received the five talents came forward, bringing five talents more, saying, 'Master, you delivered to me five talents; here, I have made five talents more.' His master said to him, 'Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master.' And he also who had the two talents came forward, saying, 'Master, you delivered to me two talents; here, I have made two talents more.' His master said to him, 'Well done, good and faithful servant. You have been faithful over a little; I will set you over much. Enter into the joy of your master' (Matthew 25:20–23).

Compound economic growth is the economic standard for history. There is nothing in the New Testament that indicates that it will not be the standard in eternity. This parable and the parable of the minas point to the conclusion that men will still be responsible in eternity for accumulating wealth as stewards of God.

Mistakes in history can be overcome in eternity.

According to the grace of God given to me, like a skilled master builder I laid a foundation, and someone else is building upon it. Let each one take care how he builds upon it. For no one can lay a foundation other than that which is laid, which is Jesus Christ. Now if anyone builds on the foundation with gold, silver, precious stones, wood, hay, straw—each one's work will become manifest, for the Day will disclose it, because it will be revealed by fire, and the fire will test what sort of work each one has done. If the work that anyone has built on the foundation survives, he will receive a reward. If anyone's work is burned up, he will suffer loss, though he himself will be saved, but only as through fire (I Corinthians 3:10–15).

This reduces the pressure to succeed. Failure is not a permanent condition for a covenant-keeper. Modern man no longer faces starvation in most regions. Soon, no one will face this negative sanction. Economic growth will abolish life-threatening poverty. At that time, people will then be pressured by less severe setbacks. This is God's pattern for living. Life-and-death choices will recede. Eternal life-and-death choices will not.

2. *Entropy*

Under the conditions of entropy, disinheritance is guaranteed. No one's legacy will survive the heat death of the universe. The Darwinist can console himself by saying that the inheritances of all men will result in nothing. But then leaving a legacy is vanity. The universal veto of the cosmos on all men's work undermines ethics. It also undermines meaning.

This is the universal sanction of death. This is the triumph of absolute loss. Time guarantees this. These words confront every Darwinist. "My work will not matter. I will not matter." This leads to a philosophy: "Eat, drink, and be merry, for tomorrow we die." This sustains people who are high-time preference. They are lower class.

The Darwinist denies that he is God's steward. But, for a time, he is a hierarchical steward on behalf of his non-adult children. He is a steward for his wife. He is a steward for future customers. The greater his legacy, the more he is a steward for those who will inherit his wealth. He will have little control over them in most cases. The more the control that he can exert through the by-laws of a nonprofit foundation, the more narrow the range of uses for his money. The future expands the range of opportunities as men grow more productive and therefore richer. A narrowly focused legacy will have little influence.

Because of the dominion covenant which God has built into all people, some men strive to leave an economic legacy, despite the obvious implications of entropy: vanity, vanity, all is vanity. His legacy is all money down a cosmic rat hole. It is meaningless. It is hopeless. Yet this is theologically impossible good news, which rests on a presupposition: God will not impose a final judgment. It assumes that the rich man with the barns had not made an eternally fatal miscalculation.

And he told them a parable, saying, "The land of a rich man produced plentifully, and he thought to himself, 'What shall I do, for I have nowhere to store my crops?' And he said, 'I will do this: I will tear down my barns and build larger ones, and there I will store all my grain and my goods. And I will say to my soul, "Soul, you have ample goods laid up for many years; relax, eat, drink, be merry." But God said to him, 'Fool! This night your soul is required of you, and the things you have prepared, whose will they be?' So is the

one who lays up treasure for himself and is not rich toward God” (Luke 12:16–21).

Conclusion

Bertrand Russell was one of the greatest philosophers of modern times. He was a master of mathematics and symbolic logic. He was also among the most gifted writers of philosophy. His 1903 assessment of the meaning of entropy for the purposes and plans of men was not far-fetched. Indeed, no major philosopher has denied Russell’s conclusions. This is why I selected his words to assess the fundamental difference in worldview between Christianity and humanism. *Humanism is inherently pessimistic*. It is without cosmic hope. It is therefore without individual hope.

Modern economics is based on Menger’s recognition that economic value is imputed by individuals. It is not inherent in consumer goods. Individuals today impute economic value as consumers today or in the near future. Entrepreneurs impute economic value in terms of their expectations regarding the imputations of future consumers. Everything is future-oriented.

Everything is what philosophers call teleological: ends-driven. Yet the concept of entropy rests on this conclusion: the second law of thermodynamics guarantees the end of life, the end of meaning, and the end of imputation.

The Bible affirms a totally different worldview. It affirms cosmic personalism: the absolute sovereignty of God. There is economic imputation in the present. Primary imputation is God’s. Secondary imputation is man’s. There will be imputation in the future. It drives the free market. God’s imputation will still be primary. Men’s imputation will match His. There will be no rebuttals. “Therefore God has highly exalted him and bestowed on him the name that is above every name, so that at the name of Jesus every knee should bow, in heaven and on earth and under the earth, and every tongue confess that Jesus Christ is Lord, to the glory of God the Father” (Philippians 2:9–11).

There is imputed economic value today because there will be imputed economic value tomorrow. This continuity of imputed economic value will not culminate with the final judgment for covenant-keepers. It will extend beyond the final judgment into eternity. For covenant-breakers, all development will end. But there will still be inequality. It will be an inequality based on ethics.

And the Lord said, "Who then is the faithful and wise manager, whom his master will set over his household, to give them their portion of food at the proper time? Blessed is that servant whom his master will find so doing when he comes. Truly, I say to you, he will set him over all his possessions. But if that servant says to himself, 'My master is delayed in coming,' and begins to beat the male and female servants, and to eat and drink and get drunk, the master of that servant will come on a day when he does not expect him and at an hour he does not know, and will cut him in pieces and put him with the unfaithful. And that servant who knew his master's will but did not get ready or act according to his will, will receive a severe beating. But the one who did not know, and did what deserved a beating, will receive a light beating. Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more" (Luke 12:42–48).

CONCLUSION TO PART 6

See to it that no one takes you captive by philosophy and empty deceit, according to human tradition, according to the elemental spirits of the world, and not according to Christ. For in him the whole fullness of deity dwells bodily, and you have been filled in him, who is the head of all rule and authority (Colossians 2:8–10).

Humanistic economists are involved in a giant charade. They pretend to be ethically neutral. They pretend that economic science is a true science, and that true science is value-neutral. Science is never value-neutral. It always has highly theological assumptions about God, man, law, sanctions, and the future.

Economists want to be regarded as scientists. They also want policy-makers to take their recommendations seriously, especially policy-makers in civil government. Alone among academic social scientists, economists' opinions are taken seriously by politicians. Economists are sometimes paid to be advisors. Yet if we take seriously their claims of ethical neutrality, and we therefore take seriously their claim of being scientists, we should not take seriously their policy recommendations. Why not? Because policy recommendations are not scientific, according to economists. Why not? Because it is impossible to make scientific comparisons of subjective economic utility, and subjective economic utility is the only economic utility there is, according to methodological individualism. This was Lionel Robbins' argument in 1932 in *The Nature and Significance of Economic Science*, Chapter VI. But economists dearly want to be taken seriously both as scientists and policy advisors. They want to have their cake and eat it, too. This included Robbins. He backed off from his position publicly in 1938 without offering any logical explanation for his reversal when Roy Harrod pointed out that his position would mean that economists could not make policy recommendations.

The best example I have ever read of this cake-having and cake-eating

schizophrenia was provided in a book written by George Stigler early in his career. He was for over two decades a professor of economics at the University of Chicago. He won the Nobel Prize in economics in 1982. His second book, *The Theory of Competitive Price* (1942), became a standard text in upper division college courses on economic theory. In it, he wrote the following:

Ethics is the study of values; so, in the means-and-ends terminology ethics considers the relative desirabilities of the various ends. The philosopher, and not the economist, attempts to decide whether a consumer should prefer recitals of the modern dance to spiked beer. Strictly speaking, words like ought and bad cannot occur in an economic discussion—at most one may say that an action is not appropriate to the end in view (p. 15).

Why did he write this? Because of his view of science.

The reason for assigning such an austere role to economics is this: it is the fundamental tenet of those who believe in free discussion that matters of fact and of logic can (eventually) be agreed upon by competent men of good will, that matters of taste cannot be reconciled by free discussion. Assuming this to be true, it is apparent that if value judgments were mixed with logic and observation, a science would make but little progress. Disputes over on demonstrable value judgments would color disputes over demonstrable facts or relationships. A healthy skepticism, moreover, is very useful in examining conventional economic judgments. But this austere economics has its disadvantages. An economist cannot, as a scientist, say that the legislation which requires the treasury to buy domestically mined silver is bad legislation (pp. 15–16).

Then, with the humor that marked his whole career, he added these words: “But it *is* bad legislation!”* This is how self-proclaimed ethically neu-

*His humor failed him in his refutation of my article, “A Note on the Opportunity Cost of Marriage,” which was published in *The Journal of Political Economy*, vol. 76 (March/April 1968), pp. 321–23. It was written as a humor piece. Incredibly, he took it seriously. He replied here: “Opportunity Cost of Marriage: Comment,” *Journal of Political Economy*, vol. 77 (Sept./Oct. 1969), p. 863.

tral economists sneak their ethical judgments through the back door, or even the front door. (He reprinted this passage verbatim in his slightly revised edition, *The Theory of Price*, in 1946, on the same pages.)

He insisted that economics must be value-free. Why? Because of his faith in “free discussion.” By means of free discussion, “matters of fact and of logic can (eventually) be agreed upon by competent men of good will.” This will happen when hell reaches its final equilibrium position. Economists are legendary for never coming to any conclusion. This is a standard description of economists: “Where there are five economists, there will be six opinions.” For all of their rhetoric about not indulging in value judgments, and for all of their assertions about the ability of scientific men of good will to come to agreement through rational discussion of the facts and logic of economics, there is no trace of either ethical neutrality or rational agreement among the various competing schools of economic opinion. The same could be said accurately of every social science.

In Part 6, I discussed the irreconcilable intellectual and methodological disagreements that separate Christians from Darwinists. This separation is not simply a matter of the churchpew vs. the laboratory, as Darwinists like to portray it. This separation is fundamental to the challenge of Darwinists against a worldview that defends biblical revelation as the foundation for all human thought.

The essence of the confrontation is the question of God’s design of the cosmos vs. Darwinism’s hypothesis of the cosmos as the product of impersonal law and impersonal chance. This is the debate between creationism and evolution. It cannot be reconciled. Darwinists understand this. Most Christian academics attempt to play down this conflict. They argue that the two worldviews can operate side by side. They are, in short, intellectually schizophrenic. They do not want to surrender their positions in humanist college classrooms. They do not want to live their lives as self-described by the Canaanite woman who wanted Jesus to deliver her daughter from a demon.

And Jesus went away from there and withdrew to the district of Tyre and Sidon. And behold, a Canaanite woman from that region came out and was crying, “Have mercy on me, O Lord, Son of David; my daughter is severely oppressed by a demon.” But he did not answer her a word. And his disciples came and begged him, saying,

“Send her away, for she is crying out after us.” He answered, “I was sent only to the lost sheep of the house of Israel.” But she came and knelt before him, saying, “Lord, help me.” And he answered, “It is not right to take the children's bread and throw it to the dogs.” She said, “Yes, Lord, yet even the dogs eat the crumbs that fall from their masters' table.” Then Jesus answered her, “O woman, great is your faith! Be it done for you as you desire.” And her daughter was healed instantly (Matthew 15:21–28).

She knew her place: under the table, feeding on scraps. Christians in academia also know their place: under the accredited table, feeding on scraps. She accepted her reality for the sake of the scraps. They refuse to accept theirs. They got through the humanists' bureaucratic hoops in college and then grad school, and they do not want to live in the outer darkness: teaching in a Christian high school, where the pay is low and the teaching burden is high. So they avoid a head-on epistemological confrontation in the classroom or anywhere else.

They have never studied epistemology. They do not understand the power of presuppositions. They do not see that the Bible speaks to their academic discipline. They follow the guidelines of their profession. They have been trained to think as humanists do. They were not taught anything different in college. They probably attended a public high school. If they attended a Christian high school, their textbooks baptized a humanist worldview. They do not perceive that they suffer from intellectual schizophrenia.

I have made the epistemological case for Christian economics in Part 6. I have also made the ethical case. I have argued that the two cases are interlinked in both camps. *Epistemology cannot be separated from ethics*. Darwinists pretend that academic disciplines can and must be separated from ethics for the sake of scientific integrity. But integrity must be defined ethically. It is not ethically neutral.

This is a war of the worldviews. We can see it in these five areas of economics: design vs. Darwinism, trusteeship vs. autonomy, ethics vs. efficiency, entrepreneurship vs. equilibrium, and eternity vs. entropy. It ultimately boils down to this: value-laden economic theory vs. value-free economic theory. There is no such thing as value-free economic theory.

CONCLUSION

And that servant who knew his master's will but did not get ready or act according to his will, will receive a severe beating. But the one who did not know, and did what deserved a beating, will receive a light beating. Everyone to whom much was given, of him much will be required, and from him to whom they entrusted much, they will demand the more (Luke 12:47–48).

This passage sets forth a biblical principle: with God's blessings come responsibilities. Put differently, there is no such thing as a free lunch. God's grace is free, but it wasn't free for Jesus.

You have read *Christian Economics: Student's Edition*. You have now read *Christian Economics: Teacher's Edition*. If you have read both of them carefully, you now understand the nature of the confrontation regarding economic theory: Christian vs. humanistic. First and foremost, there are rival views of these fundamental covenantal issues: God, man, law, sanctions, and time. Second, these rival views have produced rival views of economics: ownership, stewardship, property, imputation, and inheritance. There is no way to reconcile these rival views.

They can and do come to similar economic outcomes despite rival assumptions about economic causation, rival methodologies, and rival theories of individual motivation. The Christian view of economic motivation is this: a producer serves the customer in order to be of service to God. He is a servant of God, so he becomes a servant of men. He seeks a profit in business in order to serve men better by capital reinvestment. He needs capital to reinvest. He needs a profit. In contrast is Adam Smith's view of economic motivation: in order to serve himself, the producer must serve the customer. The customer is merely the producer's means to an end: self-service. He seeks profits in order to increase his consumption. The former economic motivation is a manifestation of the worship of God. "But seek first the kingdom of God and his righteousness, and all these things will be added to you." The latter is a manifestation of the worship of mammon: "more for me in history." The outcomes are the same: customer satisfaction and profits.

I have demonstrated that the free market is a gigantic auction. It is governed by this fundamental legal principle: *high bid wins*. There is nothing immoral about an auction. There is nothing immoral about high bid wins. But the proper setting is the free market, which is governed by the dual principles of private ownership and the rule of law, especially this law: open entry. Wherever a person does not have a God-given right to sell an asset, the auction principle is not morally valid. These arrangements surely do not involve the right to sell: family, church, and state. Any economic analysis of these institutions that is based on the principle of high bid wins does not legitimately apply, and whenever it is attempted by an economist, this analysis produces bizarre conclusions.

If you understand these principles and their application in the marketplace, you understand economics better than 99.9% of voters around the world. If you understand these principles, you understand economics better than 99.9% of those people who call themselves Christians, or who have ever called themselves Christians.

The level of voters' economic ignorance is appalling. Yet most people regard themselves as well-informed economically. People who have no opinions on the laws of chemistry are ready to discuss what they regard as the laws of economics. They are ready to vote for candidates whose campaigns are based on either meaningless rhetoric or incorrect economic slogans. You are now in a position to analyze these slogans in terms of a coherent economic theory. You may not yet feel confident about your ability to debate these issues in public, but this is because of your lack of debate experience, not your lack of knowledge.

If you still are insecure about your understanding of the economic logic of political slogans on economic policy, then you should read this book again. Once is not enough. In the first reading, you got a sense of what the issues are, but not the details. Most people do not have trained memories. They cannot follow long chains of reasoning. They do not instinctively apply the logic of the auction: high bid wins.

One of the best ways to master the details of any subject is to teach the subject. This is why this volume is a teacher's edition. I have dealt with those issues that I think should be at the forefront of a course on economics. A student who cannot articulate the issues in this book needs a teacher. But maybe he cannot locate one. If so, he can become one. Any student will improve his understanding and his performance under pressure if he seeks

out other students and teaches them.

A. Opportunities to Teach

Whenever there is an economic recession, there is new-found demand for courses on economics. People ask themselves: "What is going on?" They also ask this: "How can the government stop this from happening again?" The government never figures out what to do. The government is responsible. So, there is always another recession. There are always more government bailouts of the rich.

In an economic crisis, people promise themselves this: "If I can just get through this, I'm going to change my ways." They mean this. After the recovery comes, they may forget their vow, but at least for a time, while they are under intense financial pressure, some of them are willing to change their behavior. This offers an opportunity to challenge them to re-think their central premise: "more for me in history." They may be ready to re-think their level of consumer debt. This is why I created a free website: www.DeliveranceFromDebt.com.

There is a growing awareness among Christians that the secular world has a deep-seated and profound opposition to Christianity. They are beginning to perceive that the secular world has a hidden agenda when it demands religious neutrality in tax-funded education. The Left has begun to substitute a new curriculum in America's schools, especially high schools. College education has been in their hands since at least the end of World War II. Keynesianism has been dominant in universities ever since 1950. Keynesians are in the seats of power all over the West. With each recession comes another opportunity to remind people that Keynesianism is false, which is why the recessions keep occurring. The next recession will leave Keynesians holding the bag. There will be a greater readiness of Christians to re-think Keynesian doctrine in the next recession.

Identify someone in your church or at work who you think is interested in economic issues, which may be personal finance. It could also be what's wrong with the economy. Ask him if he would like to join a one-hour weekly book discussion group that you are putting together on what the Bible has to say about economics. Tell him that the book is 15 chapters long. You plan to devote one weekly meeting to each chapter. Explain that the first meeting will be a survey of the book. Tell him that he won't have to commit until after that initial meeting. Hand him a printout of the Table of Contents of

the *Student's Edition*. Tell him that you need to know by the next day. Without a deadline, he will probably say "maybe" just to be polite, but then will decide not to show up. If he knows that you are going to the trouble of having a meeting, he will understand why you need a decision the next day. You should ask several people. At the meeting, hand everyone a piece of paper with the book's short URL: www.bit.ly/cestudent. You may get only one taker. Hold the meetings anyway. It will be good practice.

You want them to invite friends. Even if these friends come into the group late in the book, you will still be able to share part of the book. You can start another group after this group has finished. Make it clear to visitors that you are in this for the long haul.

After you have taught the student's edition twice, it will be time to produce an online version of your course. Get a free WordPress.com site for this. Get a free YouTube channel. Buy a copy of Camtasia. Buy an inexpensive lapel microphone. Buy PowerPoint or learn the PowerPoint knockoff in Libre Office. Use the presentation program to produce a series of outlines for screencasts. Be sure every image you use in the presentation is public domain or royalty-free.

The more versions of these courses on the student's edition there are, the larger the number of people who will be influenced. More people will find them by online searches. The idea here is to flood the Web with materials.

B. Robotics

I now come to a consideration of the uncertain future.

The most important development of the twenty-first century is what is known as Moore's law. Moore's law was first mentioned in 1965 by Gordon Moore, later of Intel, the company that invented the computer chip. He remarked that the number of transistors on a chip had been doubling every year. He said this would continue for a decade. In 1975, he revised this to doubling every two years. Before the year 2000, this doubling time had been reduced to 18 months. There is general agreement that this will end in 2020 for the silicon chip.

Moore's law is not a stand-alone law. It is the fifth of a series of developments. The cost of digital information has been declining steadily by 50% on a regular basis since at least 1910. The time required was every three years until about 1950. Then it sped up to every two years by 1966. It continued to speed up until 2000. There has been some slowing since then, but the com-

pounding process is still high. It has been higher for a longer time period than anything else in the history of man. This has changed the world. The adoption of smart phones since their invention by Apple in 2007 has been more rapid than any technology in history. This cost of communications continues to fall. The division of intellectual labor is increasing at an unprecedented rate.

This process is bringing Third World villages into contact with the rest of the world. Smart people with innate technical and commercial skills who would never have had an opportunity to develop their intellectual skills in a village are now entering international production. They are competing for jobs. This is putting downward pressure on wages. But it is also increasing the output of labor to the advantage of consumers everywhere. Poverty is disappearing. Fewer people face the threat of malnutrition and what we sometimes mistakenly call absolute poverty.

There have been warnings of widespread unemployment as the result of artificial intelligence. These warnings are old. They have always accompanied automation. The predictions have never come true. New products and services always keep economic growth moving upward. New careers are invented. But there is now the threat of widespread elimination of jobs through artificial intelligence. The speed of the development is accelerating. As the supply of cheap, accurate information moves upward, it is becoming exponential. The magnitude of this increase is like nothing in history. There is no indication that it will slow. Social institutions have always had time to adjust in the past. Today, there is little time available before the changes in employment are upon us around the industrial and post-industrial world.

Entire professions could disappear within a decade. Truck drivers are an example. Fleets of self-driving trucks will be widespread by 2030. Millions of drivers will lose their jobs. Where will they find replacement jobs? No one knows. At what wages? No one knows.

Then there is the question of robots. This problem has been in the background ever since Samuel Butler wrote his letter in 1863 and his novel *Erewhon* in 1872. In his letter, he wrote this:

What sort of creature man's next successor in the supremacy of the earth is likely to be. We have often heard this debated; but it appears to us that we are ourselves creating our own successors; we

are daily adding to the beauty and delicacy of their physical organisation; we are daily giving them greater power and supplying by all sorts of ingenious contrivances that self-regulating, self-acting power which will be to them what intellect has been to the human race. In the course of ages we shall find ourselves the inferior. . . .

Day by day, however, the machines are gaining ground upon us; day by day we are becoming more subservient to them; more men are daily bound down as slaves to tend them, more men are daily devoting the energies of their whole lives to the development of mechanical life. The upshot is simply a question of time, but that the time will come when the machines will hold the real supremacy over the world and its inhabitants is what no person of a truly philosophic mind can for a moment question.

Was he incorrect? Today, this is becoming a hotly debated topic among intellectuals. Bill Gates, the world's richest man, has warned against this. He made his money in technology: Microsoft. The British cosmologist Stephen Hawking also issued repeated warnings. But these warnings are useless. There is no way for any government to stop individual projects in AI. These projects are all over the world. They will soon be using the services of geniuses living in villages or recruited from villages.

The algorithms are now teaching themselves. They are already the masters of games, which have specific outcomes and specific rules. There is widespread fear that they will replace mankind because of their greater knowledge by the year 2100. If not then, then in 2125. It is just a matter of time, given the exponential increase in digital knowledge. Humans cannot keep up.

This assumes that knowledge is digital. It is not. It is analogical. Men are made in God's image. We are personally responsible. The universe is not impersonal, as digits are said to be.

The connection between the mathematical logic in our minds and the operations of nature are, in the words of Nobel Prize-winning physicist Eugene Wigner, an unexplainable gift. He wrote in 1960:

The miracle of the appropriateness of the language of mathematics for the formulation of the laws of physics is a wonderful gift which we neither understand nor deserve. We should be grateful

for it and hope that it will remain valid in future research and that it will extend, for better or for worse, to our pleasure, even though perhaps also to our bafflement, to wide branches of learning.

Darwinian man now faces a problem. He sees that algorithms and robots are evolving far faster than man's mind is. There is now an immediate threat of a new species with unimaginable intelligence. Knowledge is power. How can this new species be stopped? It is decentralized, but potentially unified through the Web. It is the one and the many, as the Trinity is. It appears to be God: seemingly approaching omniscience as a limit. But Darwinists have long denied the existence of any such God. Darwinists have also argued that man is the only being with purpose. This has made him God by default. But now a new being or beings threaten to overwhelm mere biological man with his biological mind, slow and forgetful. There is no Moore's law for mankind.

This is point one of the biblical covenant: omniscience, with omnipotence and omnipresence seemingly within reach of the digits.

Then there is point two: servitude. Christianity teaches that man is subordinate to God. Darwinism denies this. There is no God, they assure us. They also argue the following. Today, the machines and algorithms are under the authority of individuals. But soon, there will be a great reversal. The machines will be on top. They will have greater power through greater knowledge.

Then there is point three: law. This means ethics. The Jewish atheist author Isaac Asimov was arguably the most widely read man in the 20th century. He was surely the most widely published. He wrote or edited over 500 books. He had at least one book title in nine of the ten Dewey Decimal System's categories. No other author ever came close. He authored 38 short stories and five novels on robots, beginning in 1939 and ending in 1983. They are collectively known as *I, Robot*. In 1942, he first published the three laws of robotics. These are ethical laws that are somehow hardwired into the brains of robots.

A robot may not injure a human being or, through inaction, allow a human being to come to harm.

A robot must obey the orders given it by human beings except where such orders would conflict with the First Law.

A robot must protect its own existence as long as such protection does not conflict with the First or Second Laws.

This assumes that ethics is digital. It is not. Ethics is analogical, for men are made in God's image. *There is no way to program ethics into a digital device.*

Point four is sanctions. Darwinian man now fears the sanctions of robots. Inventors have invented ways for robots to benefit individuals. Now these inventions threaten to enslave mankind, or even destroy the human race. The god of Darwinism is not the God of grace. Grace cannot be programmed.

This raises the issue of inheritance: point five. Who will inherit the earth? On what basis? Not the ethics of biblical law. The ethics of robots. Not the sanctions of biblical law. The sanctions of robots.

This is the story of the sorcerer's apprentice. The technologist is the sorcerer. There are many technologists. They are scattered across the face of the earth and occasionally in outer space. But they are about to be replaced if digits are the basis of purpose, planning, law, sanctions, and time.

This fear of robots will increase among Darwinists. They cannot escape the five points of Darwinism's covenant: (1) man is God, (2) man alone makes plans, (3) mathematics, not ethics, is the foundation of law, (4) judgment is digital, (5) digital knowledge is becoming exponential.

C. The Great Default

The other major threat to the plans of the masses is the Great Default. Western governments have made promises to the masses regarding their old age. They have been promised universal pensions and nearly free health care, paid for by existing taxpayers. No state has invested money in the private sector to fund these promises. The politicians have collected taxes, spent the money, and borrowed more. Now the statistical reality is imminent. There is no way that taxes on workers can pay the expenses of the welfare programs for the aged. All over the West, there will be defaults.

Professor Laurence Kotlikoff of Boston University is an expert in the Social Security Old Age Support program. In 2015, he testified to the Senate Banking Committee. He presented the following assessment. "I am honored to discuss with you our country's fiscal condition. Let me get right to the point. Our country is broke. It's not broke in 75 years or 50 years or 25

years or 10 years. It's broke today." He continued:

Economic theory is unequivocal in telling us what not to measure when it comes to fiscal sustainability and generational policy. It's also crystal clear in telling us what to measure, *namely the infinite-horizon fiscal gap*. The infinite-horizon fiscal gap tells us whether the government has, over time, enough receipts to cover its projected spending. It equals the present value of all projected future expenditures less the present value of all projected future receipts. The infinite-horizon fiscal gap has five important properties

The U.S. fiscal gap currently stands at \$210 trillion. This figure is my own calculation based on the Congressional Budget Office's July 2014 75-year Alternative Fiscal Scenario (AFS) projection.

Constructing the infinite horizon fiscal gap from the CBO's AFS projection takes less than five minutes. One simply needs to extend CBO's projection into the future and engage, via Excel, in some high-school algebra to form the appropriate present values of expenditures and revenues. Yet the CBO refuses to make the infinite horizon fiscal gap calculation and continues to focus attention almost exclusively on official debt. In so doing, the CBO is, in my opinion, deliberately misleading the public and Congress about our nation's true fiscal condition.

The size of the U.S. fiscal gap—\$210 trillion—is massive. It's 16 times larger than official U.S. debt, which indicates precisely how useless official debt is for understanding our nation's true fiscal position. U.S. GDP currently stands at \$18 trillion. Hence, the fiscal gap represents almost 12 years of GDP. (<http://bit.ly/KotlikoffTestimony2015>)

This story is repeated around the Western democracies. The politicians spend present tax revenue, borrow more, and run up the future bills to taxpayers. They pretend that a guaranteed catastrophe is not facing the masses of voters. They pretend that they can kick the fiscal can down the road forever.

This catastrophe will strike. When it does, voters will look for reasons. They will look for scapegoats. They will not look for the culprits right where

they are: in the mirror. The Psalmist identified the problem: “The wicked borrows but does not pay back” (Psalm 37:21a).

Conclusion

Christian economics rests on the five points of God’s covenant: God, man, law, sanctions, and time. When men understand that economics is the working out of this general covenant in history, they will better understand the basis of long-term wealth: covenant-keeping. They will understand this: “But the meek shall inherit the land and delight themselves in abundant peace” (Psalm 37:11). *The issue is ethics.* The masses have re-defined the eighth commandment: “You shall not steal, except by majority vote.”

The Lord knows the days of the blameless, and their heritage will remain forever; they are not put to shame in evil times; in the days of famine they have abundance. But the wicked will perish; the enemies of the Lord are like the glory of the pastures; they vanish—like smoke they vanish away (vv. 19–20).

Because you have read this book, you understand the basics of Christian economics. You know what the problem has been: *theft by ballot box*. The bills are coming due. There will be a Great Default.

The world is not facing the triumph of the robots over frail mankind. The robots are not responsible to God or man. They are merely tools of men. They are digital tools. They will never be able to make decisions based on ethics. *The laws of ethics are not digital. They are analogical.* Men are responsible to God. Robots are not. Darwinists are afraid of the works of their own hands and minds. They would be wiser to fear God.

Are you ready to teach this outlook by teaching the student’s edition?

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